Management Report and
Financial Statements
2022

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

TBC LEASING

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Who We Are?

At a glance

CONTRIBUTING TO GEORGIA'S ECONOMIC GROWTH BY OFFERING INNOVATIVE, FLEXIBLE AND CUSTOMISED ASSET FINANCING SOLUTIONS

With 19 years of operational history, we are leading the underpenetrated leasing industry in Georgia with 82% market share, serving up to 2,100 customers and managing a Total Leasing Portfolio of GEL 338 million.

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

Our operating segments are;

- Business segment, with a total portfolio of 269 million GEL as of December 2022. Business segment includes all leases to legal entities or group of entities (MSME and corporate clients) where financed assets can be anything other than vehicles;
- Automotive segment, with a total portfolio of 41 million GEL as of December 2022. Automotive segment includes all leases to legal entities or group of entities where financed assets are vehicles; and
- Retail segment, with a total portfolio of 28 million GEL as of December 2022. Retail segment includes all leases to all nonbusiness individual customers.

Our customers can increase their production capacity with 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 to make asset financing fast and simple through offering comprehensive financial instruments tailored to our client's needs, thereby supporting the continuing development of the Georgian leasing market and thus contributing to the country's economic growth.

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

THE MARKET LEADER IN GEORGIA ACROSS ALL OPERATING SEGMENTS

- The largest Business lease provider on the market with 81% market share;
- The largest Automotive lease provider on the market with 81% market share;
- The largest Retail lease provider on the market with 63% 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 company;
- Leading leasing company in attracting international capital with continuing support from the largest International Financial Institutions and Development Financial Institutions.

LONG-TERM HIGH GROWTH OPPORTUNITIES

- Favourable business/tax environment and an unregulated market;
- Georgia's private sector credit-to-GDP ratio stands at 80%. The volume of the SME loan portfolio has increased almost six fold since 2011, with 26% of bank loans being provided to SMEs, which reflects favourable economic activity in the country. Leasing industry in Georgia currently represents around 1% of the country's GDP, while the share of leasing is around 5% of GDP in peer countries, which indicates that capacity-wise, the Georgian leasing market has substantial room for growth;
- According to the EIB Bank Lending Survey, a significant level of loan rejections persists in the Georgian market. A lack of eligible collateral and the riskiness of the clients reflects the inability of firms to comply with banks' requirements, making leasing a more attractive way of financing.

Key Highlights

In 2022, the Company achieved strong financial results, through diversified earning streams, improved employee and customer experience and increased market share.

GEL 14.1 mln

+16.2% y-o-y

NET INCOME

25.8%

-3.7 ppts y-o-y

RETURN ON AVERAGE EQUITY

3.9%

+0.7 ppts y-o-y

RETURN ON AVERAGE ASSET

47.9%

-4.0 ppts y-o-y

COST TO INCOME

2.0%

0 ppts y-o-y

COST OF RISK

15.2%

+1.3 ppts y-o-y

NET INTEREST MARGIN

GEL 338 mln

+22.0% y-o-y

TOTAL LEASING PORTFOLIO

REVISED FITCH RATING

IN 2022 FITCH RATINGS AFFIRMED JSC TBC LEASING'S (TBCL) LONG-TERM ISSUER DEFAULT RATING (IDR) AT 'BB-', WITH A STABLE OUTLOOK. THE KEY RATING DRIVERS ARE LISTED BELOW.

TBCL's IDRs are driven by expectations of support from TBC Bank. The Stable Outlook mirrors that of the parent company. Fitch's view of a high probability of support is based on the high reputational risk for TBC Bank that would arise 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 company 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.

CEO Statement


Photo Forbes Georgia

Dear Stakeholders,

2022 was another highly successful year for TBC Leasing, as the Company showed strong financial results: y-o-y Total Leasing Portfolio growth was 22%, Net Income reached GEL 14.1 million, while ROE stood at 25.8%. I also want to highlight the fact that, despite new players on the leasing market, our market share exceeded 80%.

We are proud of what we have achieved in 2022 and at the same time, we are excited for a new and challenging year in 2023. However, the current war in Ukraine and its implications for the global economy make it even harder to achieve desired goals and financial targets. We are monitoring and analysing the effect on our economy and leasing business on a regular basis.

2022 AT A GLANCE

In 2022, TBC Leasing's main strategic focus was to increase our share of the MSME clients in Business segment and improve employee satisfaction. Every strategic decision was focused on enabling these strategic priorities. In order to better understand the needs of our clients, we analysed the market and, through day-to-day coordination with our customers, succeeded in obtaining a better understanding of their financial needs and abilities. As a result, we were able to offer wide range of tailored products to our customers and managed to increase our MSME portfolio by 26% in 2022. We remain dedicated to our mission to support small and medium business and make asset financing easier and simpler for them.

Our achievements would not have been possible without the efforts of our outstanding team. We attract motivated professionals, provide them with the opportunity to grow and develop through our career planning, competitive compensation and flexible working environment. We offer educational opportunities through our parent company's TBC's Academy, as well as provide financial support to attend various external courses and gain international certifications. These actions translated into a high employee net promoter score (ENPS) of 62% in 2022.

Looking at recent market trends, leasing is becoming an increasingly interesting financing tool for the Georgian market. As a result, several new players entered the market, which will have a positive effect on the development of leasing market in Georgia. Nevertheless, our market share exceeded 80%, which highlights the fact that our customer-centric service quality and unique products makes us the primary choice for leasing financing. We are constantly working on the development and introduction of new products, improving customer satisfaction in order to make our clients' life easier.

In 2022, FITCH updated TBC Leasing's outlook and affirmed the Company's Long-Term Issuer Default Rating (IDR) at 'BB-', with a Stable Outlook, making TBC Leasing's FITCH rating the highest among NBFI's.

Another memorable achievement of 2022 was winning the Best Annual Report and Transparency Award, BARTA 2022. Winning this award two years in a row emphasises our continuous dedication to high level compliance with reporting standards, the quality of reporting and transparency, which has a positive impact on the Company's reputation and will enable us to attract additional new funding from international financial institutions in the future.

OUTSTANDING FINANCIAL RESULTS AND STRONG CAPITAL POSITION

The Company posted a record high net profit in the last two years, with a net income of GEL 14.1 million in 2022, indicating 16.2% y-o-y growth. The main profitability growth drivers were: significantly improved yields on the portfolio, with total yield standing at 23.1% in 2022, 1.3pp y-o-y growth; effective management of administrative and other operating expenses, which resulted in improved cost to income ratio of 47.9% (51.9% 2021); and improved asset quality management, which normalized our cost of risk at the level of 2.0%.

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 17.4%, and 26.4%, respectively, and remained comfortably above the minimum capital requirements from our lenders.

LOOKING FORWARD

2022's results once again proved that the actions that we implemented and the steps we carried out were effective in reaching our strategic goals - increasing portfolio and market share, while improving our profitability and efficiency. We have set even more challenging medium-term targets for next three years: ROE of more than 25%, cost to income ratio less than 50%, and annual portfolio growth of 25%.

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

15 May 2023

Operating Environment

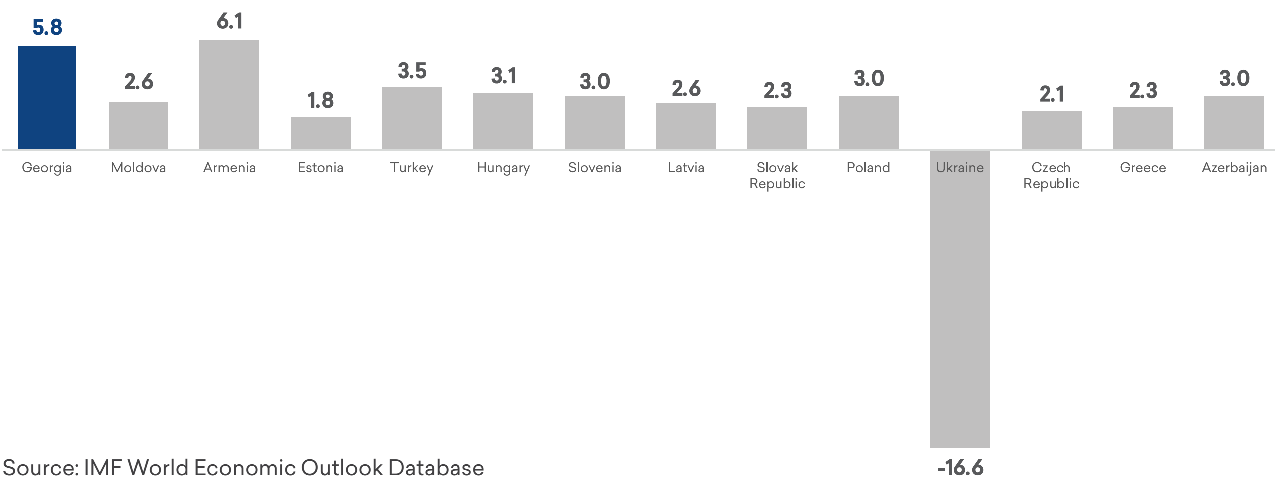
GEORGIA'S ECONOMIC OVERVIEW

Georgia has one of the fastest developing economies in the region. Georgia's economy expanded rapidly during the pre-pandemic period, nominal GDP 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 the IMF's projections, real GDP growth is expected to be on average 5%[1] in the period 2023–2027.

ONE OF THE FASTEST DEVELOPING ECONOMIES IN THE REGION

Real GDP Growth by countries | 2022-2027



Source: IMF World Economic Outlook Database

BROAD-BASED AND DIVERSIFIED NOMINAL GDP STRUCTURE

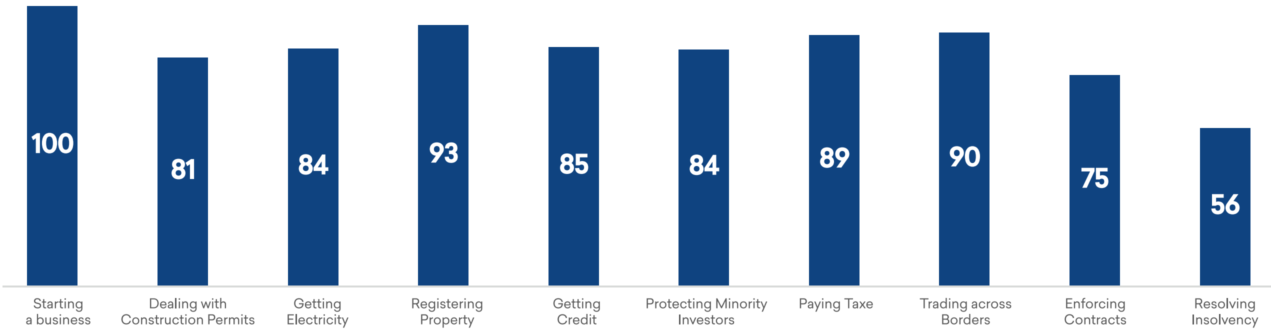
Nominal GDP Structure

Source: Geostat, 2022

[1] Source: IMF World Economic Outlook 2023

Georgia was ranked as one of the best performers in the World Bank's Doing Business 2020 report and was ranked 7th with a score of 83.7, above the regional average on almost every indicator. Furthermore, Georgia's Economic Freedom score as 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



Source: Ease of Doing Business 2020

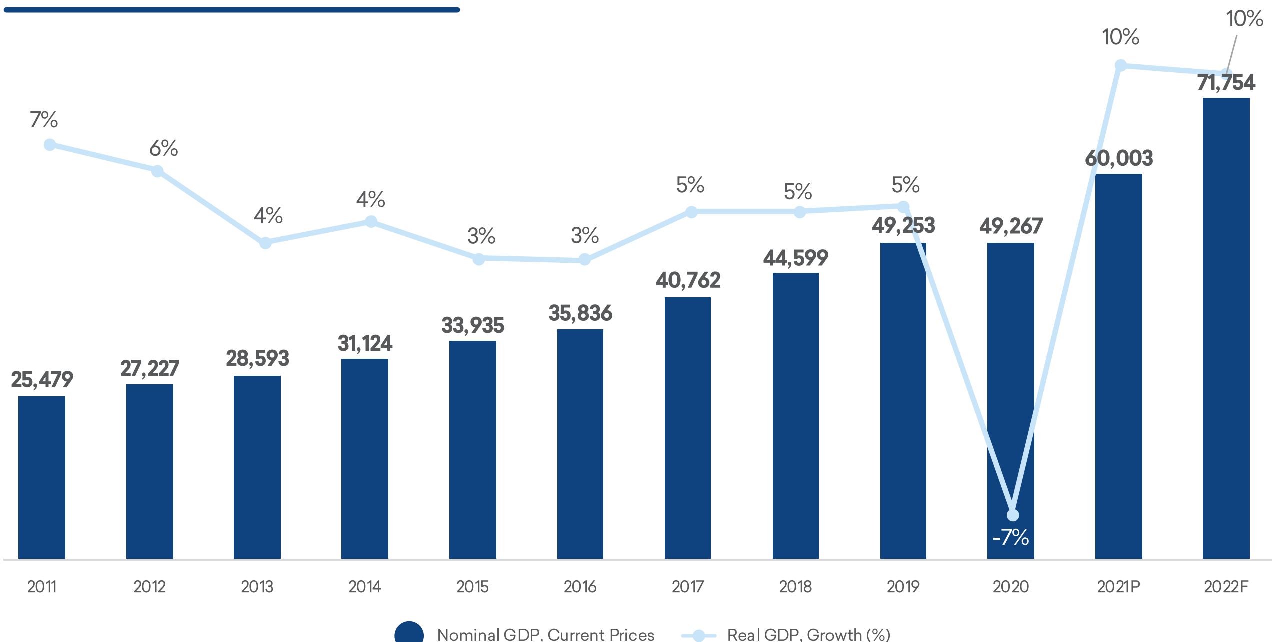
Georgia has 14 preferential trade agreements in force. The Association Agreement with the European Union (EU) signed in 2016, which includes a Deep and Comprehensive Free Trade Area preferential trade regime, and free trade agreements with other major trading partners such as the EU and China, position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

2022 ECONOMIC UPDATE

ECONOMIC GROWTH

After rebounding from the pandemic in 2021, the Georgian economy maintained its strong growth momentum in 2022, with real GDP growing by 10.1% y-o-y.

Nominal GDP and Real GDP Growth Rate



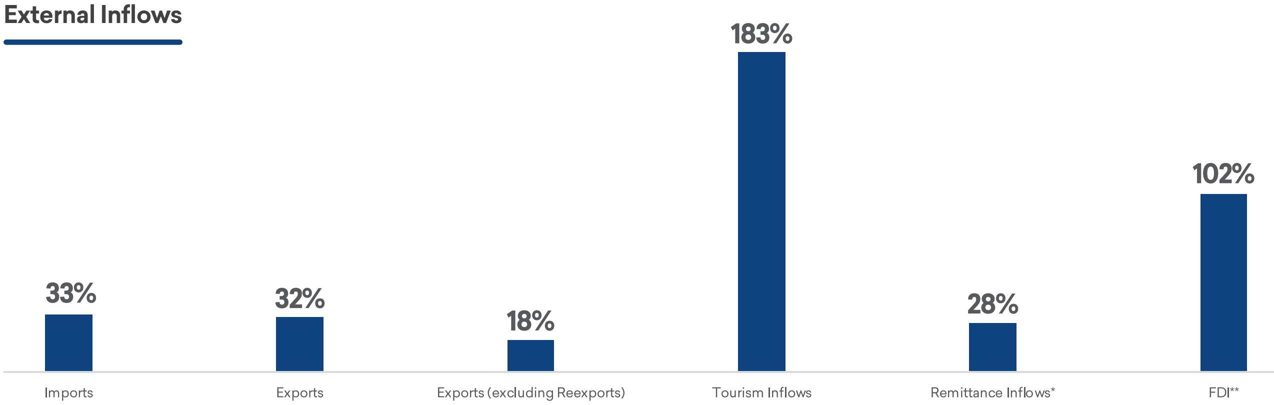
Source: Geostat 2022

EXTERNAL SECTOR

Georgia's external sector performed significantly better throughout the year. Specifically, exports and imports of goods grew by 31.8% and 33.2% y-o-y, respectively. Even though surging international prices were the major driver of the increase in trade, some growth in real terms was also recorded. Notably, investment goods constituted a high proportion of imports, indicating positive sentiments, while the terms of trade remained broadly stable, supporting economic growth and the GEL.

As the initial adverse spill-over effects of the Russian invasion of Ukraine were eventually compensated for by the impact of migration, the recovery of tourism and remittance inflows reached record highs. Including the migration effect, tourism inflows for the full year 2022 surpassed the 2019 level by 7.6%. Remittance inflows grew further as well, increasing by 28.1%[1] y-o-y. In 2022, total FDIs increased by 61.1% y-o-y, largely on the back of equity investments.

External Inflows



*Remittances from Russia are adjusted for double counting with tourism inflows and other similar effects, based on TBC Capital estimates.
**sum of the first three quarters of the year

FISCAL STIMULUS

The fiscal stimulus, although still sizable, negatively affected growth in 2021 as the deficit amounted to around 6.1% of GDP, after an expansionary 9.3% of GDP in 2020. In 2022, the deficit is expected to be even lower, at 3.1%.

According to the Ministry of Finance, fiscal consolidation is expected to take place in the coming years with deficit-to-GDP ratios of 2.8% and 2.3% in 2023 and 2024, respectively.

CREDIT GROWTH ON A CONSTANT CURRENCY BASIS

As of December 2022, bank credit increased by 12.1% y-o-y, compared to 18.2% by the end of 2021, at constant exchange rates. All segments experienced a moderation in growth. Corporate lending activity decreased to 6% by the end of December, largely on the back of sizable prepayments in the second half of the year, compared to 17.7% in 2021. Y-o-y growth in MSME and retail lending also cooled, although it maintained a relatively strong momentum, with growth going down from 19.3% at the end of 2021 to 16.5% at the end of 2022, and from 18.0% to 14.7%, respectively.

INFLATION, MONETARY POLICY, AND THE EXCHANGE RATE

The initial economic effects of Russian aggression against Ukraine, which led to a further depreciation of the GEL and surging commodity prices and was later exacerbated by migration-driven rent increases, resulted in additional upward pressure on inflation, which was already elevated.

As time passed, the GEL started to regain its value against the US$, supported by strong inflows and tight monetary policy, appreciating to 2.69 at the end of December from 3.10 at the end of 2021. Over the same period, GEL appreciated to 2.84 and 3.27 from 3.50 and 4.12 against EUR and GBP, respectively.

Initially, after cooling off before the invasion, inflation started to rise again. Thereafter, CPI inflation moderated to 9.8% by the end of 2022 from double-digit levels throughout the year because of a stronger GEL and disinflationary pass-through from international markets. Notably, monthly inflation rates have retreated to a large extent, with a 0.3% deflation in December. Nevertheless, awaiting more pronounced evidence of the easing of high inflationary pressures, after tightening in April the NBG kept its monetary policy rate at 11% until the end of the year.

[1] Remittances from Russia are adjusted for double counting with tourism inflows and other issues

GOING FORWARD

After double-digit growth for two years in a row, the consensus projection appears to be that growth will normalize in 2023 with the IMF, the World Bank and the NBG projecting 4% and the Georgian government, 5%. According to TBC Capital's projections, the economy is expected to grow by around 5.6% in 2023. More information on the latest analyses and projections can be found at www.tbccapital.ge.

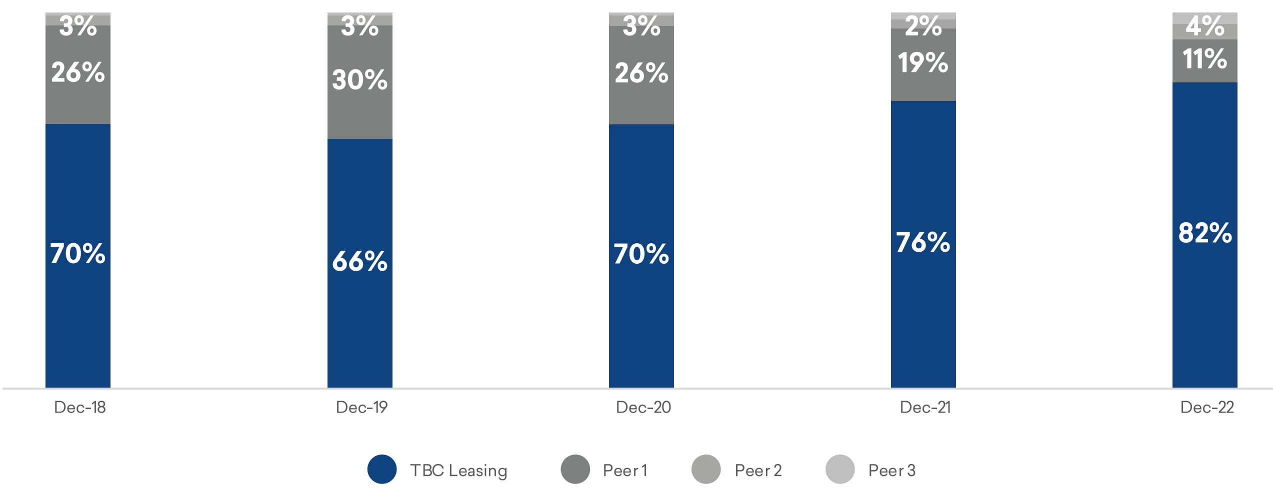
INDUSTRY AND MARKET OVERVIEW

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

Over the last three years, three companies have entered the Georgian leasing market, while an international leasing company which only serves retail customers is planning to enter the market in the near future. In terms of market share, we maintain our position as a market leader and hold 82% of the market as of December 2022.

