ANNUAL REPORT **2020**

HERE
NOW

TBC LEASING

2020

TBC LEASING

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FINANCIAL STATEMENT

WHO WE ARE?

We are the leading leasing company in Georgia, with 72% market share and 17 years of operations history. Today, our company serves up to 3,000 customers and manages the leasing portfolio of GEL 281 mln.

TBC Leasing serves both legal entities and individuals and provides comprehensive financial instruments tailored to their needs. TBC Leasing's target audience includes both small and medium-sized companies, as well as large corporations, start-ups and individual customers. With minimal participation and in most cases without the need for additional collateral, we offer our customers to increase their own production capacity and concentrate on their own core competencies, allowing them to free up their cash flows and provide their own customers with the variety of product choices and in a timely manner.

HOW ARE WE DIFFERENT?

POSSESS THE DE-SIRED ASSET HERE AND NOW

Focus on the leased item (content) and not the amount of money;

FAST AND FREE OF TIME-CONSUMING FINANCIAL PRODUCT

Easy approval;

Option for start-ups;

MISSION
MAKE LIFE EASIER

Make Asset Financing Fast and Simple!

THE WAYS ACCOMPLISHING THE MISSION

- Maintaining market leadership position
- Raising product/brand awareness
- Increasing the range of leasing products
- Portfolio growth
- Digitization of leasing services

KEY DIRECTIONS

TBC Leasing finances operating and start-up businesses in the following areas:

- **Medicine;**
- **Construction;**
- **Development;**
- **Service;**
- **Road construction;**
- **Agriculture;**
- **Distribution vehicles;**
- **Trade;**
- **HoReCa;**
- **Light industry;**
- **Renewable energy;**
- **Technologies;**
- **Media and telecommunications;**
- **Polygraphy;**
- **Vehicles;**

2020 – YEAR KEY HIGHLIGHTS

In 2020, despite many difficulties, the company managed to maintain a strong financial position. The company's solutions and actions, as always, were focused on the well-being of customers and served to make life easier for them.

INVESTMENT IN FINANCE LEASE

281 MLN GEL

8.3% YoY

-3.2 mln

-138.7% YoY

NET LOSS

-8.1%

-35.7 pp YoY

RETURN OF AVERAGE EQUITY

-0.8%

-3.4 pp YoY

RETURN OF AVERAGE ASSET

52.9%

10 pp YoY

COST TO INCOME

4.0%

1.6 pp YoY

COST OF RISK

1.7%

-2.1 pp YoY

NON-PERFORMING LEASE

6.4%

-4.2 pp YoY

NET INTEREST MARGIN

64%

43.7 pp YoY

ANSWERED CALLS

-37 SEC.

AVERAGE CALL WAITING TIME

68%

26 pp YoY

NPS

85%

EMPLOY HAPPINESS INDEX

53%

24 pp YoY

ENPS

62%

7 pp YoY

FACEBOOK ENGAGEMENT RATE

> DESPITE THE CHALLENGING SITUATION, WE BELIEVE THAT WE MANAGED TO CLOSE THE 2020 FINANCIAL YEAR QUITE SUCCESSFULLY. THE KEY IS TO HAVE A WELL-PLANNED, WELL-WRITTEN SHORT, MEDIUM AND LONG-TERM STRATEGIC PLAN THAT OUR TEAM DEVELOPED AT THE BEGINNING OF THE YEAR.

SUMMARY OF THE YEAR

The year of 2020 was full of challenges for our company, as well as for the country and the entire world. Until now, there was no experience in managing this type of crisis and critical situations.

Despite the challenging situation, we believe that we managed to close the 2020 financial year quite successfully. We quickly adapted to the new reality and created a crisis management unit that was responsible for taking the organization through the turbulent times with the least loss or damage, which was especially crucial to manage during the first wave of the pandemics. The key is to have a well-planned, well-written short, medium and long-term strategic plan that our team developed at the beginning of the year.

The first goal was to maintain both financial and emotional stability and security for our employees, as well as to support our customers as much as possible, which we have successfully achieved by repeatedly deferring leasing payments throughout the year.