LEADER IN GEORGIA WITH ESTABLISHED #1 MARKET POSITION

Market Share Dynamics

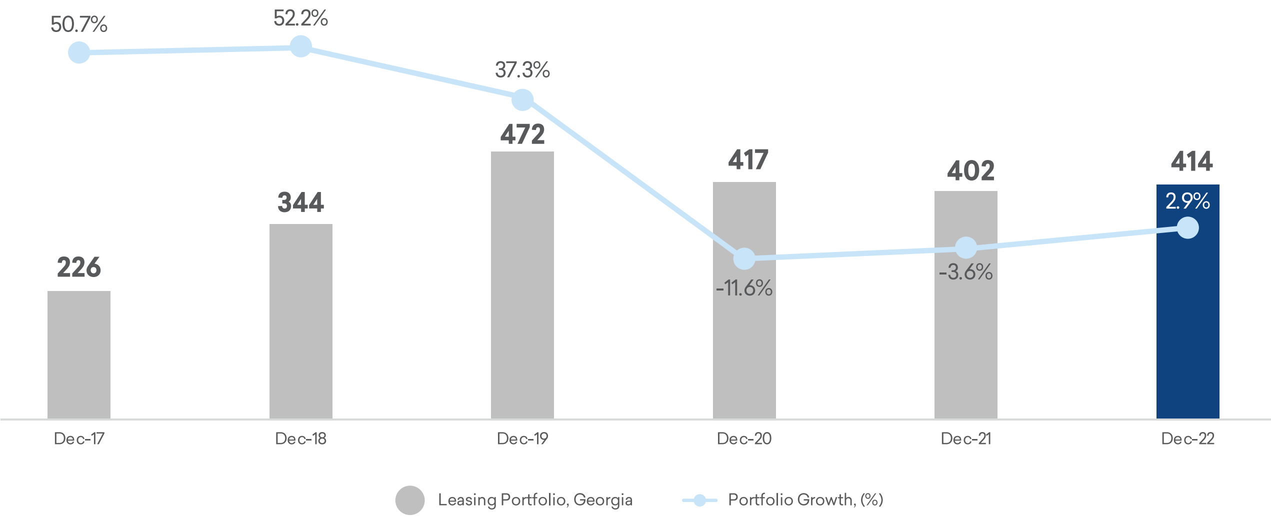


The Georgian leasing industry is at an early stage of its development and is likely to follow broader developments in the economy. The leasing industry in Georgia currently represents around 1% of the country's GDP, with a leasing portfolio of GEL c.500 million. Considering that the share of leasing is around 5% of GDP in peer countries, the Georgian leasing sector has substantial room for growth; in the case of Georgia this would mean 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.

Over the last five years, the Georgian leasing market posted c. 12% CAGR. The foremost reason behind the double-digit growth of the sector is that awareness of leasing products as an alternative way of financing has substantially increased among SMEs, which is the main target client group for leasing products.

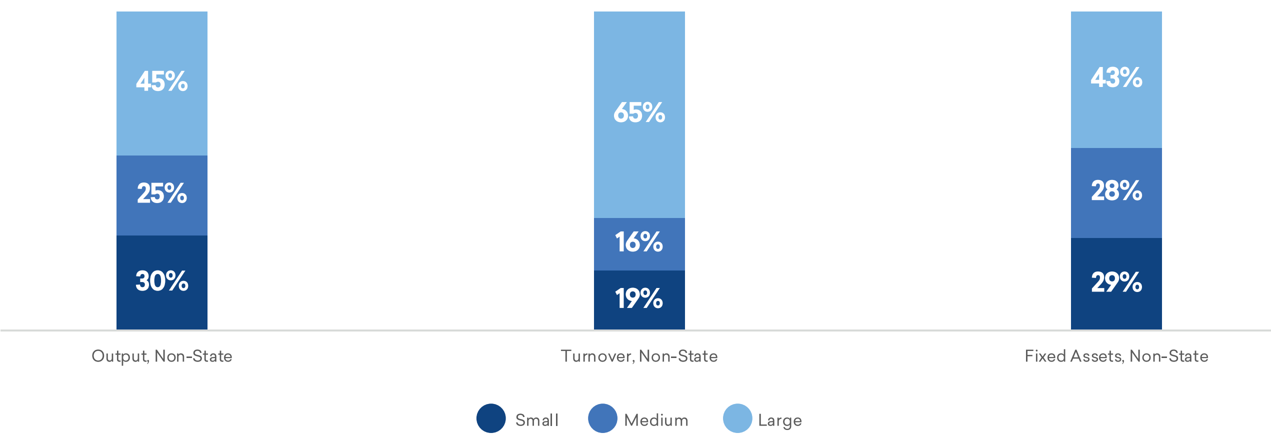
GROWTH IN LEASING MARKET EXPECTED TO CONTINUE

Leasing Market Dynamics



SMES DOMINATE THE ENTERPRISE LANDSCAPE OF GEORGIA AND ACCOUNT FOR 55% OF TOTAL PRODUCTION VALUE AND 35% OF TURNOVER IN THE PRIVATE SECTOR.

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

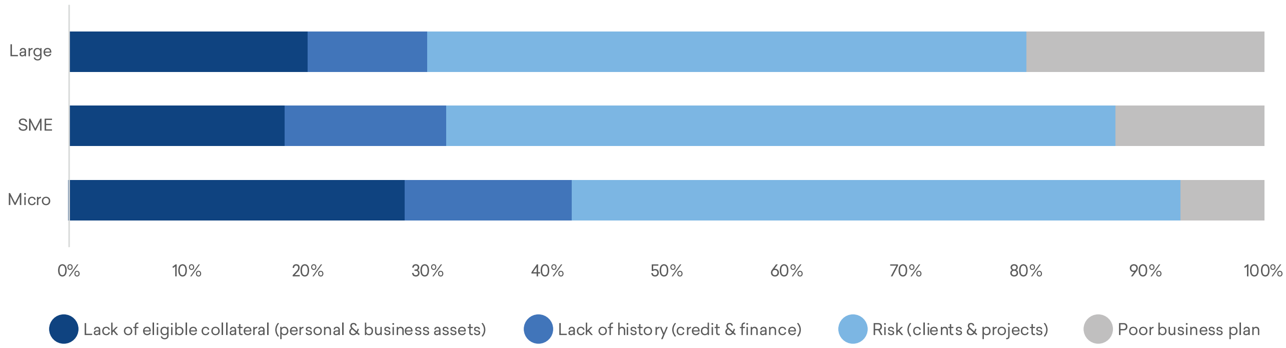


According to a research report from the European Investment Bank, access to funds remains one of the main limitations for SME development in Georgia. The main reasons for rejecting applications are lack of eligible collateral, lack of credit history, riskiness of project riskiness and poor business plans.

Notably, the riskiness of projects is the main reason banks reject loan applications in the 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), yet businesses do not have unlimited sources of additional collateral to serve their funding needs.

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

Reasons for Loan Application Rejections



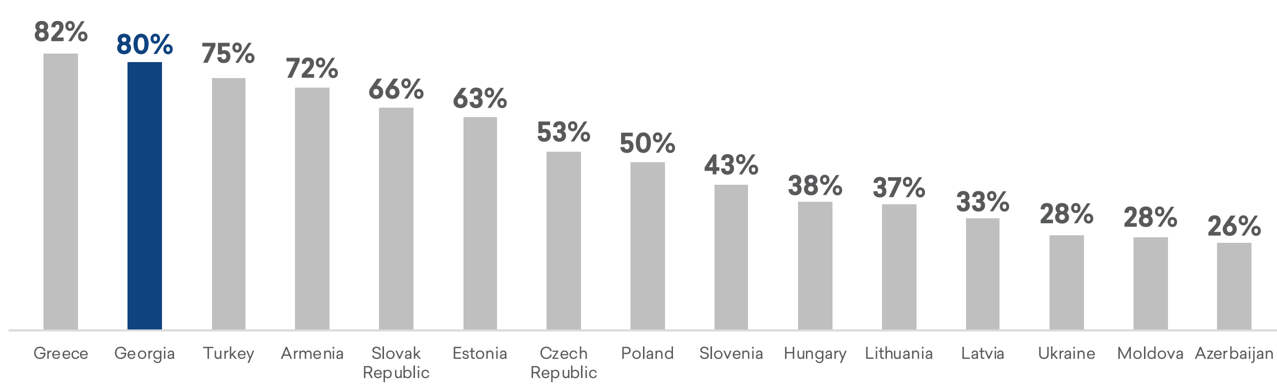
The most widely available source of financing for businesses is bank loans. Over the last five years, leasing has progressively gained importance. The demand for leasing as an alternative way of financing is expected to grow further due to its relative flexibility and high-risk bearing nature compared to banks. Lease customers are not subject to maximum loan-to-value and payment-to-income ratios or tighter underwriting requirements. Leasing customers can increase production capacity and concentrate on their core competencies with minimum participation and without additional collateral, which 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, while the remaining 1% of our portfolio is operating leasing/full service leasing. Given the generally positive development trends in the industry and increased opportunities in the machinery leasing market, it is likely that the operating leasing market will slowly strengthen and provide more incentives for bank-owned leasing companies to develop in this direction.

In 2022, bank credit growth increased by 12.1% y-o-y, compared to 18.2%[1] y-o-y growth in 2021.

All segments experienced a moderation in growth. Corporate lending activity decreased to 5.3% by the end of December, largely on the back of sizable prepayments in the second half of the year, compared to 17.7% in 2021. Y-o-y growth in MSME and retail lending also cooled, although it maintained a relatively strong momentum, with growth going down from 19.3% at the end of 2021 to 16.5% at the end of 2022, and from 18.0% to 14.7%, respectively. With the banking sector growing, access to financing has improved. The expansion in financial activity reflects the favourable economic environment in Georgia. Georgia stands alongside other peer countries in terms of private sector credit-to-GDP.

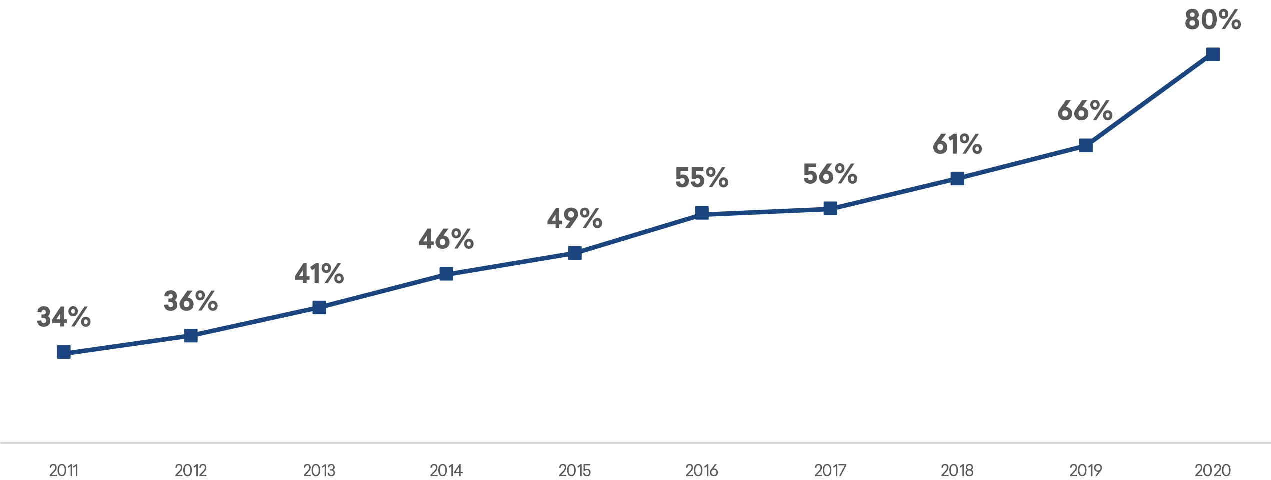
Private Sector Credit-to-GDP (Georgia VS Other Countries)



Source: World Bank

[1] Source: NBG

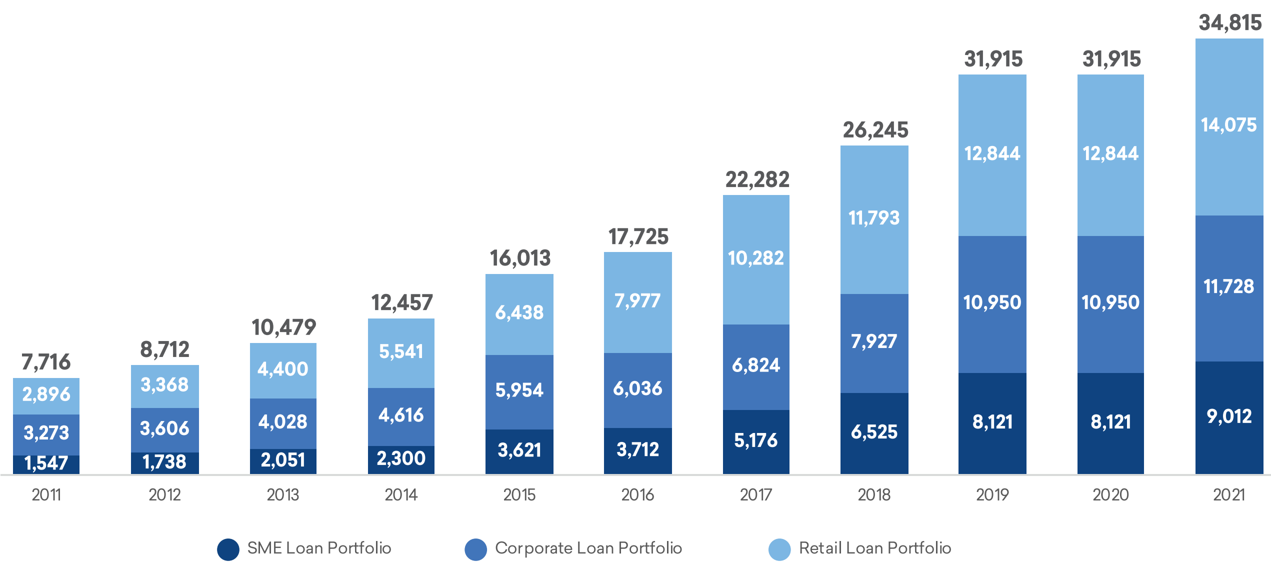
Private Sector Credit-to-GDP (Georgia 2011-2020)



Source: World Bank

The volume of the SME portfolio has increased almost six fold since 2011, with 26%[1] of all loans being provided to the SME segment. In terms of capacity, the Georgian leasing sector has substantial room for growth. It should be noted that since micro, small and medium enterprises make up 99.7% of the business in Georgia, 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)

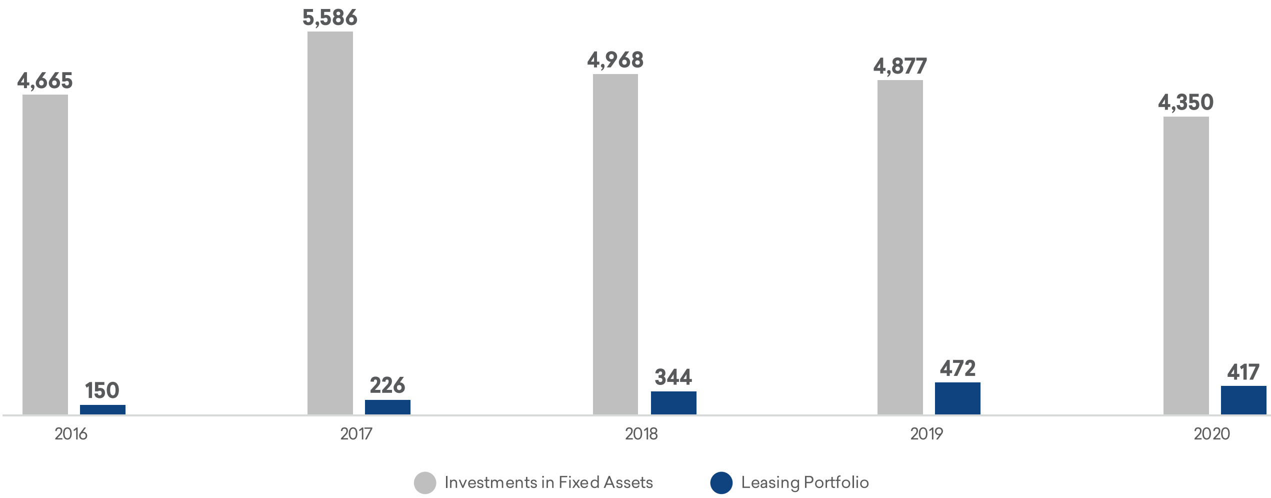


Source: NBG

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

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

Investments in Fixed Assets VS leasing Portfolio Dynamics



Source: NBG

REGULATORY ENVIRONMENT

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

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

In the absence of regulations, the existence of a strong industry association is crucial, as it 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, the government's financial support programs have created significant demand for leasing manufacturing equipment. The Ministry of Economy and Sustainable Development and the Office of the Prime Minister have promoted 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 the legal, tax, regulatory and business environment of leasing market was assessed and a number of recommendations were developed based on international best practices. The document has been passed to the government for review.

Business Model

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

We create value through providing long-term, finance and operating leasing solutions for assets that are used in a wide variety of applications, and by providing 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; we 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 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 large 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 work continuously 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, and large-scale movable assets (aircrafts, yachts, etc.).

Our Credit Department serves as a key driving source of lease sales generation. It is divided by function into Analytical, Sales and Product Development teams. The Sales department follows a sectorial approach with two sector heads: Construction & Healthcare and Manufacturing & Service. Apart from the Credit Department, we also have a standalone department for the Automotive segment.

The sales direction directly communicates with clients, informs them about our general conditions, and collects documents. The document packages are then given to the analysts to process the project and present it to the committee. Analysts are only involved in scheduled financial monitoring and restructuring processes.

Through leveraging our business know-how, experience and knowledge, 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 The client chooses the equipment of their choice

2 TBC Leasing's lease project manager fills in an application with the lessee and defines the appropriate lease product

3 The client provides documents for the lease application to TBC Leasing

4 TBC Leasing compiles a lease project memo with appropriate analysis and makes a decision whether or not to approve the project

5 TBC Leasing comes to terms on the price, payment and delivery conditions with the vendor and transmits an offer related to the lease project to the client

6 A lease agreement is signed between TBC Leasing and the client, and a purchase agreement is signed between TBC Leasing and vendor

7 The client receives the equipment and starts payments to TBC Leasing

8 After providing the leased asset, the manager continues portfolio monitoring, control and communicates with the clients based on their needs. In case client does not pay amounts due on time, Leasing Manager initiates the restructuring process and starts negotiations with the client

9 In case the client is in 90 days or more in arrears, after exhaustion of every effort of rehabilitation the lease contract is terminated. After termination, logistics and asset management department supervises administration of legal documents, transportation of assets and other related issues

10 Terminated assets are offered for sale or re-leasing

GEOGRAPHICAL COVERAGE

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 our parent bank. Our broad sales coverage is supported by tight cooperation with top international equipment vendors and car dealers. Moreover, the presence of customer pathway and referral synergies from our parent company contributes further to our sales generation.

We have three branches in the largest cities of Georgia, although our service centre is located at our headquarters in Tbilisi.

CUSTOMER BASE

Our customers range in size and scale from small, medium and corporate businesses to retail individuals, helping them to finance and expand 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 the economy, including Construction, Development, Services, Road Construction, Medicine, Agriculture, Trade, HoReCa, Light Industry, Renewable Energy, Automotive, Technology, Media and Telecommunications and Printing.

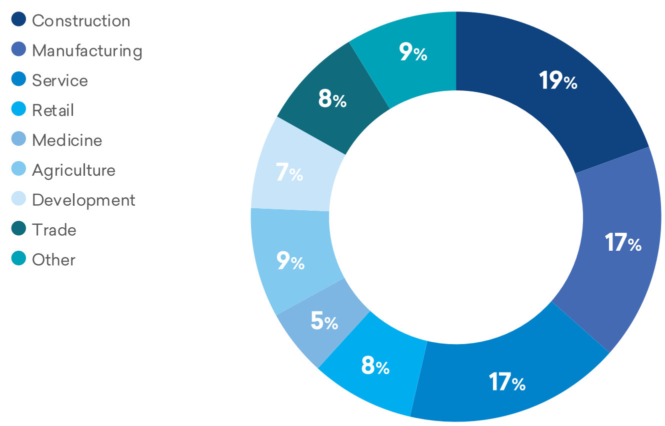
OPERATING SEGMENTS

Our operating segments are:

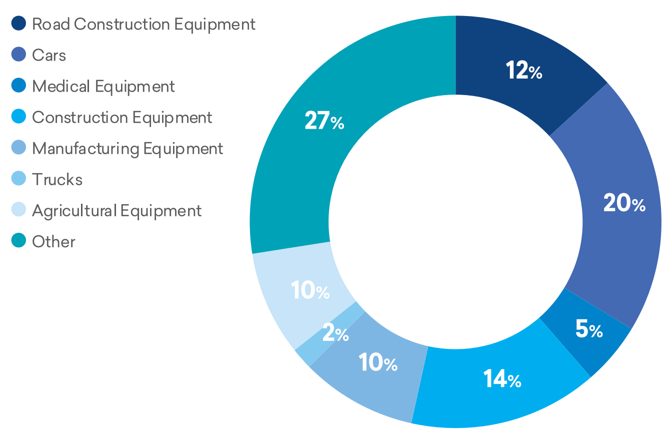
- Business, which includes all leases to legal entities or group of entities where financed assets can be anything other than vehicles;
- Automotive, which includes all leases to legal entities or group of entities where financed assets are vehicles; and
- Retail, which includes all leases to all non-business individual customers.

The management assesses the performance of the operating segments based on the Total Comprehensive Income/(Loss) for the year. The reportable segments are the same as the operating segments. The segment overview is discussed below.

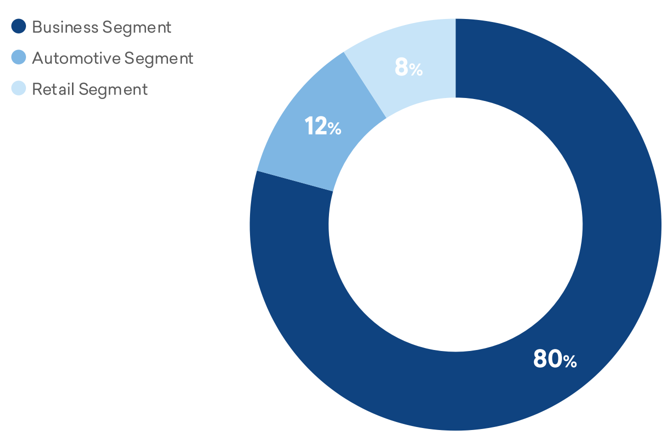
Total Leasing Portfolio breakdown by Industries



Total Leasing Portfolio breakdown by Asset Type



Total Leasing Portfolio breakdown by Operating Segment



Segment Overview

Business Segment

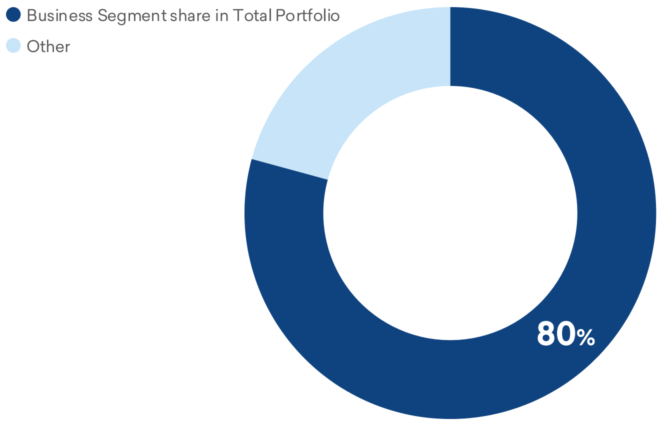
We are the leading lease service provider for the Business segment in Georgia, holding 81% market share with 572 Business segment clients and a 269 million GEL Total Leasing Portfolio as of 2022.

The Business segment comprises 80% of Total Leasing Portfolio and is well-diversified across different industries.

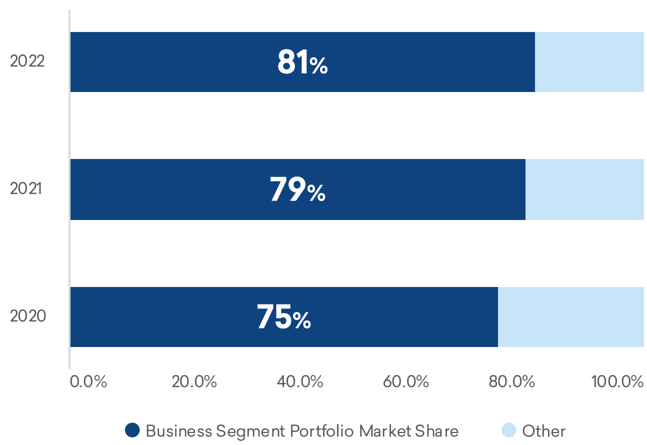
We support the Business segment via well-structured, efficient and beneficial leasing solutions. With special deals and a remarkable cooperation with top vendors, we manage to finance a wide range of industrial assets for large enterprises and help them expand their activities. We pride ourselves on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

In 2022, we were able to maintain the volume of our Business Total Leasing Portfolio, which has grown average 8% per annum over the last three years and amounted to GEL 269 million as of the end of 2022. The Company served a total of 572 Business clients.

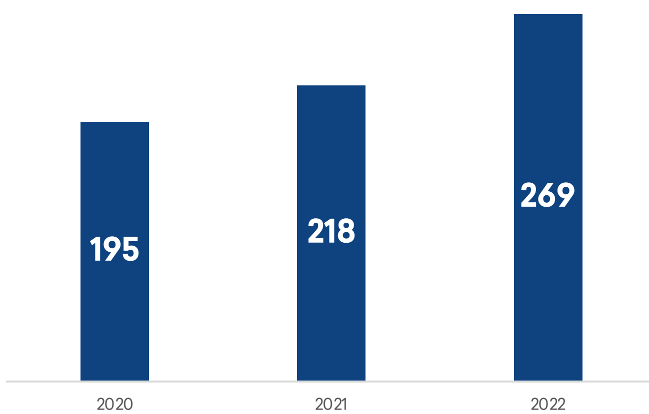
Business Segment Share in the Total Leasing Portfolio



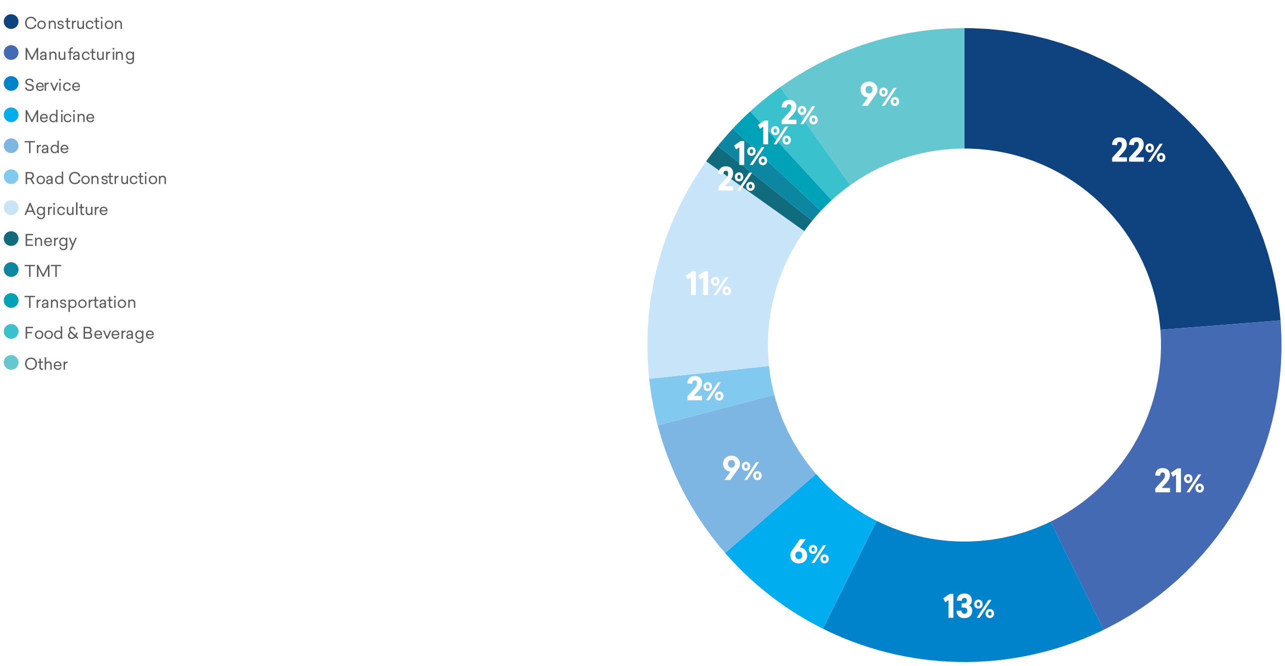
Business Segment Market Share Dynamics



Business Segment Total Leasing Portfolio



Business Segment Total Leasing 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 secondary assets such as machinery or equipment chosen by the client for predetermined lease monthly instalments, with ownership of the asset remaining with the leasing company. Apart from lease financing, we also offer complementary value added services, such as equipment advisory services and after-sale asset maintenance services.

Financial leases are our most popular product, with 99% share of the Company's portfolio.

Cooperation with Enterprise Georgia

The program aims to support the development of businesses in fields of economy prioritized by Georgian government and the diversification of domestic production, through the creation of new enterprises, and the 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. In 2022, we financed 28 projects under the subsidy program, with a total of GEL 8,440,842.

In 2022, in order to promote the growth of export-oriented small and medium-sized businesses, Enterprise Georgia launched an Export Assistance Program. The program provides technical assistance to exporting companies through the elimination of export barriers in beneficiary companies and the introduction of export incentive mechanisms to facilitate the diversification of export markets, products and services, identifying sectors and products with high export potential, and stimulate international sales.

The programme includes three technical assistance components: product licensing/certification, which includes the introduction of an international standard for enterprise auditing, obtaining an international quality certificate and licensing a product produced by an entrepreneur (the amount of funding was set at GEL 20,000); branding, which includes developing a brand formation and development strategy, rebranding and product packaging according to the brand book (the amount of funding was set at GEL 20,000); and stimulating international sales, which includes promoting entry into the international trade network, including the so-called “entry fee” or similar fees within established limits in the following target markets: Gulf countries, EU countries, UK, USA, Canada, Japan and (the volume of funding is 10,000 Euros equivalent in national currency). The program covers the following sectors: clothing, leather and leather goods, footwear, toys, compound feed for pets and poultry, veterinary products, furniture manufacturing, jewellery and related goods manufacturing, packaging materials, food and beverage products (except wine).

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 legal and natural entities with cheap, affordable long-term and preferential funds and serves the development of infrastructure to generate agricultural products’ added value.

Within the framework of the project, enterprises involved in creating agricultural products (such as 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.

This project provides co-financing equal to 12% of the lease interest for the full term of leases within the range of GEL 20,000-1,500,000.

In 2022, we financed 22 projects under the subsidy program, totalling GEL 6,950,866.

In the cooperation with the Rural Development Agency’s co-financing program, our customers were offered leasing solutions without initial participation requirements. The 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 participant vendors, making it easier for our customers to select the desired asset.

QUICK LEASING FOR CONSTRUCTION, MEDICAL AND AGRICULTURAL EQUIPMENT

The Company takes a flexible approach for financial leasing solutions compared to standard financial leasing, with an easy application and approval process. The approval process usually takes between one and three days.

COMMERCIAL REAL ESTATE LEASING

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

TBC Leasing has been supporting the Georgian business environment for 19 years. Since its inception, TBC Leasing has been providing funds that help businesses grow.

Supporting Georgian businesses became especially important in during and after the pandemic. In this regard, in 2022 we formed and deepened our collaboration with various businesses. This period once again revealed the importance of economic independence and supporting the manufacturing and production sector.

New businesses, especially those with no credit history, have a hard time securing bank loans. Fortunately, we support start-ups to invest in crucial equipment and assets for the future and give access to technical support while optimising their cash flow and working capital. In 2022 we actively supported Georgian start-ups, some of which started to export to the foreign markets.

THE FIRST MOBILE WINE FACTORY IN GEORGIA

Timing, experience, state of the art equipment and expert knowledge are critical to wine's integrity, taste and shelf life. However, many Georgian wineries don't have the budget for all the intricate machinery needed to bottle wine properly, or the expertise and availability of dedicated technicians to keep bottling equipment running at peak performance.

Only Good Wines – a technology start-up operating in the wine industry – offers the same quality and convenience of having a permanently installed bottling system, but in a customized trailer that comes to wineries whenever they need it. The wineries only need to provide power, employees to help, and bottles, labels and corks.

This mobile bottling plant was exclusively built in Italy with a total investment of 700,000 euros and is equipped with autonomous power and steam generators, air and nitrogen compressors, a water softening system and two pre-bottling sterile filtration units. The plant is able to provide bottling, labelling and corking services and can produce up to 3,000 bottles per hour.

By giving access to high tech equipment corresponding to current best practices and standards, the Company is contributing to the quality of small winery production, therefore supporting the development of the small winery sector.

"On the back of the development of the industry, the demand for quality wine is rapidly growing. Small and medium-sized wineries need extensive resources to maintain high quality. Therefore, small wineries often rent the resources of large wine factories, which significantly increases the cost of the product or in some cases, they bottle the wine on their own, in which case the shelf life and quality does not correspond to market standards. Only Good Wines fully responds to these issues and offers an alternative service in Georgia to those who want to bottle their own wine with high technology," says Vasil Managadze, founder of Only Good Wines.

MOUTH MELTERS GROUP

Mouth Melters Group produces chocolates in the form of a “Kvevri”, a traditional Georgian wine pitcher. The business launched operations through outsourcing the production. However, as daily production of 150-200 pieces of chocolate pitchers could no longer meet the market demand, the company took the decision to produce in-house and purchase production equipment. The financing tool that we offered the company frees up its financial resources for the development of its activities.

NUTS INCORPORATED - A GEORGIAN PERSPECTIVE FOR DEVELOPING NUT CROPS

Nut crops belong to that rare species whose prices in the world market are characterized by a stable growth trend. In particular, since the demand for and the price of, the product in the European Union countries are increasing, the interest of Georgian entrepreneurs is also increasing.

Nuts Incorporated is the second largest almond and hazelnut company in Georgia. At this stage, the organization manages 2,600 hectares, with 800 hectares of almond plantations in Mtskheta-Mtianeti and Kvemo Kartli, and 1,800 hectares of hazelnut plantations in Samegrelo. Nuts Incorporated acquired the plantations of a subsidiary of the Italian corporation "Ferrero", thereby becoming a major supplier of nuts for the production of chocolate.

Since we are supporting businesses that significantly contribute to the prosperity and growth of the Georgian economy, we financed Nuts Incorporated with heavy equipment in the form of tractors and harvesters.

MAISI NATURAL JUICES

With the support of TBC Leasing, Maisi Natural Juices acquired production machinery for 100% natural, sugar-free juices with eco-friendly packaging. The company's goal is to increase the availability of healthy products in Georgia and is also planning to export their products. The company currently employs around 20 people, with higher numbers planned as the company expands.

PELAMUSHYTO

With the support of TBC Leasing, Pelamushyto has expanded its production and sales. The company offers modernized variants of the traditional "Pelamushy" dessert. Pelamushyto is the result of the Georgian culinary experimentation, representing a savoury combination of Georgian and modern tastes. The company offers both warm and cold Pelamushy desserts in up to 10 different flavours.

TBC Leasing has been financing various assets for the company since the idea was born. The company uses only high-quality, natural ingredients. Pelamushyto quickly became popular and grew significantly, both in terms of sales and the number of sales locations.

BASKIN ROBBINS - BRINGING BACK THE TASTE OF CHILDHOOD

The American brand “Baskin Robbins” was founded in 1945 in California by Burt Baskin and Irv Robbins. In the ice cream industry, it is the largest chain in the world and currently includes 8,000 cafes worldwide spanning 50 countries, including Georgia. The company produces 1,300 different types of premium quality ice cream which are gluten-free.

TBC Leasing's investment played an important role in the return of Baskin Robbins in Georgia. We have also allocated additional investment to meet the company’s expansion plans and financed production equipment for new branches.

CAFE DAPHNA - A FAVORITE SPOT FOR TOURISTS

Daphna is a unique, high-quality restaurant in old Tbilisi. In 2022, it secured its place in Forbes’ list of the 12 Best Georgian Restaurants in Tbilisi by offering unique, traditional dishes to its visitors. It has also received the highest rating from OTA travel guides, which speaks for itself.

TBC Leasing supported the business through financing essential industrial kitchen equipment to run the restaurant.

As part of the Company's long term development strategy, we are committed to financing a wide range of environmentally conscious and sustainable projects.

Leasing itself is green in the way that it enables businesses to invest in newer, more efficient, less resource-intensive equipment. Rather than commit capital to purchase machinery outright – especially if there is older, less-efficient equipment currently doing a job – it makes sense to approach a leasing company and ask them to finance the deal. One of the most promising avenues for leasing in Georgia is still under-exploited: the rapid growth of investments in sustainable equipment (i.e. energy efficiency, renewable energy, and cleaner production).

As part of that sustainability drive, we support our clients to shift towards a greener future by financing sustainable assets. Many of our projects focus on the environment and clean energy – such as solar panels, wind power and small-scale hydro power plants. We have facilitated energy-saving agricultural and manufacturing assets of c.25.2 million GEL, out of which 5.8 million GEL was for solar installations. Furthermore, we financed more than 10.4 million GEL in hybrid vehicles.

As part of our long-term development strategy, we are committed to financing a wide range of environmentally sustainable projects. With the active cooperation with International Financial Institutions (such as EBRD, PROPARCO, FMO, GGF, EFSE etc.), we have actively started to develop new products that will help to increase the financing volume of energy efficient assets as well as finance the production of renewable energy, such as solar panels and small-scale hydro power plants.

Thanks to the active support of our long-term partners, we are able to further strengthen and support local small and medium-sized businesses, and given our focus on green and responsible financing, help our clients in expanding their sustainable activities. Our role, as a leading leasing company in Georgia, is to facilitate this process and create a more diverse range of products that will allow local SMEs to benefit from the availability of alternative financing means to expand their business activities.

We have been exploring ways to support the development of the solar energy ecosystem, specifically to fill the gaps in the market. One of the challenges hindering the initial uptake of solar energy systems in Georgia is the lack of demonstration projects that could 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 the Rural Development Agency and Enterprise Georgia and to offer subsidy programs that significantly reduced our clients' monthly lease instalments and optimized energy costs.

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

In light of 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 initial solar PV projects, namely the design and installation costs of our clients. The total grant budget is 150,000 EUR and is available to commercial and industrial clients, covering design and installation costs of up to 10,000 EUR per client.

So far, five solar panel projects have been financed with a total financing volume of 6 million GEL. The GGF grant is subsidised with the funding from the European Union under the EU4Energy Initiative.

DIGITAL SOLAR MARKETPLACE ("DSM")

Implementing solar photovoltaic (PV) financing for commercial businesses and private individuals is a sustainable strategy to support the fight against climate change and reduce greenhouse gas emissions.

Given that Georgia's level of solar radiation is higher than the European average and the country has an abundance of sunny days, we developed Digital Solar Marketplace for the first time in Georgia with cooperation from the Green for Growth Fund. The goal of the project is to support our clients (commercial businesses and private individuals) and relevant partner technology vendors, as well as to catalyse the wider uptake of solar PV technology in the Georgian market.

The digital marketplace will enable interested clients to provide the main characteristics of their prospective solar photovoltaic (PV) project and obtain quotes from partner solar PV suppliers. The platform will have a leasing and impact calculator for solar PV systems, based on the quotations obtained from our vendors. The calculator will enable potential clients to calculate leasing rates from different technology suppliers, including the main impact metrics such as energy & Carbone-dioxide (CO2) emission reduction, savings in monetary terms and the estimated payback period.

The PV online marketplace will raise awareness about the technology, attract potential clients, foster close communication by bringing all involved parties together, stimulate better offers from vendors (by increasing competitiveness), and strengthen relationships with the vendors. The platform is currently at the development stage and will go live in the next two to three months.

The 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 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 can be found at: www.EU4Energy.eu

SUPPORTING ENERGY EFFICIENT PROJECTS

As part of our support for local businesses, especially small and medium-sized enterprises, we also received three million euros from the European Bank for Reconstruction and Development (EBRD) as part of the European Union's EU4Business initiative. 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 that meet the eligibility criteria set out by EBRD. The EU4Business-EBRD credit line is one of the most successful financing tools in Eastern Partnership countries, including Georgia, among micro, small and medium enterprises.

Funds we received were directed at financing investments in green technologies, which, gave us the opportunity to support local enterprises in expanding their green activities and increasing their competitiveness.