We have redesigned the entire company, processes and procedures in the shortest possible time to work remotely so as not to interfere with either the employee or the customer. Against this backdrop, the Employ Happiness and Satisfaction Index increased by 24%.

Customer focus was the major priority of the year. We endeavor to plan all processes so that our service is easy to understand and accessible to customers, we changed a number of systems, introduced, re-played resources and all this was reflected in the customer satisfaction index, which increased by 26% over the previous year.

In short, we used the crisis as an opportunity and we think it worked out for us.

Even throughout this period, TBC Leasing maintains its top position and it is noteworthy that exactly this year, with the initiative of our company, the Leasing Association and with the support of the Investors' Council, the development of leasing was recorded in the strategic document of the country's economy. This is a great achievement for the country and for this field, because the development of leasing is directly related to the development and growth of the country's economy.

This year has also brought a lot of good news in terms of new fundraising and diversification of capital structure.

Furthermore, this year is remarkable for the fact that the influential international rating agency Fitch Ratings has awarded TBC Leasing a long-term credit rating of "BB-", which is the highest rating among non-bank financial institutions in Georgia.
We placed GEL 58.4 mln bonds on the Georgian Stock Exchange via TBC Capital.
In addition to all this, in 2020 we attracted a number of investments, which totaled more than 240 mln GEL.

Our main goal for 2021 is to bring more digitalization to our existing services and make life as easy as possible for our customers. We think that with these possibilities we will make leasing even more attractive for the local businesses and individual customers as a reasonable alternative to traditional finances.

MACROECONOMIC OVERVIEW

In 2020, sharp decline in annual GDP growth rate (-6.2%) was due to the constraints related to the global pandemic. Since the beginning of the pandemic, revenues from the tourism sector have remained close to zero, although on the other hand, the country's trade balance has been positive. In particular, the export rate decreased by 12.0%, while in the same period, the import volume decreased by 15.9%. As a result, the trade balance improved by 18.8% compared to 2019, which is approximately $ 1 billion.

In the same breath, it is noteworthy that the volume of remittances increased by 8.8% during the reporting period.

Leasing portfolio growth of 9.44% was observed during the year without taking into account the exchange rate effect.

According to the latest estimates of TBC Capital, the economy is expected to recover by 4.2% in 2021 and by 6.0% in 2022.

SUSTAINABLE FINANCIAL PERFORMANCE

In 2020, our net interest income amounted to GEL 15.1 million, 36.8% less than the previous year, which was due, on the one hand, to a net modification of GEL 2.7 million in financial instruments recorded during the year, related to a reduction in cash flow, arising from the grace period for repaying loans to borrowers, and, on the other hand, increased liquidity and cash equivalents to reduce liquidity risk, that were financed by borrowings, which led to an increase in interest costs, while at the same time contributing to the company's resilience and financial stability during the pandemic period.

Despite the above challenges, the Company's return on equity before expected credit loss allowances reserve was 19.9% (2019: 46.2%). Despite the decline in revenues and increased liquidity risk, a positive result was achieved, mainly due to the effective management of administrative expenditures, which in absolute terms decreased by GEL 1.1 million compared to the previous year. Therefore, by 2020, the company's cost-to-income ratio was 52.9%, up 10.5% from the previous year.

In 2020, our potential loss reserve expense increased significantly to cover the potential impact of the Covid-19 pandemic on our borrowers, resulting in a full-year risk rate of 4.0% for the full year, up from 2.4% in 2019. The resulting net loss in 2020 was GEL 3.2 million, while our return on equity and return on assets stood at -8.1% and -0.8%, respectively.

Despite the year ended in loss and the damage caused by the pandemic, we managed to keep the 2020 capital ratios within the limits set by the company's internal limits and lenders, namely Tier1 and Tier2 were 11.3% and 22.5%, respectively, which in 2019 were 12.1% and 21.8%.

PERSPECTIVES

Developments in 2020 have shown us that digitalization and the fine-tuning of online services are essential for running a successful business. Accordingly, appropriate steps are planned and taken in the future to create new products and introduce services that will make it easier for users to obtain relevant services and information.

It should also be noted that 2020 was an important year not only for the customers but also for the employees of the company, as the company underwent a transformation and adapted to the requirements of the employees and put their safety in the first place. On the one hand, these processes helped us to provide services on a continuous basis, and on the other hand, simplified the life of our employees and gave them more flexibility to balance personal and business life.

Chief Executive Officer
Gaioz Gogua

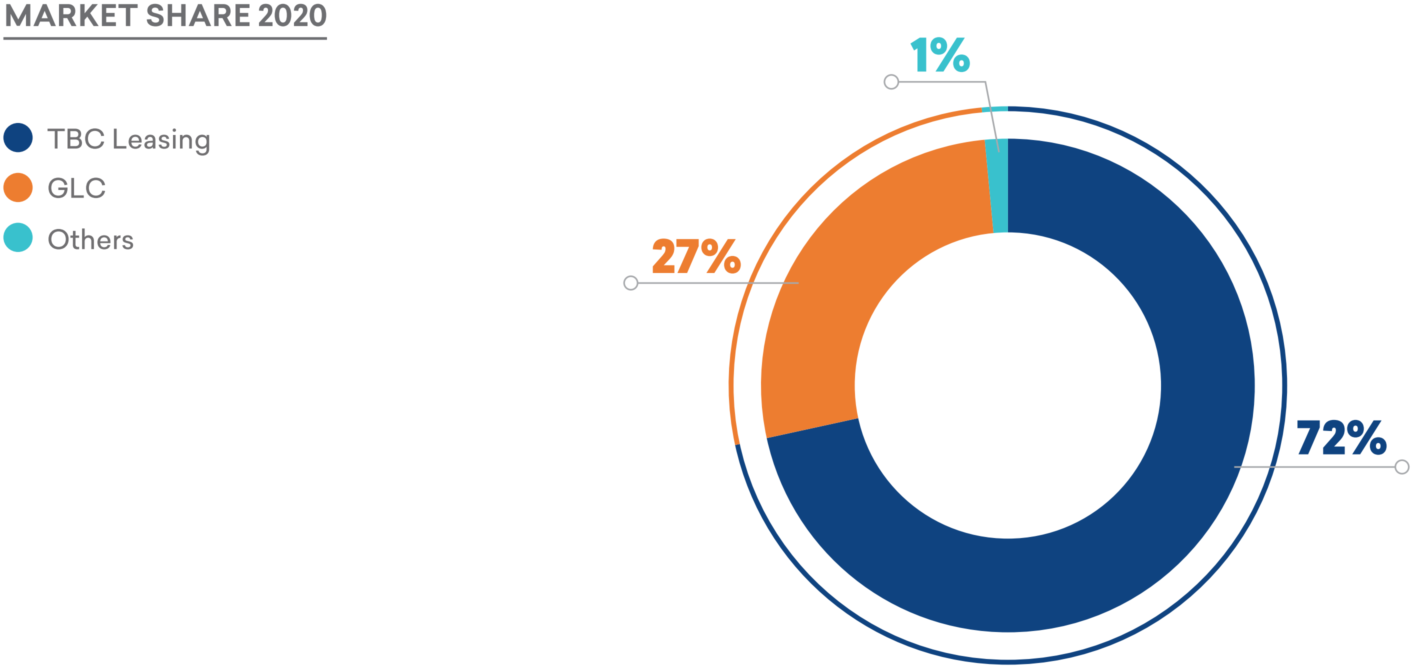
28 May 2021

COMPANY OVERVIEW

TBC Leasing was established in 2003 and today serves 2,846 loyal customers. The company has a 72%[1] market share with a GEL 281 million portfolio.

Leasing as a financing tool is the best tool for both start-ups and market-based companies. With the help of leasing, our clients can, without minimum participation and additional collateral, increase production capacity and concentrate on core competencies in order to offer their products and services faster and in a professional manner, and this is directly related to the country's economic growth and development.