As part of the EU4Business initiative, businesses also receive an incentive grant and free technical assistance from high-level international expert consultants appointed and managed by the EBRD. Consultants facilitate the successful operation of the program by assisting with implementation and monitoring and providing technical assistance to our clients in terms of meeting the technical eligibility criteria. Within the scope of this arrangement our clients are entitled to apply for an investment incentive payment and are eligible to receive up to 10% of the investment cost.

In 2022, GEL c. 9 was invested in green technologies under the programme and around 11 clients will benefit with 10% cash back on their green investments.

Moreover, our long-term partner Green for Growth Fund ("GGF") allocated [150,000] EUR sponsorship under the Deep Greening Scaling Initiative with the aim of providing development finance for energy efficiency and renewable energy investments and promoting solar PV systems in Georgia. The sponsorship entails compensation for the design and installation costs of solar panels. So far, [five] solar panel projects have already been financed with a total financing volume of 6 million GEL. Under the program, after successful verification, customers will be reimbursed for design and installation costs of up to 10,000 EUR, which will be subsidized with funding from the European Union under the EU4Energy Initiative.

7.5%

GREEN PORTFOLIO SHARE IN TOTAL LEASING PORTFOLIO

25,231,574

GREEN PORTFOLIO VOLUME

Automotive Segment

We are a leading lease service provider for vehicle financing among legal clients in Georgia holding 81% market share and managing 875 vehicles under Automotive segment with a Total Leasing Portfolio of 41 million GEL as of December 2022. The Automotive segment comprises 12% of the Total Leasing Portfolio.

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

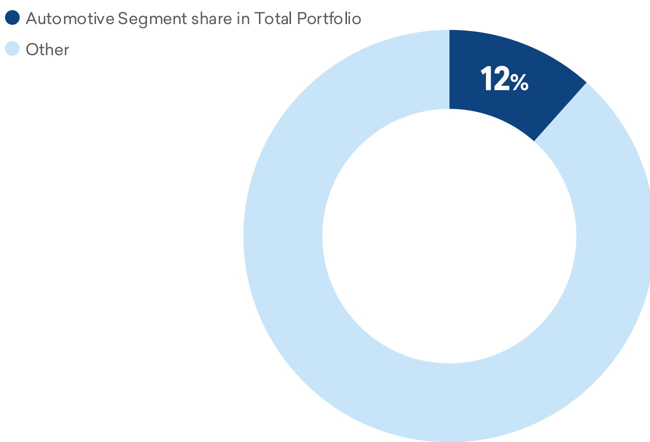
OPERATIONAL LEASING

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

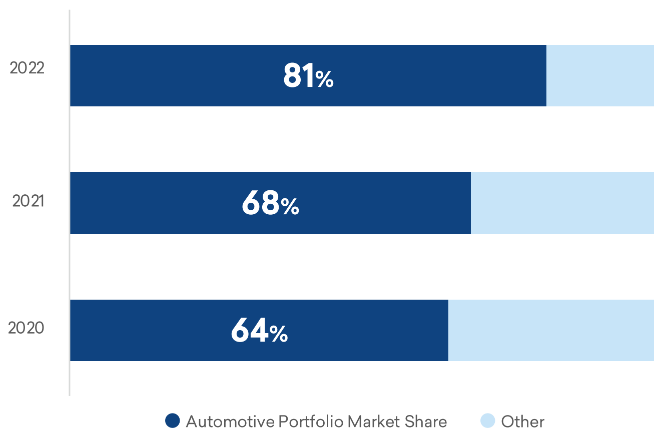
We provide a full end-to-end service taking care of insurance, maintenance and repairs with an option to upgrade a vehicle at the end of the term of the lease. Our expertise in vehicle fleet management has been developed over a decade, enabling us to provide technical support and ongoing management services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

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

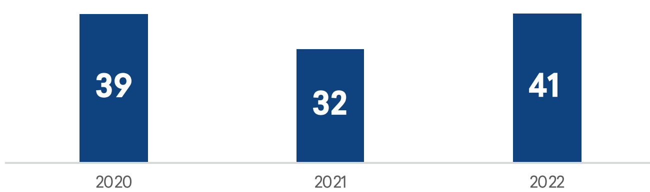
Automotive Segment Share in the Total Leasing Portfolio



Automotive Portfolio Market Share Dynamics



Automotive Segment Total Leasing Portfolio



Retail Segment

We are a leading lease service provider for vehicle financing among non-business, individual customers holding 63% market share with 28 million GEL Total Leasing Portfolio as of 2022.

The Retail segment comprises 8% of the Total Leasing Portfolio and is one of the most active and fast-growing directions in the Company.

Under the 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 the official TOYOTA representative in Georgia, we initiated a new TOYOTA EASY offer in 2021, under which our clients gain access to exclusive offers from the official dealer with fast and easy application approval procedures, with no advance payment requirement. The attractiveness of the offer lies in clients' option to retain the vehicle for a predetermined residual value or return it to service centre for an upgrade to a new one. As the offer was well received by the market, we plan to refine and broaden the offer with other official car dealers and introduce a new EASY leasing product, which will further contribute to the development of new car sales.

ENTERING MAJOR LOCAL AUTOMARKETS

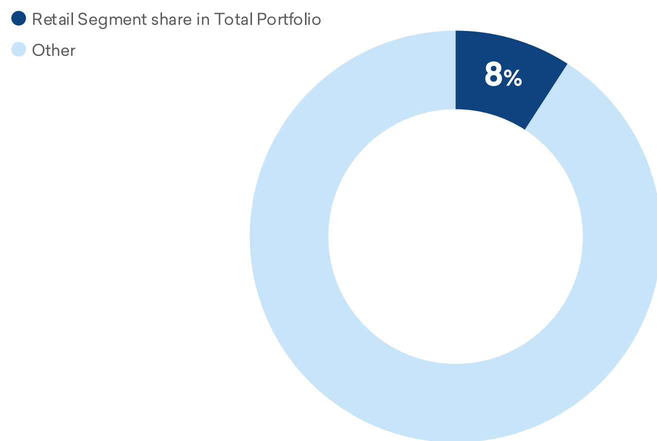
In 2022, we entered two major auto markets in Georgia and distributed information brochures, banners and light boxes where customers are now able to receive general information on leasing financing and leasing price indicators.

One of the strategic priorities in the Automotive segment is to capitalise on the opportunities offered by the growing trend in auto imports in Georgia. With this in mind, we partnered with Caucasus Auto Import, the largest and experienced auto importer in the Country, to introduce a new, flexible product under which we finance 80% of imported automobiles to make our customers' lives easier.

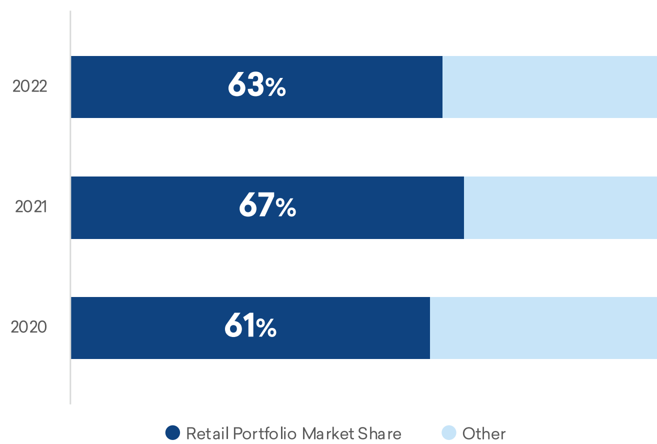
SCOOTER LEASING

In 2021, we introduced a new offer financing motorcycles and scooters, enabling our customers to use eco-friendly, efficient forms of transport.

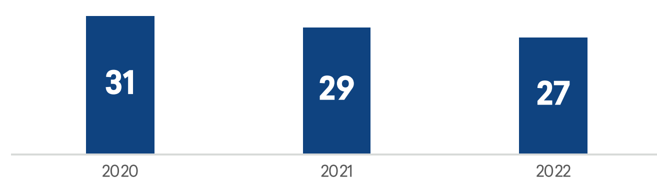
Retail Segment Share in the Total Leasing Portfolio



Retail Segment Portfolio Market Share Dynamics



Retail Segment Total Leasing Portfolio



Our Strategy

The Four Pillars of Our Long-term Development Strategy

RAISING AWARENESS ABOUT LEASING AND INCREASING THE CUSTOMER BASE

Increasing our customer base and raising awareness of leasing as an alternative way of financing remains our main strategic priority. As stated above, the essence of leasing was incomprehensible or vague to the majority of the population, with most of our target audience associating leasing with auto loans rather than as an 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 can act as an engine of growth. In collaboration with UK Good Governance Fund, we developed a strategy roadmap for enhancing Georgian leasing market which has now been passed on to the Georgian government.

The pandemic once again demonstrated that core value often lies not in a possession but rather in usage. This insight provides more flexibility in terms of adapting innovations and enables effective short-term and long-term decision making.

We build both leasing and our brand awareness through traditional and digital channels and try to increase our brand equity. In 2022, we performed quantitative and qualitative research to measure top of mind awareness of leasing, which was conducted by a third party organisation - ACT - Analysis and Consulting Team. In 2022, we observed an increase in TOM (TOP OF MIND) data amongst the SME segment.

Spontaneous and Reminder Sums and Spontaneous Awareness

	2022
Spontaneous and Reminder Sums	79%
Spontaneous Awareness	32%

We continued our information campaigns during the year, including video guides and interviews on national business TV shows that described the core advantages of leasing solutions and the simplicity and flexibility of our products to a broader target audience.

The campaigns also included commercial content posts, including action-oriented posts that focused on utilizing leasing solutions in various areas of personal and business activities such as educational institutions, sewing, dental offices, dairy production, etc. Furthermore, they included interviews with high profile recognized customers who enjoyed our services that emphasized the value creation achieved through leasing solutions.

These information campaigns helped us to increase our outreach, with further campaigns planned for the near future. We have initiated a new campaign in which trendsetters and opinion leaders will use their voice to raise awareness of leasing and share the solutions we offer in eye-catching short videos. The campaign is intended to cover all our digital channels, as well as online media and TV shows.

Digital Marketing content metrics

	2021	2022
Reach	2,593,226	3,056,007
Frequency	17	26
Total Interactions	128,670	94,665
Post Shares	3,451	2,596
Post Engagement	3,916,953	2,893,095

IMPROVING CUSTOMER SATISFACTION

We are committed to providing great customer experience. From the first interaction with our employees, we want to make sure that customer experience is as positive and seamless as possible. This requires active engagement with our clients via various channels to solicit feedback about our service quality and value proposition, as well as to understand their preferences.

In 2022, we further developed the Customer Relationship Management (CRM) system that was introduced in 2020, integrating it with our call centre. CRM enables us to effectively manage the whole customer journey strengthening collaboration between our sales, marketing and customer service departments.

In particular, our CRM system enables us to keep track of 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.

The sales and marketing teams procure leads from the call centre and social media and update the system with information throughout the customer lifecycle. This system helps to manage performance and productivity through reports and dashboards. In 2022, we also introduced an automatic notification procedure, under which all clients receive notifications containing the names and contact details of their Leasing Manager.

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

We have also implemented a streamlined system for handling, managing, responding to, and reporting customer grievances which allows us to ensure constant monitoring and faster resolution of any problems. When a customer submits a complaint, it is routed to the appropriate department or person, with the progress for each claim monitored and reported upon in detail. CRM has not only increased customer satisfaction, but also resulted in improved efficiency.

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

We have a centralized call centre redirecting both existing and new customer issues to the appropriate destinations.

In 2022, to make our customers' life easier, we added a simplified hotline number, enabling clients to dial *2277 and obtain the information they need. We also trained our call centre operators to be more efficient in handling first point consultations in terms of evaluating problems and complaints and providing appropriate solutions.

In addition, we have enabled access to our Leasing Management System, through which they can easily provide customers with information about outstanding debts, fines, payment dates and amounts.

In 2022, we updated our interactive voice response on the leasing hotline. To improve user experience and minimize the percentage of calls blocked, we introduced a call back service. Additionally, to reduce waiting times during working and non-working hours, we activated a "leave number" button on our hotline, giving the user two options: either to wait for the operator until they are free to answer the call, or press a specific button to leave us their number for a call back. In order to reduce waiting times, we also set the call centre operators to auto answer, which means that when previously they had to click to answer incoming calls, the program now automatically answers the call in a few seconds. Finally, we added an after-service assessment tool that enables customers to share their feedback both on call centre service as well as access to the service of their leasing manager.

In 2022, we scored 73% in our 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 the near future, we plan to conduct wider customer experience research that will calculate our NPS scores across our different segments. The survey will be conducted immediately after the customer receives the service, enabling us to better analyse service quality. The second phase of CRM implementation will help us in this project.

DIGITAL TECHNOLOGY 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 a closer look at our internal processes.

As stated above, in 2020 we rolled out CRM, the effect of which lies in the systematization of the sales stages. CRM helps us to improve sales efficiency, as the technology allows 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 an 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. In 2022, we integrated an updated version of the system which is more technically and operationally sophisticated in terms of speed and readability.

In 2022, to further simplify procedures for our customers, we integrated leasing payments in TBC Bank online and mobile banks. When choosing a leasing service in the Internet Banking payment system, customers are now able to verify the information and transfer the amount in one of two ways: payment by personal number / identification code or payment under a specific leasing agreement number. Clients are now also able to set an automatic leasing payment order in their online/mobile bank accounts and pay their monthly leasing payments without any further action.

TBC Leasing aimed to make leasing a digital product, which would further increase customer satisfaction. We started planning this long-term project in 2020 and met specific targets in 2021, such as the development of the customer portal and managing lead generation through the CRM tool. The customer portal is still undergoing development and will be launched at full scale by the end of 2023. This will improve communication with customers on operational issues, while enabling us to target promotions and offers and provide additional services. Furthermore, we will save leasing managers' time in terms of communication and operations.

The business development section includes a new sales model that receives online applications allowing us 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 our wide 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, stable cooperation with our providers allows us to offer leasing assets at a competitive price.

These advantages allow us to serve our customers on "a single-window concept" principle, offering different types of asset or assets in one space and time, as required, both on a domestic and international level, enabling them to purchase assets from different providers and most importantly providing 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 a new campaign under the name of Gold Vendor. This new initiative will give our suppliers a competitive advantage over others, encourage them to offer our services to their clients, and 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 credible, conscientious, long-term partner suppliers. The precise parameters have been defined in the relevant document, requiring 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. Gold Vendor badge holders will receive special leasing offers (no advance payment requirements, lower interest rates, faster approval and personal customer service) and enjoy the benefits of customer referrals as well as active PR and sales campaigns from us.

Doing Business Responsibly

Our Colleagues

EMPLOYEE ENGAGEMENT AND MOTIVATION

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

Through our extensive selection process, which is 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 days-off for employees with three and more children.

In addition, we finance 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.

In 2022, as part of internal knowledge sharing, we ran a range of internal business trainings during which different departments shared their experience with each other. Apart from knowledge sharing, this contributed to the simplification of communication and processes across departments. Middle managers also took an intensive time management course. Furthermore, in cooperation to TBC Academy our employees had an opportunity to attend training courses in the area of their choice, such as brand experience, marketing, business, law, IT, risks, digital product testing etc.

In 2022, all employees received five mandatory trainings on: environmental protection, IT security, AML Compliance and Operational risks.

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

To facilitate young talent acquisition and provide an opportunity to the younger generation, we have launched an internship program. Under this program, we have prioritized internship divisional directions and recruited a total of 15 interns, out of whom 9 interns were offered jobs within the Company.

EQUALITY AND DIVERSITY

All 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 have created a gender-balanced workforce in our workplace environment, where 57% of employees are women, while the share of women in senior positions is 35%. 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	% Share
Female	59%
Male	41%
Total Number of Employees	126

Middle Management Gender Distribution

Gender	% Share
Female	35%
Male	65%
Total Middle Management	17

Employee Age Distribution

Gender	% Share
Under 29	45%
30-39	49%
40-49	5%
Over 50	1%

ETHICAL STANDARDS AND RESPONSIBLE CONDUCT

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

We are not only fully compliant with regulatory requirements and international policy, but we also continue to strengthen our corporate governance in accordance with international best practices and 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 an Incident Response Policy that aims to ensure effective corporate governance, maintain an ethical environment, ensure the 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.

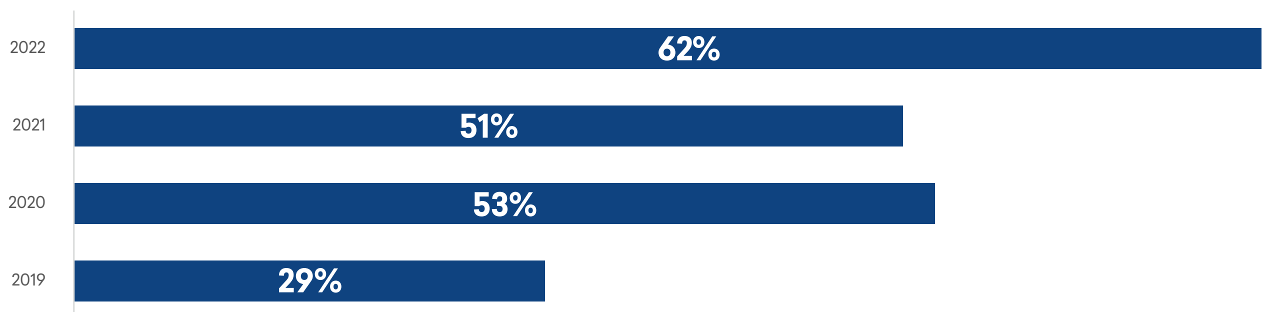
These policies lead to greater awareness of unacceptable behaviour and promote a 'speak up' culture in which all employees feel listened to and protected when reporting any suspected misconduct.

CREATING STABILITY IN THE ORGANIZATION

We have adapted to the post-pandemic environment and switched our working conditions to a remote and hybrid style. As of now, the vast majority of our back-office employees work remotely. This initiative has 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 this new reality, our senior management regularly holds online meetings with employees to update them on the Company's achievements and future plans, and address any concerns that they might have.

To measure our employee happiness and satisfaction and to observe the dynamics within the Company, we are conducting ENPS and Happiness Surveys on an annual basis. The findings obtained through these surveys are good indicators of the emotional state of our employees and assist us in planning relevant activities.

ENPS



Our Community

PAPER RECYCLING TRADITION

We continuously strive to minimize our environmental footprint. To minimize the damage caused by the paper industry, we are promoting going paperless across the Company. We have special waste disposal green boxes placed in our offices and collect wastepaper for recycling. From the collected paper, new books are printed, which are periodically used to update libraries in the highland regions of Georgia. In 2022, c. 300 kg of paper was collected and recycled.

SUPPORTING UKRAINIAN PEOPLE

To demonstrate our support to the Ukrainian people since the war began, we have initiated a humanitarian support program that also supports small Georgian businesses. Under this initiative, we have acquired humanitarian goods (food and clothes) from our small-sized clients and donated them to supporting Ukrainian people.

Our Clients

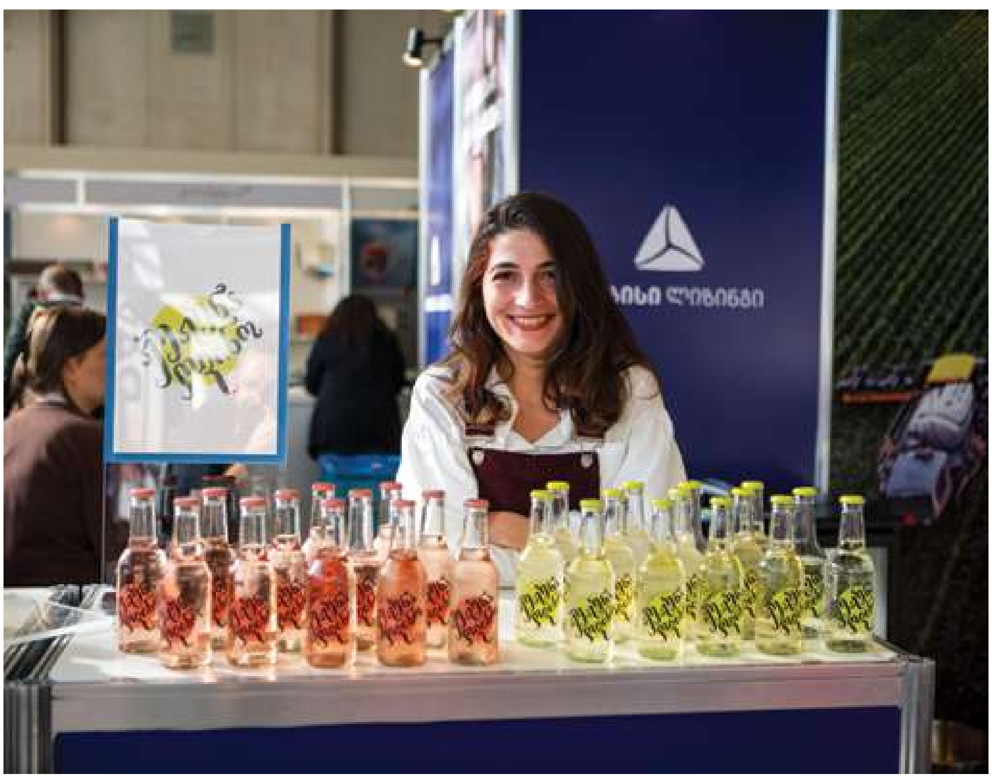
BUSINESS SUPPORT

We are continuing our tradition of supporting Georgian businesses through promotional activities across our communication channels. These promotional activities include blogs about individual companies as well as topics of particular interest to our audience.