MARKET SHARE 2020



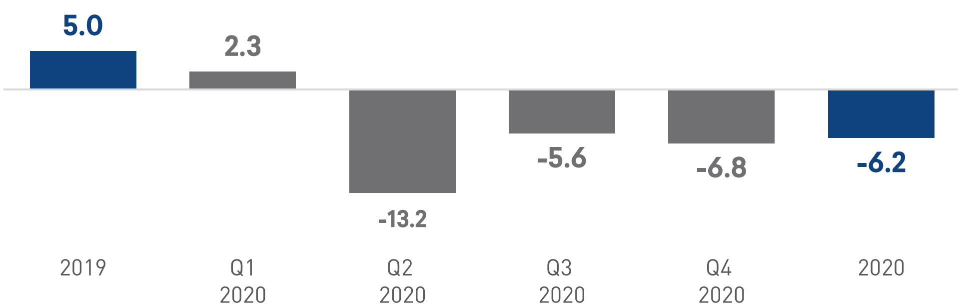
Due to the low awareness of leasing in the country compared to other finance instruments, from the beginning of 2020, the company team aimed to popularize leasing in order to clearly see the content of the financial instrument and its real benefits for existing and potential customers.

1 According to Leasing Association

COUNTRY'S ECONOMIC OVERVIEW

Georgia's real GDP growth in 2020 was -6.2%[2] due to pandemic restrictions. At the same time, according to the baseline scenario of economic indicators prepared by the Ministry of Finance of Georgia, real GDP growth of 4.3%[3] and 5.8% is expected in 2021 and 2022, which is largely in line with the similar forecasts of International Monetary Fund (2021 - 3.5%, 2022 - 5.8%) and TBC Capital (2021 – 4.2%, 2022 – 6.0%)[5].

REAL GDP GROWTH (%)

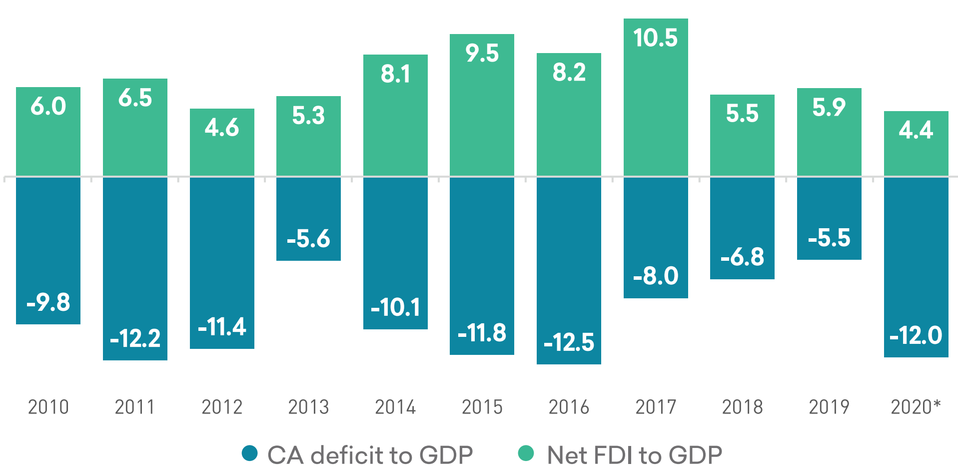


**Preliminary data*

Source: Geostat

As to the CA deficit, the trade balance of goods improved during the reporting period, due to the reduction of the local demand and imports by 15.9% and the export of goods by 12% due to the restrictions caused by the pandemic. However, despite the above, the sharp decline (84%) in revenues from the tourism sector during the reporting period led to a worsening of the current account deficit.

CA DEFICIT AND NET FDI (% OF GDP)



*Trailing four quarters as of Q3 2020

Source: NBG, Geostat

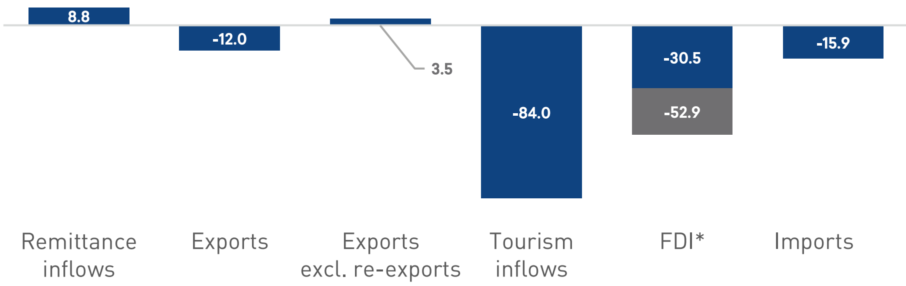
2 Source - www.geostat.ge

3 https://www.mof.ge/images/File/2021-biujeti/12-01-2021/1.%202021%20BD%20Tables%20sen%2020_1_new_BDD_LEPL.pdf

4 https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021

5 www.tbccapital.ge

GROWTH OF INFLOWS AND IMPORTS DURING 2020 (YOY, %)

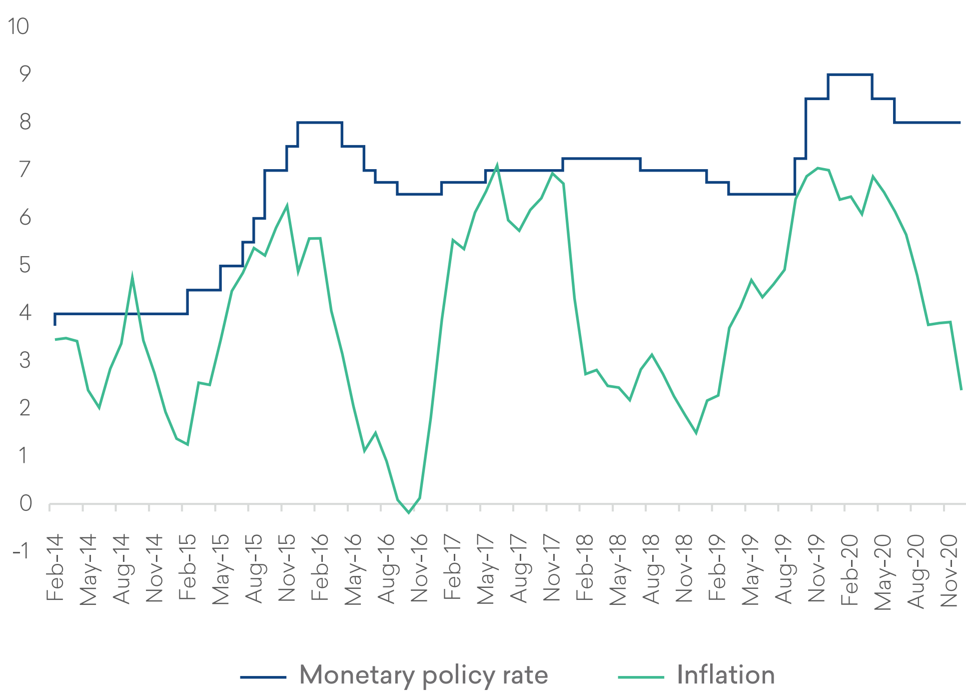


* Note: In Q4 2020, the main reason for the decline of FDI was transferring of ownership from non-resident to the resident companies, without cash outflow, but still reducing FDI by around 295 m USD. Adjusting for this component, FDI fell by 30.5% YoY, while without adjustment they fell by 52.9% YoY.

Source: NBG, Geostat

The decline in foreign exchange flows against the background of reduced tourism activity, in turn, increased the pressure on the national currency to depreciate, however, the consistent monetary policy of the National Bank of Georgia and the timely implementation of the required foreign exchange interventions helped to stabilize the exchange rate of the national currency at the end of the reporting period. Despite the above circumstances, the annual inflation rate was 2.4%, which is mainly due to the launch of the Georgian government's utility subsidy program.

CPI INFLATION (YOY, %) AND MPR (%)



Source: NBG

BUSINESS STRATEGY

The company's long-term development plan includes 4 main strategic directions:

1-RAISING AWARENESS ABOUT LEASING AND INCREASING THE CUSTOMER BASE

In 2019, a number of studies were conducted at TBC Leasing, which allowed us to clearly see the current positioning of the company and in what direction we should strengthen our work or what we should focus on.