At TBC Leasing, we deeply believe that in addition to supporting our clients through financing the equipment of their choice, it is also important to provide support in communication and other strategic services. That is why, as soon as a lease is issued, we start distributing information in the form of press releases to up to 40 rated business media partners. In 2022, we supported up to 15 clients through social media coverage, reaching more than one million customers through different channels.

We are also supporting our clients in terms of PR and marketing services and activities, helping them position themselves on the market. We support small businesses and start-ups to engage in a range of events and platforms, and to raise awareness through financing space allocation fees and other related costs.

In 2022, in order to encourage the development of industry, promote local entrepreneurs, and support the establishment of technological innovations in the Georgian market, an International Exhibition of Agriculture, Food Industry, Food Processing, and Packaging Technology took place, the largest event in the agricultural field. The event gave local and foreign participants a unique opportunity to introduce their products and services to the target audience, increase awareness and retail sales, and meet investors and potential partners. As part of the exhibition, thematic conferences and workshops were organized with the participation of donors, government ministries and the private sector. With the support of TBS Leasing, six of our customers presented their products to up to 7,000 visitors over a three day period.



INVOLVEMENT IN SUBSIDY PROGRAMS

The acute challenges experienced in 2020 highlighted the importance of creating and sustaining local businesses 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 of the subsidy programs implemented by Enterprise Georgia and the Rural Development Agency. Within the scope of these programs, we funded 50 projects that were subsidized by these organizations (for more information, see the Business Segment overview on page 26).

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PROJECTS

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ENTERPRISE GEORGIA

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RURAL DEVELOPMENT AGENCY

Our Investors

FINANCIAL PERFORMANCE REVIEW

INCOME STATEMENTS HIGHLIGHTS

In thousands of Georgian Lari	2022	2021	Change, y-o-y
Finance income from lease receivables	**57,795**	**57,095**	**1.2%**
Revenue From Operating Leasing	1,489	2,444	-39.1%
Interest expense	**(23,288)**	**(24,786)**	**-6.0%**
Direct leasing costs	(9,336)	(9,044)	3.2%
Net lease income	**26,660**	**25,709**	**3.7%**
Credit loss (allowance)/recovery for Finance lease receivables	(576)	3,084	-118.7%
Credit loss allowance for other financial assets	(4,590)	(8,514)	-46.1%
Administrative and other operating expenses	**(9,426)**	**(10,174)**	**-7.4%**
Interest income on bank deposits	2,160	2,774	-62.4%
Profit for the year	**14,109**	**12,140**	**16.2%**

BALANCE SHEET HIGHLIGHTS

In thousands of Georgian Lari	31.12.2022	31.12.2021	Change, y-o-y
Finance lease receivables, Gross	290,145	253,752	14.3%
Credit loss allowance	(7,681)	(7,309)	5.1%
Finance lease receivables	**282,464**	**246,443**	**14.6%**
Advances towards leasing contracts	**29,530**	**28,922**	**2.1%**
Assets repossessed from terminated leases	17,766	9,924	79.0%
Property and Equipment	3,403	4,194	-18.9%
Investment Property	2,837	2,385	19.0%
Other financial assets	10,276	21,089	-51.3%
Total assets	**407,271**	**370,983**	**9.8%**
Loans from banks and financial institutions	211,481	207,635	1.9%
Debt Securities in issue	**58,580**	**58,342**	**0.4%**
Subordinated loans	32,357	33,691	-4.0%
Advances received from customers	17,933	16,918	6.0%
Total liabilities	**344,204**	**323,087**	**6.5%**
Total equity	**63,067**	**47,897**	**31.7%**

NET LEASE INCOME

In 2022, the Company significantly improved the yield on its lease portfolio, which grew from 21.8% in 2021 to 23.1% in 2022, which resulted in finance income from finance lease receivables of GEL 57.8 million, up by 1.2% on a y-o-y basis. The moderately small increase in income is explained by the drastic FX rate fall in 2022, when the USD/GEL rate fell from 3.0976 to 2.7020, while the EUR/GEL rate deteriorated from 3.5040 to 2.8844.

In 2022, the Company significantly decreased its cash and cash equivalents, with the average balance falling from GEL 69million to GEL 37million, 45.8% down y-o-y, thus resulting in a 22.1% decrease in interest income on bank deposits. On the other hand, these decreased cash balances had a positive effect on interest expense, which had fallen by 6.0% y-o-y, despite the increase in the monetary policy rate (MPR) in 2022 compared to the previous year, and amounted GEL 23.3 million. The MPR performance directly affected the COF ratio: if in 2021 MPR was in the range of 8- 10.5%, in 2022 it stood at 11% for almost the whole year, resulting in COF of 8.3%, 0.6 pp more than in 2021.

In thousands of Georgian Lari	**2022**	**2021**	**Change, y-o-y**
Finance income from lease receivables	57,795	57,095	1.2%
Interest income on bank deposits	2,160	2,774	-22.1%
Interest expense	(23,288)	(24,786)	-6.0%
Net lease income	**36,667**	**35,083**	**4.5%**
Average Gross Finance lease receivables	249,731	262,357	-4.8%
Average Finance Lease Receivables	241,268	252,368	-4.4%
Average Funds Balance	281,407	319,974	-12.1%
Yield	**23.1%**	**21.8%**	**1.3 pp**
COF	**8.3%**	**7.7%**	**0.6 pp**
NIM	**15.2%**	**13.9%**	**1.3 pp**

As the table shows, NIM increased to [15.2]% exceeding the 2021 results by [1.3] pp. These drastic changes and improvements are attributable to increased rates on new leases disbursed in 2022 and effective liquidity management.

TOTAL LEASING PORTFOLIO

In thousands of Georgian Lari	**2022**	**2021**	**Change, y-o-y**
Total Leasing Portfolio	338,021	307,514	9.9 pp
Total Leasing Portfolio FX Adjusted	374,932	307,514	21.9 pp

Our Total Leasing Portfolio grew by 22% during the year on a constant currency rate. To adjust the portfolio to account for FX changes, the official exchange rates as of 31.12.2021 are used.

LEASE PORTFOLIO QUALITY

In 2022, portfolio quality indicators showed improvement: the NPL ratio stood at 3.5%, 1.4 pp less than previous year, while COR stood at 2.0%.

In thousands of Georgian Lari	**2022**	**2021**	**Change, y-o-y**
Non-Performing Leases	11,880	15,209	-21.9%
NPL	**3.5%**	**4.9%**	**-1.4 pp**
Credit loss (allowance)/recovery for Finance lease receivables	576	(3,084)	-118.7%
Credit loss allowance for other financial asset	4,590	8,514	-46.1%
Total Provision Charge	**5,166**	**5,430**	**-4.9%**
COR	**2.0%**	**2.0%**	**0.0 pp**

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Despite Total Leasing Portfolio growth of more than 20%, the Company managed to reduce its administrative and other operating expenses by 7.4% on a y-o-y basis and only increased its direct leasing costs by 3.2%, thus improving the cost to income ratio from 51.9% to 47.9%.

In thousands of Georgian Lari	2022	2021	Change, y-o-y
Net leasing and operating income	**39,143**	**37,035**	**5.7%**
Staff Expenses	5,502	5,491	0.2%
Depreciation and Amortization charge	1,338	1,539	-13.1%
Other Administrative and Operating Expenses	2,587	3,144	-17.7%
Total Administrative and Operating Expenses	**9,426**	**10,174**	**-7.4%**
Direct leasing costs	9,336	9,044	3.2%
Cost to Income	**47.9%**	**51.9%**	**-4.0 pp**

NET PROFIT

The Company posted the highest net income for the second consecutive year:

In thousands of Georgian Lari	2022	2021	Change, y-o-y
Net Income	14,109	12,140	16.2%
Average Equity	54,726	41,118	33.1%
ROAE	**25.8%**	**29.5%**	**-3.7 pp**
ROAE before expected credit loss allowances	**35.2%**	**42.7%**	**-7.5 pp**

In thousands of Georgian Lari	2022	2021	Change, y-o-y
Net Income	14,109	12,140	16.2%-
Average Assets	357,469	374,229	-4.5%
ROAA	**3.9%**	**3.2%**	**0.7 pp YoY**

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

Capital Adequacy	2022	2021	Change, y-o-y
Tier 1	17.4%	14.7%	18.4%
Tier2	26.4%	25.1%	5.2%

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	Change, y-o-y
Open currency position	<20%	7.2%	3.3%
Debt Service Ratio	>100%	113.2%	435.3%
Capital Adequacy 1	>9%	17.4%	10.5%
Capital Adequacy 2	>12%	21.2%	17%
Financial leverage ratio	<91%	74.3%	88%
Related party exposure	<20%	2.3%	5.2%

DEFINITION OF RATIOS

- **Finance lease receivables, Gross** – Is the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value, discounted at the interest rate implicit in the lease.
- **Total Leasing Portfolio** – Includes Gross Finance lease receivables and leases where inception of the lease has been exercised.
- **COF** – Cost of Fund is equal to total interest expense for the period, divided by average monthly funds balance of the same period.
- **NIM** – Net interest margin is equal to net leasing income, excluding direct leasing costs, divided by the average monthly finance lease receivables 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 over 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 allowances, divided by the monthly average of total shareholder’s equity over 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 over the same period.
- **COR** – Cost of risk is equal to Credit loss (allowance)/recovery for Finance lease receivables plus credit loss allowance for other financial assets, divided by the average monthly gross finance lease receivables plus average net other financial assets over 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 over the same period.
- **NPL** – Leases with overdue payments over 90 days plus unhealthy restructured leases overdue for less than 90 days divided by the Total Leasing Portfolio.
- **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 to cash and cash equivalents, due from banks, 10% of gross finance lease receivables 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 subordinated debt of the Company, 50% of foreign currency gross finance lease receivables 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.

Risk Management

Principal Risks and Uncertainties

CREDIT RISK

Credit risk is the greatest material risk faced by the Company, given that it is principally engaged 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 an 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 lease portfolio, which may arise from the creation of an exposure on a single entity or a group of related entities, or the concentration of a portfolio in certain industries. Losses may be further aggravated by unfavourable macroeconomic conditions.

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 customers' financial condition deteriorating 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 the risk division, which is independent from the leasing and business development units. In case of corporate and medium-sized business users, the lease financing review process is conducted within specific sectoral cells, which accumulate deep knowledge of 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 lease 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, 2022, the business segment represented 80% of the total portfolio, while retail customers accounted for 8%, which includes fully auto leases. At the end of 2022, the top three sectors in the business portfolio are construction, service and agriculture sectors, where the concentrations are distributed as follows: 19%, 17% and 17%.

The most significant credit risk mitigation tool of leasing liability is 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, 2022, the Company's portfolio coverage ratio by leased assets was 158%. Correct determination of the amount of participation in funded assets ensures a high repayment ratio.

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.

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, any potentially significant depreciation of the Georgian Lari is a significant risk that could adversely affect portfolio quality. 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, comprising 61% of the total as at 31 December 2022. Since the income of most of the customers who have lease agreements in a foreign currency is in Georgian Lari, they are not protected from fluctuations in the GEL exchange rate. However, in 2022, the GEL exchange rate strengthened by almost 13% 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 monitored regularly to ensure that action can be taken quickly if necessary. Resistance to certain exchange rate depreciation is also included in our lending standards, implying 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, which increased the cap to GEL 200,000, under which loans can only be disbursed in local currency in order to reduce the economy's dependence on foreign currency financing.

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 an emerging market face concentration risks, both for individual customers and for sectors. TBC Leasing finances legal entities and individuals whose exposure at default implies increased credit losses and the high cost of impairment reserves. TBC Leasing's 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 its risk appetite, the Company sets limits for both individual and sectoral concentrations. The 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.

TBC Leasing's loan portfolio is reasonably and adequately diversified, with a maximum portfolio volume in one of the largest sectors (construction) of 19% of the leasing portfolio as of December 31, 2022. By the end of 2022, the leasing portfolio of the 10 and 20 largest borrowers accounted for 13.8% and 22.8% of the total portfolio respectively, both in the green zone as forecasted at prior year end, when a de-concentration plan was devised for these ratios to move them down from the amber zone (The Company uses a three-layered traffic light approach in setting the risk limits: Green zone, a desired zone of the Company's risk appetite; Amber zone, a desired zone has been breached, however risk level is still acceptable for the Company; and Red Zone, a risk has exceeded the allowable limit and is going outside the risk appetite).

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 the region. In particular, the Russian invasion of Ukraine, the consequent sanctions imposed on Russia and the resulting elevated uncertainties have had an adverse impact on the Georgian economy. At the same time, just as the migration effect made an important contribution to economic growth in 2022, any sizeable outflow could lead to a deterioration in the business environment. The reverse would probably be the case in any rapid conflict resolution scenario, which would create positive spill overs, such as the likely faster recovery of growth in Russia and Ukraine, which should also be taken into account.

FRAUD RISKS

External and internal fraud risks are part of the 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 into 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 the 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 the harmonization of procedures to implement optimal prevention mechanisms, and 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 analyses them to consider the 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.

LEASE 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 and that 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's 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. A detailed review of processes in an internal committee review format takes place after overdue of 30 calendar days: a borrower does not meet the agreed payments or their 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 to 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 Problem Assets Management 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 Problem Assets Management 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 Problem 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.

Client companies will be transferred to the Problem Assets Management Department based on a substantive review. The review starts as early as at 45 days past the due date to ensure timely measures are taken and potential loss is minimized.

After a transfer to the Problem Assets Management Department, when the Company is unable to negotiate with the borrower on terms acceptable to the parties, it 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 problem assets management units to accomplish litigation and repossession processes efficiently.

MEASUREMENT OF EXPECTED CREDIT LOSSES

Estimating expected losses, as well as monitoring and analysis of different business directions and products are the key components of the strategy.

TBC Leasing uses a portfolio provisioning methodology in line with IFRS 9 requirements, which incorporates the calculation of expected credit losses using macro-economic scenarios and forward-looking information.

Measurement of the expected credit loss (ECL) is based on four components used by the Company: (i) the probability of default ("PD"); (ii) exposure at default ("EAD"); (iii) loss given default ("LGD"); and (iv) the discount rate. The Company uses a three-stage model for 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, the 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 expected recoveries.

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

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 by TBC Leasing on a daily basis serves the mission 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, our 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 can be freely disposed of; for example, such assets include 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 as well as fluctuations in seasonal demand for certain leasing products.

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

The average maturity of TBC Leasing Portfolio is 50 months, which maintains its positive liquidity portfolio in the short and medium term. The Company has already started to introduce new products with a maturity of 72-120 months, as a result of which the liquidity difference significantly improved for long-term items.

Liquidity ratios for existing and probable forecasts are reported to the Company's management, supervisory board, parent 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, the management decided that the Company would maintain a high level of liquidity (around 10% of total assets). A key indicators confirm, this decision only had a minimal negative impact on the Company's financial soundness and profitability. In the post-pandemic environment, the Company has already started to decrease the cash levels down to historically normal levels of around 3%.

A thorough risk assessment, detailed cash flow forecasting and a diversified investment strategy enable the Company to achieve its 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 could put the Company in an "event of default", potentially causing lenders to demand the acceleration of existing loans.

Since leasing is not a regulated business in Georgia, 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 60% 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 a

10% GEL depreciation, the reduction of the capital adequacy limit is expected to be 0.87 pp.

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.

In 2022, TBC Leasing offered variable as well as fixed interest rate leasing in local currency to its customers. Agreements with floating interest rates are indexed to the market interest rate of the so-called monetary policy of the National Bank of Georgia. In the case of the hard currency denominated leases, USD and EUR contracts, six month SOFR and EURIBOR rates are used, respectively. The floating interest rate leases 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 components.

In addition to the hedging approach, along with credit risk management, the Company has 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 rates may affect the value of the 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 their 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 a proper risk measurement methodology and practices, based on all existing facts and expected assumptions in the Company.

According to our methodology, the open currency positions of the main operating currencies – the Euro and the US Dollar - are monitored individually and collectively. Adequate restrictions apply to positions and their proper performance is presented at the Company's management and team levels.

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 its foreign exchange exposure in terms of its total capital, with its maximum allowance set at 25% for aggregate open currency exposure.

Fluctuations in daily activities and currencies can cause losses, although they can be eliminated by managing currency exposure, assessing expectations and hedging. The Company aims to maintain a closed position, for which it uses specific financial instruments. Hedging operations are performed in accordance with the Company's hedging and risk management strategy, which includes 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 its aggregate open currency position fluctuating within an average of 4% of total equity.

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, 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 the following: fraudulent and other internal or external criminal activities; breakdowns in processes, controls or procedures; and 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 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 the 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, systematic analysis is performed and remedial and preventive steps are taken.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

Our environmental policy is developed within the TBC Group. Our Environmental Management System (EMS) is derived from this document and ensures that we comply with all 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 their environmental and social responsibilities. Our environmental policy is fully in line with Georgian environmental legislation, including the Law of Georgia on Environmental Protection and international best practices. The full policy is available at: www.tbcleasing.ge

Since TBC Leasing is a relatively small-scale company, our environmental and social risk management functions are spread between the Organizational Risk Department and employees of the Credit Risk Department. Both units are under the risk director of the Company. In 2020, TBC Leasing Risk and Commercial Officers underwent extensive training conducted by TBC Bank's ESRM team. The training covered the importance of environmental and social risks, ways of management and practical experience accumulated in the process.

ANTI-MONEY LAUNDERING (AML)

The Company has high standards 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 has implemented internal policies, procedures and detailed instructions designed to prevent itself from being used or involved in money laundering, financing of terrorism or other unlawful activities such as bribery, corruption or tax evasion.

The Company's AML / CTF compliance programme, which has been implemented, includes written policies, procedures, internal controls and systems, including but not limited to: 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 users against official lists of terrorists, special categories and banned persons as well as lists of financial and other sanctions; procedures for monitoring and reporting deal / transactions and the suspicious activities of the Company's customers; and 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 its 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) and 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 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 relations/cross border transactions; Corporate governance; and AML/Compliance. Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skills and capabilities of its members. The department ensures the effective execution of its duties through different processes and procedures.

The Company's General Counsel (Head of Legal Department) manages the Legal Department. S/he determines the key business objectives for all legal teams, introduces the policies and vision, and ensures the effective performance of their duties. The General Counsel reports to the Chief Risk Officer on existing legal risks, mitigation strategies and the vision for their effective management in the future.

EMPLOYEE RISK

BEHAVIOR RISK

Behavioural risk is defined as the risk of delivering objective results to consumers and other stakeholders. TBC Leasing's Code of Conduct sets high ethical standards that apply to all employees.

Our employees must fulfil the responsibilities placed upon them carefully. In order to maintain the Company's reputation and ensure the smooth running of its operations employees must behave in ways that are trustworthy, loyal, prudent and cautious.

The Company's management realise that they are accountable to both local and international investors and therefore need to develop rules and mechanisms to protect consumers and maintain the confidence of investors and financial markets. The directors of the Company introduce the principles of good behaviour and have active communication with employees in this regard.

TBC Leasing's Risk Department, Operations Department and HR Division work together to create a unified framework for behavioural risk and assist business and other departments in the following ways:

- 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 must be accurate and complete; this information is provided (both in written and oral form) easily and clearly, according to the type of customer.
- It is important to have such conversations and emails with clients and to maintain track records that contain sales-related information, including customer attraction information and the 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;
- Establish a healthy corporate culture that promotes employee openness, enabling them 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. As part of behaviour risk, we also monitor employee gambling activities: once a quarter, with the approval of employees, we check the bank accounts of employees to monitor any gambling. In the case of detection, we apply preventive measures to avoid repetition. We have implemented an incident management policy where employees can anonymously report workplace incidents (harassment, fraud, misconduct etc.). The purpose of this policy is to create a healthy work environment and encourage ethical behaviour.

EMPLOYEE TURNOVER

The post-pandemic period clearly showed us how current crises and external factors affect people's behaviour. The attitude of employees and job seekers towards employers has completely transformed. Accordingly, we have had to adapt our approach and conduct analysis to find out the emotional state and attitude of our employees.

Compared to the previous year, the turnover rate has significantly decreased while the satisfaction and happiness index has increased. In 2022, the potential workforce competency index has also improved which indicates that the initiatives carried out were effective.

Governance

Corporate Governance

Joint Stock Company TBC Leasing (the "Company") is the largest subsidiary of JSC TBC Bank, the largest commercial bank in Georgia, and in 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, as well as the requirements of the National Bank of Georgia's Code on Corporate Governance for the issuers of publicly offered securities, dated 07 December 2021 (the "Code").