According to the team, the key challenge was the awareness of leasing as a product. As it turned out, the content of the lease was incomprehensible or vague to the majority of the population. As a result of observations, it was found that many associated leasing with auto loans, or simply did not perceive it as a financial instrument.

Thus, in 2020, the main goal of the communication team was to raise the awareness of leasing and the primary focus was on education. To achieve the goal, we mastered different channels, using target audience and formats tailored to the target audience. We have created a video guide to describe the different advantages of leasing, where our staff discussed the issue simply and concisely. The purpose of these videos was to dissuade consumers from believing that leasing is a complex product and to show them the benefits of this financial instrument in simple and easy-to-understand language.

Throughout 2020, commercial content posts also upended the leasing awareness. In particular, action-oriented posts have been adapted to different areas of leasing, and in this regard, we have provided customers with information on what they could use the lease for. The posts included areas such as: educational institutions, sewing, dental office, dairy production, etc. Furthermore, the videos taken about our customer companies, which enjoyed high recognition and trust, and thus emphasized the ability to use our product and at the same time the credibility of the company, served to raise awareness.

The number of promotions in the field of automotive has increased, the content of which will be of interest to more and more consumers, and in this way will increase the awareness rate.

At the end of the year, enhanced communication doubled the advertising results:

2019	2020	%
REACH **1,309,663**	REACH **2,460,171**	**87,8%** ▲
TOTAL INTERACTIONS **16,937** (Reactions, comments, shares)	TOTAL INTERACTIONS **104,902** (Reactions, comments, shares)	**519,4%** ▲
POST ENGAGEMENT **697,560** Total actions	POST ENGAGEMENT **2,289,846** Total actions	**228,3%** ▲
ENGAGEMENT RATE **55%**	ENGAGEMENT RATE **62%**	**12,7%** ▲

According to the near-term outlook, the company again plans to raise leasing awareness through similar programs and increase customer engagement.

2-IMPROVING THE CUSTOMER SATISFACTION

Further to activating communication channels, it was vital to improve the customer satisfaction. In this regard, while conducting research, we received specific messages about what issues were critical to address, and it was with the latter that we started working. For example, according to consumers, the company had a problem with telephone communication, so a system of incoming calls was created - a centralized call center, from which both existing and new customers are now redirected to specific departments.

It is also worth noting that according to the 2020-year outcomes, we have improved the number of incoming and outgoing calls by 43.7%. Moreover, we have an increase in the waiting time for incoming calls, which has improved by 37 seconds.

Additionally, mandatory procedures were established for each customer issue feedback, as well as customer communication guidelines and Q/A documents were developed.

Also, to simplify the life of internal and external users, we have developed an automatic message generation system. Both the message box and the content and structure of the information delivery have been improved.

Automatic leasing monthly reminder messages, refinancing rate changes, transactions, etc. are sent to the customer in automatic mode.

SURVEYS

Throughout 2020, NPS and Customer Journey surveys were conducted to find ways to increase the loyalty of our customers and make their lives easier.

NPS

To summarize the results for 2020, an NPS survey was conducted among corporate and SME clientele.

NPS score – **68**

Customer Journey - This survey allows us to find answers and get a 360-degree view of products and services in the company. Evaluations are made not only by external but also by internal users. The results of the study make it easier for us to see correctly and prioritize ways to improve services.


თიბისი ლიზინგი
TBC LEASING

3-DIGITAL TECHNOLOGIES DEVELOPMENT

In 2020, a plan was developed for the digital activities that we should start working on. It was planned to introduce both external and internal technological changes, which would not only make life easier for customers, but also allow employees to work more efficiently. By improving internal technologies, the company would have a tool that would measure the effectiveness of a number of actions.