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 cover the following: financial planning and reporting; the 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, and the 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 the Law of Georgia on Entrepreneurs. The Shareholders' General Meeting's decisions are only valid 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 or, in his absence, by the Deputy Chairman. In the absence of the Deputy Chairman the Director chairs the Shareholders' General Meeting. If the latter is absent, the Shareholders' General Meeting elects a Chairman by a simple majority of votes. It is not necessary to convene the Shareholders' General Meeting if 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, which consists of five 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 re-elect the members of the Supervisory Board early. A 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, or in his absence his deputy, 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, the clear segregation of authority and effective communication between different areas, contributes to transparency and the 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 to 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" criteria set by the Code, the Supervisory Board includes 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 the Audit Committee as a sub-committee. The Audit Committee is comprised by the members of Supervisory Board. In line with the requirements of the Law of Georgia on the Securities Market, the independent member is the Chairman of the Audit Committee. 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 do not 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, 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 2022, there were two female members on the Supervisory board, while 35% of Company's middle management roles were performed by females and 57% 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 has also been responsible for the Bank's Wealth Management and Leasing businesses since January 2021. George first joined TBC in 2014 as Deputy CEO and 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 a 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 of experience in financial services and banking 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 Gogichaishvili

Member Of The Supervisory Board

Tornike has more than 20 years of experience in financial services and operations management in Georgia and Central and Eastern Europe. Prior to joining TBC, he served as a Deputy CEO and Chief Operating Officer at the Bank of Georgia Group, occupying several other key positions at the same institution before that. In 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 CEO of Aldagi, an insurance company in Georgia, Chief Financial Officer of UEDC PA consulting, and 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.

Meri Chachanidze

Member Of The Supervisory Board

Meri Chachanidze joined TBC Bank in 2017 as the Deputy Director of Corporate and Investment Banking. She managed the Bank's large corporate clients, and before being appointed Managing Director of TBC Capital in February 2020.
Prior to joining TBC, Meri spent 10 years as an investment director at SEAF, a global investment firm headquartered in Washington, DC, which oversaw more than 20 investment transactions in local and international markets. She holds BBA and MBA degrees from the European School of Management. She is the CFA Charter-holder.

Zurab Pichkhaia

Independent Member Of The Supervisory Board / Chair Of The Audit Committee

Zurab Is an Independent Supervisory Board Member at TBC Leasing in Georgia. Zurab acted as Chief Financial Officer at Anaklia Development Consortium and Lisi Development. He also 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 Georgian Technical University. In addition, he holds an MBA degree with a major in Finance from the University of Pennsylvania's Wharton Business School.

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, the role of other board members role is to provide leadership through effective oversight and review of operations. They set the Company's risk appetite, monitor its operational and financial performance and reporting, ensure that the Company is adequately resourced with effective controls and remuneration policies, and check that there are appropriate succession planning arrangements in place.

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

- 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 of 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 has 18 years of experience working in the banking sector at TBC Bank. Gaga began his career at TBC in 2001, working as a Credit Officer. In 2003-2004 he held the position of the Head of the Credit Department, following which 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 TBC's 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. He holds a bachelor's and master's degree in physics from Georgian Technical University, 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 the auditing company EY, eventually becoming Senior Auditor. In 2012, he was appointed 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 (CFO) and is in charge of the Financial and Operational Departments of the Company. He oversees the daily operations of the treasury, funding, budgeting, reporting, IT, PMO and procurement teams. The CFO is responsible for, and directly engaged in, implementing and introducing internal control systems, ensuring the transparent disclosure of processes and transactions, and reaching the strategic and financial goals of the Company.

Zurab Gugushvili

Chief Commercial Officer

Zurab Gugushvili was appointed as Chief Commercial Officer 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, holding various positions from 2006. From 2008, he focused on providing attractions and services to legal entities instead of expert supervision. During the last nine years of his stay at TBC, he managed the major directions of the corporate sector, focusing principally on retail and the auto industry, although periodically overseeing education, hospitality, commercial real estate and other sectors. With the growth of the group since 2016, Zurab was appointed head of the sector, responsible for about 20% of the corporate business.

As Chief Commercial Officer, he manages the Company’s income generation, attracting new customers and maintaining existing ones. Through the introduction and development of new and existing products his main objective is to create a healthy, long-term lease portfolio.

Giorgi Maisuradze

Chief Risk Officer

Giorgi Maisuradze joined TBC Leasing team in 2018 as Chief Risk Officer. Giorgi has 23 years of experience in the financial sector, almost half of which has been in the field of risk management. He began his career at Baker Tilly as an 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 managerial positions at Basis Bank. He gained his education at the Faculty of Economics of Tbilisi State University, holding a bachelor's and master's degree in macroeconomics.

As CRO, Giorgi oversees the Credit Risk, Enterprise Risk Management, Problem Assets Management, and Legal Departments. He implements different control systems to ensure a healthy lease portfolio, ensuring effective underwriting processes and further healthy collection actions.

Responsibility Statement

The Management Report and Financial Statements have been prepared in accordance with applicable laws and regulations.

We confirm that:

- The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and fully, accurately, and fairly reflect the assets, liabilities, income and expenses, financial position, profit or loss and cash flows of the Company.
- The Management Report includes a fair review of the development, 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 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

15 May 2023

Chief Executive Officer
Gaioz Gogua

15 May 2023

Joint Stock Company Tbc Leasing

Financial Statements and Independent Auditor's Report

31 December 2022

Independent Auditor's Report

To the Shareholder and Management of Joint Stock Company TBC Leasing

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company TBC Leasing (the "Company") as at 31 December 2022, 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 2022;
- 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 1,482 thousand, which represents 2.5% of revenue (finance income from lease receivables and revenue from operating leasing).
Key audit matters	• Expected credit loss allowance on Finance lease receivables

PricewaterhouseCoopers Georgia LLC, I/C 405220611
King David Business Centre, 7th floor, #12 M. Aleksidze Street, Tbilisi 0171, Georgia
Tel: +995 (32) 250 80 50, www.pwc.com/ge

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 1,482 thousand (2021: GEL 1,500 thousand).
How we determined it	2.5% of revenue (finance income from lease receivables and revenue from operating leasing).
Rationale for the materiality benchmark applied	We chose Revenue as the benchmark because, in our view, it is one of the benchmarks against which the performance of the Company is commonly measured by users and in our view the most stable measure of performance of the business (as other measures like Profit Before Tax are volatile given the development stage of the Company).. 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 Finance lease receivables We focused on this area as the management's estimates regarding the expected credit loss ('ECL') allowance for Finance lease receivables are complex, require a significant degree of judgement and are subject to high degree of estimation uncertainty. Under IFRS 9, Financial Instruments ('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 stage allocation of the individual asset. This staging is determined by assessing whether or not there has been a significant increase in credit risk ('SICR') or default of the lessee since lease contract origination. It is also necessary to consider the impact of future macroeconomic conditions in the determination of ECL. The economic outlook is stable despite the inflationary pressures. Management has designed and implemented an expected credit loss provisioning model to achieve compliance with the requirements of IFRS 9. Among others, management applies judgement to the model in situations where past experience is 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 macroeconomic variables.	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 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 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 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 Post Model Adjustments ('PMAs') were required to address relevant risks that were not captured in the modelled provision. We verified adequacy and completeness of disclosures on ECL.

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; and
- 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)

15 May 2023
Tbilisi, Georgia

STATEMENT OF FINANCIAL POSITION

In thousands of Georgian Lari	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	7	45,846	16,765
Due from banks	8	-	29,016
Prepayments	9	4,750	2,732
Tax assets, net	10	6,468	6,825
Advances towards leasing contracts	11	29,530	28,922
Finance lease receivables	12	282,464	246,443
Property and equipment	13	3,403	4,194
Intangible assets	14	2,829	2,510
Investment property	15	2,837	2,385
Assets purchased for leasing purpose		1,010	-
Assets repossessed from terminated leases	16	17,766	9,924
Derivative financial Instruments	32	81	56
Other financial assets	17	10,276	21,089
Other assets		10	123
TOTAL ASSETS		**407,270**	**370,984**
LIABILITIES			
Loans from banks and financial institutions	18	211,481	207,635
Advances received from customers	19	17,933	16,918
Debt securities in issue	20	58,580	58,342
Subordinated loans	21	32,357	33,691
Other liabilities	22	23,854	6,501
TOTAL LIABILITIES		**344,205**	**323,087**
EQUITY			
Share capital	23	3,659	3,659
Additional paid-in capital	23	7,550	7,550
Retained earnings		50,765	36,656
Cash flow hedge reserve	29	1,091	32
TOTAL EQUITY		**63,065**	**47,897**
TOTAL LIABILITIES AND EQUITY		**407,270**	**370,984**

Chief Executive Officer
Gaioz Gogua

Chief Financial Officer
Nugzar Loladze

15 May 2023

The notes set out on pages 94 to 147 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of Georgian Lari	Note	2022	2021
Finance income from lease receivables		57,795	57,095
Revenue from operating leasing		1,489	2,444
Interest expense		(23,288)	(24,786)
Direct leasing costs	26	(9,336)	(9,044)
Net lease income		**26,660**	**25,709**
Credit loss (allowance)/recovery for finance lease receivables	12	(576)	3,084
Net lease income after expected credit loss		**26,084**	**28,793**
Credit loss allowance for other financial assets	17	(4,590)	(8,514)
Gain from revaluation of investment property	15	452	26
Revenue from sales of repossessed assets	16	10,753	5,652
Cost of sales of repossessed assets	16	(10,829)	(5,697)
Loss from release of repossessed assets	16	(133)	(37)
Gain on initial recognition of repossessed assets		607	99
Write-down of repossessed assets to net realizable value	16	(1,504)	(264)
Losses net of gain from derivative financial instruments	32	(1,398)	(2,769)
Foreign exchange translation gains less losses / (losses less gains)		(599)	1,915
Administrative and other operating expenses	27	(9,426)	(10,174)
Other income	24	4,692	3,110
PROFIT FOR THE YEAR		**14,109**	**12,140**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Gains / (Loss) on cash flow hedges	29	1,059	264
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		**15,168**	**12,404**

The notes set out on pages 94 to 147 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 2021	**3,659**	**7,550**	**(232)**	**24,516**	**35,493**
Profit for the year	-	-	-	12,140	12,140
Other comprehensive income	-	-	264	-	264
Total Comprehensive Income	**-**	**-**	**264**	**12,140**	**12,405**
Balance at 31 December 2021	**3,659**	**7,550**	**32**	**36,656**	**47,897**
Profit for the year	-	-	-	14,109	14,109
Other comprehensive income	-	-	1,059	-	1,059
Total Comprehensive Income	**-**	**-**	**1,059**	**14,109**	**15,168**
Balance at 31 December 2022	**3,659**	**7,550**	**1,091**	**50,765**	**63,065**

The notes set out on pages 94 to 147 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

In thousands of Georgian Lari	Note	2022	2021 (As Restated)
Cash flows from operating activities			
Cash receipts from lessees		175,108	187,563
Cash received from deposits (Due From Banks)	3	58,190	40,538
Cash receipts from lessees before commencement		15,137	11,979
Cash receipts from sale of repossessed assets		12,789	7,818
Cash receipts from terminated lease contracts		6,089	1,621
Interest received from current account		1,468	1,983
Interest received from deposit		80	652
Cash paid for purchase of assets for financial leasing purposes		(173,796)	(156,963)
Cash paid for deposits (Due From Banks)	3	(32,812)	(51,341)
Cash paid for direct leasing costs		(11,257)	(8,076)
Cash paid to employees		(4,898)	(4,040)
Cash paid for administrative and other operating expenses		(4,599)	(2,827)
Cash outflow from derivative financial instruments		(397)	(1,162)
Cash from operations		**41,102**	**27,745**
Interest paid on loans from banks and financial institutions	28	(10,969)	(14,203)
Interest paid on debt securities issued	28	(8,172)	(7,032)
Interest paid on subordinated loans	28	(2,821)	(3,189)
Taxes paid other than income tax		(18,666)	(14,517)
Net cash (used in) / from operating activities		**474**	**(11,196)**
Cash flows from investing activities			
Purchase of property and equipment		1,334	-
Cash received from sale of investment securities		(1,390)	-
Cash paid for investment securities	13	(29)	(164)
Purchase of property and equipment	14	(333)	(462)
Net cash (used in) / from Investing activities		**(418)**	**(626)**
Cash flows from financing activities			
Loans from banks and financial institutions received	28	121,149	63,120
Subordinated loans received	28	16,186	-
Loans from banks and financial institutions repaid	28	(92,433)	(102,103)
Subordinated loans repaid		(13,577)	-
Repayment of lease liabilities		(370)	(467)
Net cash from financing activities		**30,955**	**(39,450)**
Effect of exchange rate changes on cash and cash equivalents		(1,930)	(1,937)
Net (decrease) / increase in cash and cash equivalents		**29,081**	**(53,209)**
Cash and cash equivalents at the beginning of the year	7	16,765	69,974
Cash and cash equivalents at the end of the year	**7**	**45,846**	**16,765**

The notes set out on pages 94 to 147 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 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 2,000 large, corporate, MSME and individual clients all across Georgia. The company's products include financial and operating leases in agro, medical, construction, service, manufacturing and retail business sectors. The Company offers its products through various type of sales channels including parent bank, official representative dealerships, vendors and direct sales channels. The Company leases various types of assets, from industrial equipment and equipment used in information technology to vehicles, which are purchased from suppliers in Georgia and abroad. The company is a partner of governmental agencies like Enterprise Georgia and Agricultural Projects' Management Agency (APMA), which provide subsidies to companies to assist the 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 2022 and 2021. In turn TBC Bank Group PLC is a public limited by shares company, incorporated in the United Kingdom. TBC Bank Group PLC held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 31 December 2022 (2021: 99.88%), thus representing the TBC Leasing's ultimate parent company. TBC Bank Group PLC and its subsidiaries is referred as "TBCG" or "Group".

As at 31 December 2022 and 31 December 2021 the TBC Bank Group PLC's shares were listed on London Stock Exchange and has no ultimate beneficial owner

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

Georgia, where the company's activities are located, displays certain characteristics of an emerging market. In 2021 the Georgian economy rebounded at 10.5%, mainly on the back of the recovery of inflows, as well as stronger domestic demand. As for 2022, despite the adverse impact of Russia's invasion of Ukraine, the expansion continued at a speed that exceeded initial expectations, with real GDP increasing by 10.1% in 2022. The main reasons behind the strong growth momentum are the resilience of Georgia's terms of trade at the time of rising commodity prices as well as Georgia's broadly balanced net exposure to oil prices. Moreover, while Russia's invasion of Ukraine tourism recovery has slowed compared to the pre-war dynamics, when adding the migration effect from citizens of Russia, Belarus and also to some extent Ukraine, the tourism recovery has even strengthened. Additionally, higher remittance inflows and recovering foreign direct investments (FDIs) were growth supportive throughout the year.

However, the baseline strongly depends on the global developments. While the Georgian economy is so far resilient against recently elevated global slowdown risks and adverse economic impacts of Russia's invasion of Ukraine, there is a probability of more severe spill-over effects, as well as COVID resurgence risks. The materialization of these risks could severely restrict economic activity in Georgia, and negatively impact the business environment and clients of the Group.

For the purpose of measurement of expected credit losses ("ECL"), the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

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 fair valuation of certain instruments as set out in policies below 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.

Restatement of Cash Received from Deposits and Paid for Deposits from financing activities to operating activities in Cash Flow Statement. In previous years the Company was showing cash transactions associated with receiving and paying cash for deposits (Due From Banks) in financing activities of cash flow statement. The management of the company believes that cash flows related to deposits (Due from Banks) were incorrectly classified as financing activity in previous periods and this error was corrected by restating the statement of cash flows.

As a result Cash received from deposits (Due From Banks) and Cash paid for deposits (Due From Banks) were transferred to operating activities section of the cash flow statement.

Shareholders	31 December 2021 (As originally presented)	Restatement	31 December 2021 (as restated)
Operating Activities			
Cash received from deposits (Due From Banks)	-	40,538	40,538
Cash paid for deposits (Due From Banks)	-	(51,341)	(51,341)
Financing Activities			
Cash received from deposits (Due From Banks)	40,538	(40,538)	-
Cash paid for deposits (Due From Banks)	(51,341)	51,341	-

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 33.

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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For lease commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position.

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 30 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 30.

ECL model is applied not only to investment in leases, but for other financial assets as well. Note 30 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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
- 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 is a recognised asset, advances toward lease contracts, after transaction up to commencement date the risk is arising from form commitment to asset delivery.

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

Finance lease receivables. 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 a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease by applying the rate implicit in the lease. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded profit or loss.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease

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.

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 finance lease receivable 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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 are subsequently carried at AC using the effective interest method less the loss allowance determined applying the expected credit losses model

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. For finance lease contracts 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, Assets repossessed from terminated lease paragraph. The gain or loss arising from the derecognition of an item of property, plant and equipment are included in profit or loss.

Depreciation. Land is not depreciated. Depreciation 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.

Fair value of investment property is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

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 finance lease receivable 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 and loans received, 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 2022 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.7020 (2021: USD 1 = GEL 3.0976); EUR 1 = GEL 2.8844 (2021: EUR 1 = GEL 3.504).

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

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

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 30. 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.

Judgements used to define criteria used in definition of default. The Company defines default using both quantitative and qualitative criteria. Client is classified as defaulted if: any amount of contractual repayments is past due more than 90 days, if exposure had been classified as distressed restructuring, or in case of individually assessed clients, there are other factors indicating unlikeliness-to-pay. For more details on the methodology please see Note 30.

Judgements used to define SICR. Criteria for assessing if there has been a significant increase in credit risk (SICR) represent: exposure past due of more than 30 days, restructured exposures other than distressed, and probation period of previously defaulted exposures. For more details on the methodology please see Note 30.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The effects of respective sensitivity analysis of finance lease receivable ECL are described below:

In thousands of Georgian Lari	**2022**	**2021**
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on leases by GEL 510 thousand (GEL 515 thousand)	Increase (decrease) credit loss allowance on leases by GEL 335 thousand (GEL 345 thousand)
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on leases by GEL 728 thousand (GEL 728 thousand)	Increase (decrease) credit loss allowance on leases by GEL 661 thousand (GEL 651 thousand)
10% deterioration (improvement) in FLI estimates	Increase (decrease) credit loss allowance on leases by GEL 482 thousand (GEL 486 thousand)	Increase (decrease) credit loss allowance on leases by GEL 318 thousand (GEL 326 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 2022, The Company uses same approaches as in 31 December 2021. The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2022:

	Baseline			**Upside**			**Downside**		
Growth rates YoY, %	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
GDP	3.5%	5.4%	5.2%	5.2%	7.9%	8.4%	1.7%	2.7%	1.9%
USD/GEL rate (EOP)	2.8	2.65	2.6	2.47	2.31	2.24	3.06	2.92	2.9
RE Price (in USD)	19.8%	-2.0%	-1.3%	24.2%	4.1%	4.8%	11.6%	-13.1%	-12.5%
Employment (EOP)	1.9%	-0.8%	-0.2%	2.5%	-0.1%	0.6%	1.5%	-1.3%	-0.9%
Monetary policy rate (EOP, Level)	9.0%	7.8%	7.8%	8.4%	7.0%	6.8%	10.1%	9.3%	9.6%

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2021:

	Baseline			**Upside**			**Downside**		
Growth rates YoY, %	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**
GDP	6.0%	5.5%	5.0%	7.8%	8.2%	8.3%	4.1%	2.8%	1.7%
USD/GEL rate (EOP)	3.3	3.25	3.2	2.95	2.87	2.8	3.55	3.55	3.52
RE Price (in USD)	1.6%	2.1%	2.6%	4.6%	6.3%	7.7%	-1.6%	-2.5%	-3.5%
Employment (EOP)	1.0%	1.0%	0.5%	1.5%	1.7%	1.3%	0.6%	0.4%	-0.2%
Monetary policy rate (EOP, Level)	8.5%	7.5%	7.0%	8.0%	6.8%	6.1%	9.4%	8.7%	8.4%

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amendments became effective from 1 January 2022, but did not gave any material impact on the company:

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 property, plant or equipment 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 has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet 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 fulfill a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.
- ***Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 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.

6. NEW ACCOUNTING PRONOUNCEMENTS

The Company has not early adopted any of the amendments effective after 31 December 2022 and it expects they will have an insignificant effect, when adopted, except IAS 1 amendment which will be accounted accordingly from 1 January 2023:

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

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 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.

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

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

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.

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.

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

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.

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

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

provide companies with more time to implement classification changes resulting from the amended guidance.

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.

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 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.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

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 2022	31 December 2021
Current accounts with banks	45,846	16,765
Cash and cash equivalents	**45,846**	**16,765**

At 31 December 2022, cash and cash equivalents of GEL 36,705 thousand (2021: GEL 9,736 thousand) are held on the Company's current accounts with JSC TBC Bank, included in cash balance above is GEL 13,510 thousand (2021: Nil), which is blocked for short-term loan.

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

In thousands of Georgian Lari	31 December 2022	31 December 2021
Current accounts with banks with "BB-" to "BB+" rating	37,111	10,301
Current accounts with banks with "B-" to "B+" rating	3,318	6,401
Current accounts with banks unrated	5,417	63
Cash and cash equivalents	**45,846**	**16,765**

As of 31 December 2022, GEL 22,234 thousand cash balances (2021: GEL 2,500 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 36.

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 2022	31 December 2021
Recognition of right of use assets against lease liabilities	440	587
Non-cash investing activities	**440**	**587**

In thousands of Georgian Lari	31 December 2022	31 December 2021
Initial recognition of lease liabilities	440	587
Non-cash financing activities	**440**	**587**

8. DUE FROM BANKS

In thousands of Georgian Lari	31 December 2022	31 December 2021
Placements with banks with original maturities of more than three months	-	29,016
Due from banks	**-**	**29,016**

At 31 December 2022 balance of due from banks was GEL 0 thousand (2021: GEL 5,000) in the accounts of JSC TBC Bank.

As of 31 December 2022, GEL 0 thousand (2021: GEL 19,996) Due from Banks were pledged as collateral for loans obtained from banks and financial institutions.

Refer to Note 18 for the loans from bank and financial institutions. The information on related party balances and transactions is disclosed in Note 36.

9. PREPAYMENTS

In thousands of Georgian Lari	31 December 2022	31 December 2021
Prepaid insurance for leasing assets	2,964	2,604
Prepayments for assets to be leased under finance lease	1,706	-
Other prepayments	80	128
Total prepayments	**4,750**	**2,732**

10. TAX ASSETS

As of December 2022 tax assets amounted GEL 6,468 thousands (2021: GEL 6,825), mainly comprised from VAT assets. In general company accounts for VAT, property and Personal income tax, last two are mainly accrued and repaid in such way that no significant balance is accumulated. In general VAT are payable to tax authorities on the earlier of (a) collection of receivables or advances from customers or (b) delivery of goods and services, and as a rule December is the relatively active month in terms of new lease generation, so company has to pay VAT on advances received from leases, which creates material balance of VAT assets at year end. It should be mentioned that material balance of VAT assets mainly arise at the end of high lease disbursement periods and are on the balance sheet only up to commencement of the respective lease.

11. ADVANCES TOWARDS LEASING CONTRACTS

Advances towards leasing contracts comprised GEL 29,530 thousand as at 31 December 2022 (2021: GEL 28,922 thousand). The advances towards leasing contracts are all current, give rise finance lease receivable usually within one to three months period after the reporting date.

12. FINANCE LEASE RECEIVABLES

Gross investment in finance lease and finance lease receivable are as follows:

In thousands of Georgian Lari	**31 December 2022**	**31 December 2021**
Gross investment in finance lease	389,649	322,311
Unearned finance income	(99,504)	(68,559)
Finance lease receivables, Gross	**290,145**	**253,752**
Credit loss allowance	(7,681)	(7,309)
Finance lease receivables	**282,464**	**246,443**

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 2022	143,901	89,358	59,846	33,393	20,458	42,693	389,649
Unearned finance income	(36,810)	(23,301)	(13,857)	(7,707)	(4,356)	(13,475)	(99,504)
Credit loss allowance	(2,835)	(1,749)	(1,217)	(680)	(426)	(773)	(7,681)
Finance lease receivables as at December 2022	**91,688**	**73,214**	**42,796**	**23,033**	**10,088**	**5,624**	**246,443**
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)
Finance lease receivables as at December 2021	**91,688**	**73,214**	**42,796**	**23,033**	**10,088**	**5,624**	**246,443**

The Company has no contractual amount outstanding on finance lease receivable, which was written off during the 2022 and 2021 reporting period and is still subject to enforcement activity.

12. FINANCE LEASE RECEIVABLES CONTINUED

The following tables disclose the changes in the credit loss allowance and gross carrying amount carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers occur between Stage 1, 2 and 3, due to significant increases (or decreases) of credit risk or exposures becoming defaulted in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL
- New originated or purchased gives us information regarding gross leases issued and corresponding credit loss allowance created during the period (however, exposures which were issued and repaid during the period and issued to refinance existing ones are excluded);
- Derecognised during the period refers to the balance of leases and credit loss allowance at the beginning of the period, which were fully repaid during the period.
- Partial repayments refers to the net changes in gross carrying amounts, which is lease disbursements less repayments, excluding loans that were fully repaid;
- Changes to ECL measurement model assumptions due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations;
- Foreign exchange movements refers to the translation of assets denominated in foreign currencies;
- Write-offs refer to write off of leases during the period;
- Other movements include accrued interest, penalties and modifications

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2021	**2,408**	**1,297**	**3,604**	**7,309**	**187,445**	**38,713**	**27,594**	**253,752**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	204	(193)	(11)	**-**	7,767	(7,654)	(113)	**-**
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(983)	1,397	(414)	**-**	(21,329)	28,081	(6,752)	**-**
– to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(752)	(134)	886	**-**	(14,401)	(4,662)	19,063	**-**
New originated or purchased	3,610	-	-	**3,610**	173,350	-	-	**173,350**
Derecognised during the period	(712)	(623)	(2,632)	**(3,967)**	(50,262)	(13,689)	(17,428)	**(81,379)**
Partial repayment	-	-	-	**-**	(36,184)	(5,121)	(3,863)	**(45,168)**
Changes to ECL measurement model assumptions	(38)	(258)	1,471	**1,175**	-	-	-	**-**
Movements without impact on credit loss allowance charge for the period:								
Foreign currency effect	(82)	(24)	(136)	**(242)**	(8,228)	(955)	(1,217)	**(10,400)**
Write-off	-	-	(204)	**(204)**	-	-	(204)	**(204)**
Other movements	-	-	-	**-**	(877)	(24)	891	**(10)**
At 31 December 2022	**3,655**	**1,462**	**2,564**	**7,681**	**237,281**	**34,689**	**18,175**	**290,145**

12. FINANCE LEASE RECEIVABLES 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 impaired)**	**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	(38,437)	(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)	(11,087)	(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 measurement 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**

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").

12. FINANCE LEASE RECEIVABLES CONTINUED

The effect of collateral at 31 December 2022:

	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
Finance lease receivables	244,814	425,458	45,331	33,421

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
Finance lease receivables	213,305	354,600	40,447	31,842

As at 31 December 2022, credit quality of finance lease receivable 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
Finance lease receivables risk category				
– Very Low	211,433			211,433
– Low	25,848	6,982		32,830
– Moderate		7,781		7,781
– High		19,926		19,926
– Default			18,175	18,175
Gross carrying amount	**237,281**	**34,689**	**18,175**	**290,145**
Credit loss allowance	(3,655)	(1,462)	(2,564)	**(7,681)**
Carrying amount	**233,626**	**33,227**	**15,611**	**282,464**

12. FINANCE LEASE RECEIVABLES CONTINUED

As at 31 December 2021, credit quality of finance lease receivable 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
Finance lease receivables 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**

13. PROPERTY AND EQUIPMENT

In thousands of Georgian Lari	Land	Premises	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles for Fleet*	Leasehold improvement	Right of use Assets	Total
Cost at 1 January 2021	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 1 January 2021	**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**
Additions	-	-	50	67	-	-	30	440	587
Disposals	-	-	(33)	(38)	(20)	-	-	(179)	(270)
Transfer to financial lease and repossessed assets	-	-	-	-	-	(627)	-	-	(627)
Depreciation charge	-	(1)	(50)	(43)	(34)	(578)	(20)	(315)	(1,041)
Elimination of accumulated depreciation on disposals and transfers	-	-	25	29	11	316	-	179	560
Carrying amount at 31 December 2022	**23**	**3**	**237**	**227**	**151**	**1,816**	**136**	**810**	**3,403**
Cost at 31 December 2022	23	7	499	506	356	4,191	201	1,758	7,541
Accumulated depreciation	-	(4)	(262)	(279)	(205)	(2,375)	(65)	(948)	(4,138)
Carrying amount at 31 December 2022	**23**	**3**	**237**	**227**	**151**	**1,816**	**136**	**810**	**3,403**

* Vehicles for operating leasing

13. PROPERTY AND EQUIPMENT CONTINUED

The right of use assets includes offices of the Company.

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

In thousands of Georgian Lari	2022	2021
Due in 1 year	2,254	1,549
Due between 1 and 2 year	119	587
Due between 2 and 3 year	22	19
Due between 3 and 4 year	-	4
Total undiscontinued future operating lease payments receivable	**2,395**	**2,159**

14. INTANGIBLE ASSET

In thousands of Georgian Lari	Leasing ERP Software	Other intangible assets	Total
Carrying amount at 1 January 2021	**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**
Additions	607	9	594
Disposals	-	-	-
Amortization charge	(286)	(11)	(297)
Carrying amount at 31 December 2022	**2,823**	**6**	**2,807**
Cost at 31 December 2022	3,355	30	3,385
Accumulated amortisation	(532)	(24)	(556)
Carrying amount at 31 December 2022	**2,823**	**6**	**2,829**

15. 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 finance lease receivable 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 2022 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 2022 the fair value of investment property was estimated at GEL 2,837 thousand (2021: GEL 2,385 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 452 thousand (2021: GEL 26 thousand) for year 2022 was recognised in profit and loss.

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-servable inputs**	**Range of unob-servable inputs (weighted average)**	**Sensitivity of the input to fair value**
Investment property	891	2,837	Sales comparison 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 284 thousand in fair value of the investment property.

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-servable inputs**	**Range of unob-servable inputs (weighted average)**	**Sensitivity of the input to fair value**
Investment property	891	2,385	Sales comparison 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

16. ASSETS REPOSSESSED FROM TERMINATED LEASES

In thousands of Georgian Lari	31 December 2022	31 December 2021
Carrying value at the beginning of the year	9,924	7,583
Assets repossessed from terminated leases	28,715	15,121
Disposal through sales from Financial leases	(10,614)	(5,572)
Disposal through sales from Operating leases	(215)	(125)
Disposal through transfer to new Financial leases	(8,437)	(6,515)
Write down to net realizable value	(1,504)	(264)
Other movement	(104)	(304)
Carrying amount at the end of the year	**17,766**	**9,924**

Loss from sale or release of repossessed assets comprised GEL (209) thousand and GEL (82) thousand for 2022 and 2021 years respectively.

17. OTHER FINANCIAL ASSETS

Private and legal entities, which incurred financial or operational difficulties are subject to termination and their balances are transferred from finance lease receivable to other financial assets. Only those who fulfil their obligations are derecognized from other financial assets balance.

In 2022, based on Business model and accumulated data the Company made a slight change to the financial asset provisioning methodology, from using individual LGDs calculated per contract according to specific asset valuation amounts, it was decided to use portfolio based statistical LGDs. In case of termination, LGD increases to 100% after recovery horizon is past and asset is not repossessed in both approaches: .

In thousands of Georgian Lari	31 December 2022	31 December 2021
Gross receivables from terminated lease	30,198	42,723
Less: Credit loss allowance for receivables from terminated leases	(24,137)	(24,380)
Total carrying amount of receivable from terminated leases at AC	**6,061**	**18,343**
Gross other receivables	4,745	3,075
Less: Credit loss allowance for other receivables	(2,106)	(1,889)
Total carrying amount of other receivables at AC	**2,639**	**1,186**
Gross loans issued to lessees	3,348	3,548
Less: Credit loss allowance for loans issued to lessees	(1,772)	(1,988)
Total carrying amount of loans issued to lessees at AC	**1,576**	**1,560**
Total other financial assets	**10,276**	**21,089**

17. OTHER FINANCIAL ASSETS CONTINUED

Presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages are as follows, where other movements include repossession of terminated assets, as well as origination of other financial assets except transfers from finance lease receivables:

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2021	**-**	**-**	**28,257**	**28,257**	**-**	**-**	**49,346**	**49,346**
Movements with impact on credit loss allowance charge for the period:								
Transferred from finance lease receivables		-	11,244	11,244	-	-	12,842	12,842
Derecognised during the period	-	-	(7,218)	(7,218)	-	-	(15,297)	(15,297)
Changes due to change in credit quality	-	-	564	564	-	-	-	-
Other movements	-	-	(4,832)	(4,832)	-	-	(8,599)	(8,599)
At 31 December 2022	**-**	**-**	**28,015**	**28,015**	**-**	**-**	**38,291**	**38,291**

Presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages are as follows, where other movements include repossession of terminated assets, as well as origination of other financial assets except transfers from finance lease receivables:

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12 - months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2020	**-**	**-**	**19,943**	**19,943**	**-**	**-**	**27,109**	**27,109**
Transferred from finance lease receivables	-	-	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**

18. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

The table below represents loans from banks and financial institutions:

In thousands of Georgian Lari	31 December 2022	31 December 2021
Loans from foreign banks and financial institutions	**179,588**	**195,664**
Georgian Laris	37,330	53,391
US Dollars	91,009	66,851
Euros	51,245	75,422
Loans from local banks and financial institutions	**31,896**	**11,971**
Georgian Laris	22,444	11,279
US Dollars	9,453	692
Euros	-	-
Total loans from banks and financial institutions	**211,481**	**207,635**

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, 12 and 10. The amount of net investment in leases pledged as collateral comprised 212,440 thousand GEL (2021: GEL 152,920 thousandl), the amount of advances towards leasing contracts pledged as collateral comprised 38,074 thousand GEL (2021: GEL 32,250 thousand), as well as the amount of cash and cash equivalents and due from banks pledged as collateral comprised GEL 22,234 thousand and GEL 0 thousand respectively (2021: GEL 2,500 thousand and GEL 19,996 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. All covenants were in compliance as of December 2022 and 2021.

Refer to Note 33 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 36.

19. ADVANCES RECEIVED FROM CUSTOMERS

Advances from customers that were outstanding at the year-end comprised GEL 17,933 thousand as at 31 December 2022 (2021: GEL 16,918 thousand). By defaults the Company requires customers to pay in advance at least 20% of total cost of the leased asset. These amounts are collected from the Company's customers in advance upon signing of the lease agreements and are used for financing part of lease asset value during its acquisition and maintained as buffer until the leased assets are transferred to the customer. Subsequent to physical transfer of the leased assets, the amounts received from customers as advances are credited against net investment in lease receivable from the same customer. GEL 15,902 thousand as at 31 December 2022 (2021: GEL 13,953 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.

20. DEBT SECURITIES IN ISSUE

In thousands of Georgian Lari	Currency	Maturity date	31 December 2022	31 December 2021
Bonds issued on domestic market	GEL	20.03.2023	58,580	58,342
Total debt securities in issue			**58,580**	**58,342**

As of 31 December 2022, the debt securities in issue have a coupon rate of 14.40% (2021: 13.39%) and an effective interest rate of 13.22% based on their issue price, net of transaction costs.

As at 31 December 2022 accrued interest payable included in debt security in issue amounted to GEL 234 thousand. (2021: GEL 217 thousand)

Debt security in Issue are secured by certain leases receivable and advances towards leasing contracts as detailed in Note 12 and 102. The amount of gross investment in leases pledged as collateral comprised 64,614 thousand GEL (2021: GEL 62,488 thousand), the amount of advances towards leasing contracts pledged as collateral comprised 628 thousand GEL (2021: GEL 2,462 thousand).

Refer to Note 33 for the estimated fair value of debt security in issue. The information on related party balances and transactions is disclosed in Note 36. Additionally information on events after reporting period is disclosed in Note 37.

21. SUBORDINATED LOANS

In thousands of Georgian Lari	Currency	Interest rates	Maturities	31 December 2022	31 December 2021
Subordinated loans from TBC	GEL	18%	31.07.2023	2,486	2,449
Subordinated bonds	USD	8.5%	25.01.2023	29,871	31,242
Total Subordinated Loans				**32,357**	**33,691**

As at 31 December 2022, accrued interest payable included in subordinated loans amounted to GEL 358 thousand (2021: GEL 360 thousand).

Refer to Note 33 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 36. Additionally information on events after reporting period is disclosed in Note 37.

22. OTHER LIABILITIES

In thousands of Georgian Lari	31 December 2021	31 December 2020
Liabilities to asset providers	20,904	2,068
Lease liabilities	892	913
Liabilities to service providers	581	1,025
Accrued expenses	316	434
Other liabilities	120	194
Total other financial liabilities	**22,813**	**4,634**
Bonuses payable	1,041	1,867
Total other non-financial liabilities	**1,041**	**1,867**
Total other liabilities	**23,854**	**6,501**

22. OTHER LIABILITIES CONTINUED

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 30.

The table below represents the maturity of lease liabilities as of 31 December 2022 and 2021 respectively:

In thousands of Georgian Lari	2022	2021
Up to 1 month	31	36
1 month to 3 months	62	53
3 months to 1 year	278	236
1 year to 5 years	586	656
Total Lease Liabilities	**957**	**981**

23. SHARE CAPITAL

The share capital of the Company as at 31 December 2022 was GEL 3,659 thousand (2021: GEL3,659 thousand). In December 2019 the 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 2022 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 2022 and 2021 years. Additional paid-in capital amounted to GEL 7,550 thousand as at 31 December 2022 and 2021 and is an excess of the fair value of the consideration received over the par value of shares issued.

24. OTHER INCOME

In thousands of Georgian Lari	2022	2021
Interest income on bank deposits	2,160	2,774
Sundry income	1,522	289
Reimbursement from insurer	1,010	47
Other income	**4,692**	**3,110**

Interest income on bank deposits are calculated using effective interest method.

25. SEGMENT ANALYSIS

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

25. SEGMENT ANALYSIS CONTINUED

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.

A summary of the reportable segments for the years ended 31 December 2022 and 2021 provided below:

In thousands of Georgian Lari	Business	Auto-motive	Retail	Corporate center and other operations	Total
Finance income from lease receivables	41,758	7,104	8,933	-	57,795
Revenue from operating leasing	-	1,489	-	-	1,489
Interest expense	(17,292)	(2,815)	(3,181)	-	(23,288)
Direct leasing costs	(5,743)	(2,078)	(1,515)	-	(9,336)
Net lease income	18,723	3,700	4,237	-	26,660
Credit loss (allowance)/recovery for finance lease receivable	(660)	(40)	124	-	(576)
Net lease income after expected credit loss	18,063	3,660	4,361	-	26,084
Credit loss allowance for other financial assets	(4,367)	(136)	(87)	-	(4,590)
Gain from revaluation of investment property	452	-	-	-	452
Revenue from sales of repossessed assets	7,020	2,335	1,398	-	10,753
Cost of sales of repossessed assets	(7,104)	(2,335)	(1,390)	-	(10,829)
Loss from release of repossessed assets	(133)	-	-	-	(133)
Gain on initial recognition of repossessed assets	607	-	-	-	607
Write-down of repossessed assets to net realizable value	(1,504)	-	-	-	(1,504)
Losses net of gain from derivative financial instruments	-	-	-	(1,398)	(1,398)
Foreign exchange translation gains less losses / (losses less gains)	-	-	-	(599)	(599)
Administrative and other operating expenses	(6,174)	(1,814)	(722)	(716)	(9,426)
Other income	(7)	-	-	4,699	4,692
PROFIT FOR THE YEAR	**6,853**	**1,710**	**3,560**	**1,986**	**14,109**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains on cash flow hedges	-	-	-	1,059	1,059
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,853**	**1,710**	**3,560**	**3,045**	**15,168**
Cash and cash equivalents	**-**	**-**	**-**	**45,846**	**45,846**
Due from banks	**-**	**-**	**-**	**-**	**-**
Advances towards leasing contracts	**27,679**	**804**	**1,047**	**-**	**29,530**
Finance lease receivable, Gross	**229,709**	**33,543**	**26,893**	**-**	**290,145**
Credit loss allowance	**6,877**	**257**	**547**	**-**	**7,681**
Advances received from customers	**16,589**	**780**	**564**	**-**	**17,933**

25. SEGMENT ANALYSIS CONTINUED

In thousands of Georgian Lari	Business	Auto-motive	Retail	Corporate center and other operations	Total
Finance income from lease receivables	40,309	7,623	9,163	-	57,095
Revenue 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)/recovery for finance lease receivable	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
Revenue from sales of repossessed assets	2,383	1,734	1,535	-	5,652
Cost of sales of repossessed assets	(2,421)	(1,734)	(1,542)	-	(5,697)
Loss from release of repossessed assets	(37)	-	-	-	(37)
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 / (losses less gains)	-	-	-	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**	**2,151**	**1,986**	**1,643**	**12,140**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains on cash flow hedges	-	-	-	263	263
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,360**	**2,151**	**1,986**	**1,906**	**12,403**
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**
Finance lease receivable, Gross	**192,623**	**31,417**	**29,712**	**-**	**253,752**
Credit loss allowance	**6,418**	**209**	**682**	**-**	**7,309**
Advances received from customers	**15,121**	**158**	**1,639**	**-**	**16,918**

25. SEGMENT ANALYSIS CONTINUED

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

In thousands of Georgian Lari	31 December 2022	31 December 2021
ASSETS		
Total Segment Assets (Gross)	365,521	328,455
Credit loss allowance allocated to segments	(7,681)	(7,309)
Prepayments	4,750	2,732
Tax assets,net	6,468	6,825
Property and equipment	3,403	4,194
Intangible assets	2,829	2,510
Assets purchased for leasing purpose	1,010	-
Investment property	2,837	2,385
Assets repossessed from terminated leases	17,766	9,924
Derivative financial Instruments	81	56
Other financial assets	10,276	21,089
Other assets	10	123
TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION	**407,270**	**370,984**
LIABILITIES		
Total Segment Liabilities	17,933	16,918
Loans from banks and financial institutions	211,481	207,635
Debt securities in issue	58,580	58,342
Subordinated loans	32,357	33,691
Other liabilities	23,854	6,501
TOTAL LIABILITIES PER STATEMENT OF FINANCIAL POSITION	**344,205**	**323,087**

26. DIRECT LEASING COSTS

Legal ownership of the leased assets requires the Company to pay property tax on leasing assets and be the policyholder for insurance of assets. The Company acts as a principal and pays these taxes on a monthly basis during the period when it legally owns the asset under lease. These costs are considered as directly attributable to lease income and they are presented directly below lease income in profit or loss. Property tax rate and calculation method is regulated by Georgian Tax code.

The table below represents direct leasing costs for the 2022 and 2021 years respectively.

In thousands of Georgian Lari	2022	2021
Insurance expenses	4,859	5,302
Property tax on leasing assets	4,393	3,625
Other leasing costs	84	117
Total direct leasing costs	**9,336**	**9,044**

27. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of Georgian Lari	2022	2021
Staff costs	5,502	5,491
Depreciation and amortization charge	1,338	1,539
Professional services	625	484
Taxes other than income tax	450	930
Advertising costs	234	170
Bank charges	221	174
License and subscription cost	175	335
Other property insurance expenses	136	208
Expenses on Assets maintenance	115	244
Land and Buildings maintenance	126	15
Occupancy and rent	83	111
Other expenses	421	473
Total administrative and other operating expenses	**9,426**	**10,174**

Occupancy and rent include the leases of low-value assets amount of GEL 76 thousand (2021: 90 GEL thousand).

As of 31 December 2022, professional services included GEL 139 thousand related to financial audit (2021: GEL183 thousand) and GEL 20 thousand related to TAX Audit (2021: GEL 15 thousand). Presented expenses are exclusive of taxes.

28. 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 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**
Cash flows	17,749	(8,172)	(310)	261	9,528
Foreign exchange adjustments	(26,038)	-	(3,896)	-	(29,934)
Interest accrual	11,827	8,410	2,872	179	23,288
Other non-cash movements	308	-	-	(315)	(7)
Net debt at 31 December 2022	**211,481**	**58,580**	**32,357**	**810**	**303,228**

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES CONTINUED

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 366.

29. 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 has committed or highly probable purchases of fixed assets to be leased under finance leases. Where the currency of the fixed asset purchase is different from the currency of the future lease contract (a commitment to enter into a finance lease), an open currency position arises and exposes the Company to foreign currency risk. While the commitment to purchase the asset and the commitment to enter into a finance lease involving this asset are not recognised until the asset is delivered and the lease commences, the Company is exposed to foreign currency risk from the date of the lease inception. The Company designates hedging relationships under the cash flow hedge accounting model to manage this risk exposure.

Hedging instruments and Hedged items

For the cash flow hedge accounting purposes, the Company may designate as a hedged item either the commitment to pay an advance for a fixed asset (a future cash outflow or liability under the asset purchase agreement), the advance made to the supplier of the fixed asset, or a commitment to enter into a finance lease (a future cash inflow under a lease agreement). The Company uses forward contracts, borrowings in foreign currencies or cash inflows received from finance leases as hedging instruments.

The table below represents the hedging positions as of 31 December 2022:

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 purchase asset for lease	USD	4,929		Advances towards leasing contracts
Hedging Instrument	Senior Loan	USD	4,929	4.5%-7.5%	Loans from banks and financial institutions
Hedged item	Firm commitment to purchase asset for lease	EUR	2,341		Advances towards leasing contracts
Hedging Instrument	Senior Loan	EUR	2,341	3%- 3.15%	Loans from banks and financial institutions

29. HEDGING CONTINUED

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 purchase asset for lease	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 purchase asset for lease	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

To ensure the economic relationship between hedged items and hedging instruments the Company takes into consideration their nominal amounts, currency and maturity. On the basis of a qualitative assessment of those critical terms the Company concludes that, the value of hedging instrument and the hedged item move in the 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, the ratio between hedging instruments and hedged items is 1:1. Hedge ineffectiveness is recognised in profit or loss.

The amounts that have affected statement of comprehensive income related to the hedge accounting, are is disclosed below (these are fair value changes in hedging instruments by type of hedging relationship):

Hedge Item Type *In thousands of Georgian Lari*	**The amount recognised in Other Comprehensive Income(2021)**	**The amount recognised in Other Comprehensive Income(2020)**
Hedge of Firm commitment to purchase asset for lease	182	(336)
Hedge of Firm commitment to enter into finance lease	877	600
Gains on cash flow hedges	**1,059**	**264**

30. 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 Supervisory board members get 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 asset purchase price at the inception of the lease contract. 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 when liability is fully repaid.

Risks related to the leased assets such as damage caused by various reasons, theft and other are always insured. Management periodically assesses financial performance of lessees by monitoring 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 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 grades:

- 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.

30. FINANCIAL RISK MANAGEMENT CONTINUED

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 a three-stage model for ECL measurement: The Company classifies lease exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition, but the financial instrument is not considered credit-impaired. The exposures for which the credit-impairment 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 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 ocurred 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 to determine 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). The Company monitors three factors when assessing increase in credit risk: days past due, restructuring and probation period for defaulted lessees.

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

30. FINANCIAL RISK MANAGEMENT CONTINUED

Default criteria

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

Default criteria	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 days past due status of the lessee.) The model assumes that the PD for the next 12 monyj 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 is assumed in-between.

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

Loss given default (LGD). The LGD parameter represents the share of 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. LGD is calculated based on historical losses incurred on defaulted leases 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. 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

30. FINANCIAL RISK MANAGEMENT CONTINUED

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. The Company calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figure, probability weighted average approach is applied, where probabilities of each scenario are used as weights. FLI adjustment is applied to PD for the three-year period, given the uncertainty involved in the macroeconomic forecasts for the longer time horizon.

Provisioning of other financial assets. The most material balance of financial assets subject to provisioning the company has, after lease portfolio, is outstanding terminated leases. Before year ended 31 December 2022, expected losses on these exposures were calculated using individual LGDs – based on latest appraisal value of corresponding lease assets. Although, after the expected recovery horizon, LGD would increase to 100%. Starting from YE 2022, we made some changes to this approach and hence methodology, namely: we started to treat terminated leases the same way as stage 3 exposures in active portfolio and now use statistical LGD (calculated specifically on terminated leases) to determine ECL. When lease asset is repossessed, ECL is recalculated using asset appraisal. If lease asset is not repossessed, LGD gradually increases to reach 100% after the expected recovery horizon is past since termination date.

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.

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 financial statements, but Management continues to monitor developments in this area.

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.

30. FINANCIAL RISK MANAGEMENT CONTINUED

The Company's exposure to foreign currency exchange rate risk as at 31 December 2022 is presented in the table below:

In thousands of Georgian Lari	GEL	USD	EUR	Other	TOTAL
Cash and cash equivalents	21,533	21,365	2,943	5	45,846
Due From Banks	-	-	-	-	-
Finance lease receivables	103,330	100,190	78,944	-	282,464
Derivative financial Instruments	13,630	21,641	(35,190)	-	81
Other financial assets	(3,154)	11,395	2,035	-	10,276
Total financial assets	**135,339**	**154,591**	**48,732**	**5**	**338,667**
Loans from banks and financial institutions	59,773	100,464	51,244	-	211,481
Debt Securities in issue	58,580	-	-	-	58,580
Advances received from customers	4,848	9,088	3,997	-	17,933
Subordinated loans	2,486	29,871	-	-	32,357
Other financial liabilities	947	14,547	7,319	-	22,813
Total financial liabilities	**126,634**	**153,970**	**62,560**	**-**	**343,164**
Net open currency position before the effect of non-monetary advances	**8,705**	**621**	**(13,828)**	**5**	**(4,497)**
Effect of economic hedges*	9,563	6,457	13,621	-	29,641
Net balance sheet position	**18,268**	**7,078**	**(207)**	**5**	**25,144**

* 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

30. FINANCIAL RISK MANAGEMENT CONTINUED

The Company's exposure to foreign currency exchange rate risk as at 31 December 2021 as reclassified 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
Finance lease receivables	105,152	80,958	60,333	-	246,443
Derivative financial Instruments	2,631	929	(3,504)	-	56
Other financial assets	8,850	8,759	3,480	-	21,089
Total financial assets	**141,382**	**91,611**	**80,370**	**6**	**313,369**
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
Other financial liabilities	1,542	2,802	290	-	4,634
Total financial liabilities	**133,826**	**107,280**	**80,114**	**-**	**321,220**
Net open currency position before the effect of non-monetary advances	**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

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% (2021: 10%) increase and decrease in the USD/EUR 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 2022		31 December 2021	
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 strengthening by 10% (2021: 10%)	708	708	(79)	(79)
EUR Dollar strengthening by 10% (2021: 10%)	(21)	(21)	365	365
US Dollar weakening by 10% (2021: 10%)	(708)	(708)	79	79
Euros weakening by 10% (2021: 10%)	21	21	(365)	(365)

30. FINANCIAL RISK MANAGEMENT CONTINUED

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

The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2022, 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**	**More than 1 year**	**TOTAL**
Financial Assets					
Cash and cash equivalents	45,846	-	-	-	45,846
Due From Banks	-	-	-	-	-
Finance lease receivables	16,735	14,560	72,962	178,207	282,464
Derivative financial Instruments	81	-	-	-	81
Other financial assets	9,095	189	397	595	10,276
Total financial assets	**71,757**	**14,749**	**73,359**	**178,802**	**338,667**
Financial Liabilities					
Loans from banks and financial institutions	7,247	23,155	81,767	99,312	211,481
Debt securities in issue	213	58,367	-	-	58,580
Advances received from customers	12,832	3,616	1,485	-	17,933
Subordinated loans	13,7276	(5)	2,424	16,2112	32,357
Other financial liabilities	21,952	62	213	586	22,813
Total financial liabilities	**55,971**	**85,195**	**85,889**	**116,109**	**343,164**
Net interest rate sensitivity gap before the effect of non-monetary advances	**15,786**	**(70,446)**	**(12,530)**	**62,693**	**(4,497)**
Effect of economic hedges	**21,718**	**5,187**	**2,735**	**-**	**29,640**
Net interest rate sensitivity gap	**37,504**	**(65,259)**	**(9,795)**	**62,693**	**25,143**

30. 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	More than 1 year	TOTAL
Financial Assets					
Cash and cash equivalents	16,765	-	-	-	16,765
Due From Banks	-	-	29,016	-	29,016
Finance lease receivables	13,963	15,012	62,713	154,755	246,443
Derivative financial Instruments	56	-	-	-	56
Other financial assets	19,630	170	386	903	21,089
Total financial assets	**50,414**	**15,182**	**92,115**	**155,658**	**313,369**
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
Other financial liabilities	3,755	53	236	590	4,634
Total financial liabilities	**24,256**	**18,420**	**68,151**	**210,393**	**321,220**
Net interest rate sensitivity gap before the effect of non-monetary advances	**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**

Liquidity risk. The liquidity risk is the risk that the Company either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the Management board, which comprises of CEO, CRO, CFO, CCO.

The principal objectives of the Company's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities at an economic price; (ii) recognise any structural mismatch existing within statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Company.

30. FINANCIAL RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2022 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	Over 5 years	TOTAL
Financial Liabilities						
Loans from banks and financial institutions	7,911	25,883	91,302	112,619	-	237,715
Debt securities in issue	213	60,469	-	-	-	60,682
Advances received from customers	12,832	3,616	1,485	-	-	17,933
Subordinated loans	14,056	453	3,753	6,167	16,852	41,281
Other financial liabilities	21,952	62	213	586	-	22,813
Total potential future payments for financial liabilities	**56,964**	**90,483**	**96,753**	**119,372**	**16,852**	**380,424**

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	Over 5 years	TOTAL
Financial Liabilities						
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
Other financial liabilities	3,755	53	236	590	-	4,634
Total potential future payments for financial liabilities	**25,089**	**22,960**	**84,366**	**226,052**	**-**	**358,467**

30. FINANCIAL RISK MANAGEMENT CONTINUED

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 2022 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	Over 5 years	TOTAL
Financial Assets						
Cash and cash equivalents	45,846	-	-	-	-	45,846
Due From Banks	-	-	-	-	-	-
Finance lease receivables	16,735	14,560	72,962	178,207	-	282,464
Derivative financial Instruments	81	-	-	-	-	81
Other financial assets	9,095	189	397	595	-	10,276
Total financial assets	**71,757**	**14,749**	**73,359**	**178,802**	**-**	**338,667**
Financial Liabilities						
Loans from banks and financial institutions	7,247	23,155	81,767	99,312	-	211,481
Debt securities in issue	213	58,367	-	-	-	58,580
Advances received from customers	12,832	3,616	1,485	-	-	17,933
Subordinated loans	13,727	(5)	2,424	(136)	16,347	32,357
Other financial liabilities	21,952	62	278	586	-	22,878
Total financial liabilities	**55,971**	**85,195**	**85,954**	**99,762**	**16,347**	**343,229**
Effect of economic hedges	**21,718**	**5,187**	**2,735**	**-**	**-**	**29,640**
Liquidity gap	**37,504**	**(65,259)**	**(9,860)**	**79,040**	**(16,347)**	**25,078**
Cumulative liquidity gap	**37,504**	**(27,755)**	**(37,615)**	**41,425**	**25,078**	

30. FINANCIAL RISK MANAGEMENT CONTINUED

The expected liquidity gap as at 31 December 2021 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	Over 5 years	TOTAL
Financial Assets						
Cash and cash equivalents	16,765	-	-	-	-	16,765
Due From Banks	-	-	29,016	-	-	29,016
Finance lease receivables	13,963	15,012	62,713	154,755	-	246,443
Derivative financial Instruments	56	-	-	-	-	56
Other financial assets	19,630	170	386	903	-	21,089
Total financial assets	**50,414**	**15,182**	**92,115**	**155,658**	**-**	**313,369**
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
Other financial liabilities	3,755	53	236	656	-	4,700
Total financial liabilities	**24,256**	**18,420**	**68,151**	**210,459**	**-**	**321,286**
Effect of economic hedges	**15,657**	**5,375**	**7,858**	**-**	**-**	**28,890**
Liquidity gap	**41,815**	**2,137**	**31,822**	**(54,801)**	**-**	**20,973**
Cumulative liquidity gap	**41,815**	**43,952**	**75,774**	**20,973**	**20,973**	

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 owner of the Company to maintain stable funding support to the Company.

31. 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 2022 was GEL 95,422 thousand (2021: GEL 81,588 thousand).

32. 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.

	2022		2021	
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 (-)	-	(6,205)	(8,364)	-
- ***USD*** receivable on settlement (+)	16,131	9,694	-	9,293
- ***GEL*** payable on settlement (-)	(6,533)	-	-	(9,295)
- ***GEL*** receivable on settlement (+)	4,048	16,115	11,926	-
- ***EUR*** payable on settlement (-)	(13,265)	(23,942)	(3,504)	-
- ***EUR*** receivable on settlement (+)	-	4,038	-	-
Fair value of foreign exchange forwards and swaps	**381**	**(300)**	**58**	**(2)**
Net fair value of foreign exchange forwards and swaps	**81**		**56**	

The (losses net of gain)/ gains net of losses from derivative financial instruments for year 2022 amounted to GEL (1,398) thousand. (2021 GEL (2,769) thousand).

33. 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 2022				31 December 2021			
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	-	81	-	**81**	-	56	-	**56**
Non-Financial Assets								
Investment property	-	-	2,837	**2,837**	-	-	2,385	**2,385**
Total Assets Recurring Fair Value Measurements	**-**	**81**	**2,837**	**2,918**		**56**	**2,385**	**2,441**

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	**2022**	**2021**	**Valuation technique**	**Inputs used**
Assets at Fair Value				
Financial Assets				
Derivative financial instruments	81	56	Forward pricing using present value calculations	Market interest rates, official exchange rate
Non-Financial Assets				
Investment property	2,837	2,385	Market approach based on the highest and best use analysis of the property	Price per square meter
Total Assets Recurring Fair Value Measurements	**2,918**	**2,441**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2022 (2021: none).

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

33. 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 2022				31 December 2021			
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	-	45,846	-	45,846	-	16,765	-	16,765
Due from banks	-	-	-	-	-	29,016	-	29,016
Finance lease receivables	-	-	280,348	282,464	-	-	245,843	246,443
Other financial assets	-	-	10,125	10,276	-	-	20,747	21,089
Total assets	**-**	**45,846**	**290,473**	**338,586**	**-**	**45,781**	**266,590**	**313,313**
Financial liabilities								
Loans from banks and financial institutions	-	212,490	-	211,481	-	208,940	-	207,635
Debt securities in issue	-	-	58,400	58,580	-	-	58,400	58,342
Advances received from customers	-	15,902	-	15,902	-	13,953	-	13,953
Subordinated loans	-	-	32,169	32,357	-	-	33,423	33,691
Other financial liabilities	-	22,813	-	22,813	-	4,634	-	4,633
Total liabilities	**-**	**251,205**	**90,569**	**341,133**	**-**	**227,527**	**91,823**	**318,254**

Cash and cash equivalents are carried at amortised cost, which equals current fair value. Finance lease receivable 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.

34. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2022:

In Georgian Lari	Amortized cost	Fair value through profit or loss	Finance Lease Receivables	Total
Assets				
Cash and cash equivalents	45,846	-	-	45,846
Due from banks	-	-	-	-
Finance lease receivables	-	-	282,464	282,464
Derivative Financial Instruments	-	81	-	81
Other financial assets	10,276	-	-	10,276
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**56,122**	**81**	**282,464**	**338,667**

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

In Georgian Lari	Amortized cost	Fair value through profit or loss	Finance Lease Receivables	Total
Assets				
Cash and cash equivalents	16,765	-	-	16,765
Due from banks	29,016	-	-	29,016
Finance lease receivables	-	-	246,443	246,443
Derivative Financial Instruments	-	56	-	56
Other financial assets	21,089	-	-	21,089
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**66,870**	**56**	**246,443**	**313,369**

35. 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 2022 and 2021 no provision for potential tax liabilities has been recorded.

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

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

35. CONTINGENCIES AND COMMITMENTS CONTINUED

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. The Company was in compliance with the covenants as of 31 December 2022 and as of 31 December 2021.

Compliance with lease liabilities. In case of early termination of the lease agreement, the company will be obliged to pay USD 540 thousand (2021: USD 371 thousand), however, termination of lease agreement is not considered by the Company.

36. 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:

	2022			2021		
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	36,705	-	-	9,736	-	-
Due from banks	-	-	-	5,000	-	-
Finance lease receivables (effective interest rate: 15.0%-40.0%)	-	-	1,126	-	-	789
Loans from banks and financial institutions (contractual interest rate: 4.6%-14.5%)	17,006	-	-	11,250	-	-
Subordinated loans	2,486	4	-	2,449	71	-
Debt securities in issue	20,080	-	-	20,074	276	-
Other financial assets	-	727	-	111	352	-
Prepayments	-	2,519	-	-	2,504	-
Derivative financial Instruments	(16)	-	-	6	-	-
Other liabilities	1	1	-	-	59	-

36. RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items with related parties for the year ended 31 December 2022 and 2021 were as follows:

	2022			2021		
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	1,256	-	-	1,480	-	-
Finance income	-	-	121	-	-	121
Other income	1,600	935	-	1,260	40	-
Interest expense	3,355	67	-	3,762	259	-
Bank and other service charge	-	-	-	-	-	-
Loss from derivative financial instruments	(540)	-	-	(348)	-	-
Other expenses	104	93	-	86	109	-

Key management compensation is presented below:

	2022		2021	
In thousands of Georgian Lari	**Expenses**	**Accrued Liability**	**Expenses**	**Accrued Liability**
Salaries and short-term bonuses	1,223	626	898	383

During the year ended 31 December 2022 and 2021 the remuneration of members of the key management, being the members of the Management Board (2022: 4 persons, 2021: 4 persons), comprised salaries, bonuses and compensation of insurance and business trip expenses.

37. EVENTS AFTER REPORTING PERIOD

In the beginning of 2023 subordinated debt in the amount of GEL 6,387 thousand was issued, through private bonds. Another subordinated debt transaction took place in March 2023, USD 3,000 thousand of debt was utilized.

In March 2023 the Company fully repaid existing public bonds and on the same day issued GEL 100 million 3-year public bonds, out of which GEL 86,760 thousand was placed.

2022