CRM has been introduced, the effect of which lies in the systematization of the sales stages. CRM helps you to improve sales efficiency from the leasing manager and the sector, as technologies allow us to manage each project before selling, manage the sales pipeline dynamically, track the pre-sale process, calculate and analyze the reasons for the loss and manage the portfolio in terms of sales stages, while analyzing the pipeline in monetary and quantitative concentrations. CRM is currently under development.

A system of daily dynamic analysis has been set up in the commercial direction, with the help of which we should get a live analysis and monitoring tool, which is also in the development stage.

An intranet was created to satisfy internal users, within which we digitized information about employees, created personal profiles and simplified a number of actions for them. A space was arranged where everything about the company is gathered for internal customers. Thanks to technologies, employees see everything in one space and no longer need to clarify different issues via email.

In addition to the technical changes made within the company, today, when the world has been digitized, it has become necessary to take care of the digitization of products in order to maintain the quality of services provided by companies. If earlier this was considered an added advantage, today digital products have become an essential component of service quality.

For its part, TBC Leasing aimed to make leasing a digital product, which, in direct proportion, would further increase customer satisfaction. Such an alteration could not be done in the short run, however, in 2020 we started planning to implement these processes. A customer portal will be created to improve the portfolio management efficiency. The method of communication with customers on operational issues will be improved and we will offer them additional services. Furthermore, we will save the resource of leasing managers in terms of communication and operations, and it will be possible to target promotions and offers in our ecosystem.

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

4-BUILDING THE WIDEST NETWORK OF LOCAL AND INTERNATIONAL LEASING ASSETS PROVIDERS

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

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

The attractiveness of our company in the market is due to the accumulation of information and knowledge about different types of assets, and most importantly, we have the opportunity to offer our customers asset expertise. This is made possible by the company's asset management department, which brings together a team of employees whose competencies include detailed knowledge of the characteristics of different types of assets.

However, the operational excellence and experience of our asset management team allows us to have information on the full life cycle of different assets and to have an idea of which asset is operating under what conditions of consumption and thus help our customers to select the right asset for them.

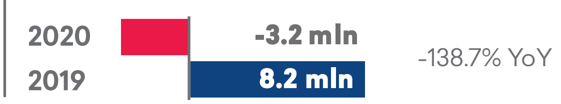
The key issues listed above allow us to serve a customer on “a single-window concept” principle, offer the required different types of asset or assets in one space and time, both on domestic and international level and enable them to purchase assets from different providers and most importantly provide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

KEY PERFORMANCE INDICATORS

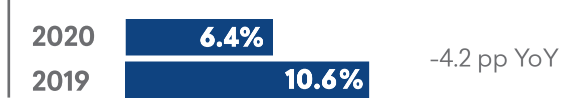
FINANCIAL KPIS

Compared to previous years, the company's net profit fell in 2020 due to a slowdown in pandemic-induced economic activity in 2020 and an increase in the leasing portfolio reserve level due to expected credit losses related to the pandemic. Furthermore, in 2020, the company was focused on customer support, for which it was involved in a preferential program, which had a negative impact on the company's net profit, and consequently, the profitability figures for 2020 have deteriorated compared to the previous year. However, by 2020, the company has been able to manage and maintain its leasing portfolio, as well as the company expects to improve its portfolio growth rate at the expense of improving its planned economic activity by 2021.

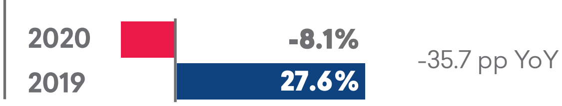
NET LOSS / PROFIT



NET INTEREST MARGIN

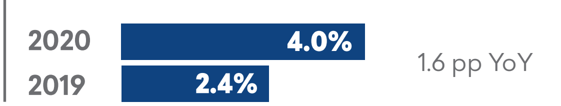


RETURN ON AVERAGE EQUITY



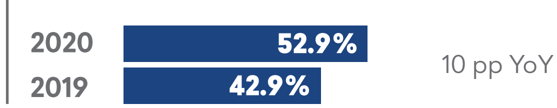
RETURN OF AVERAGE ASSET

COST OF RISK



NON-PERFORMING LEASE

COST TO INCOME RATIO



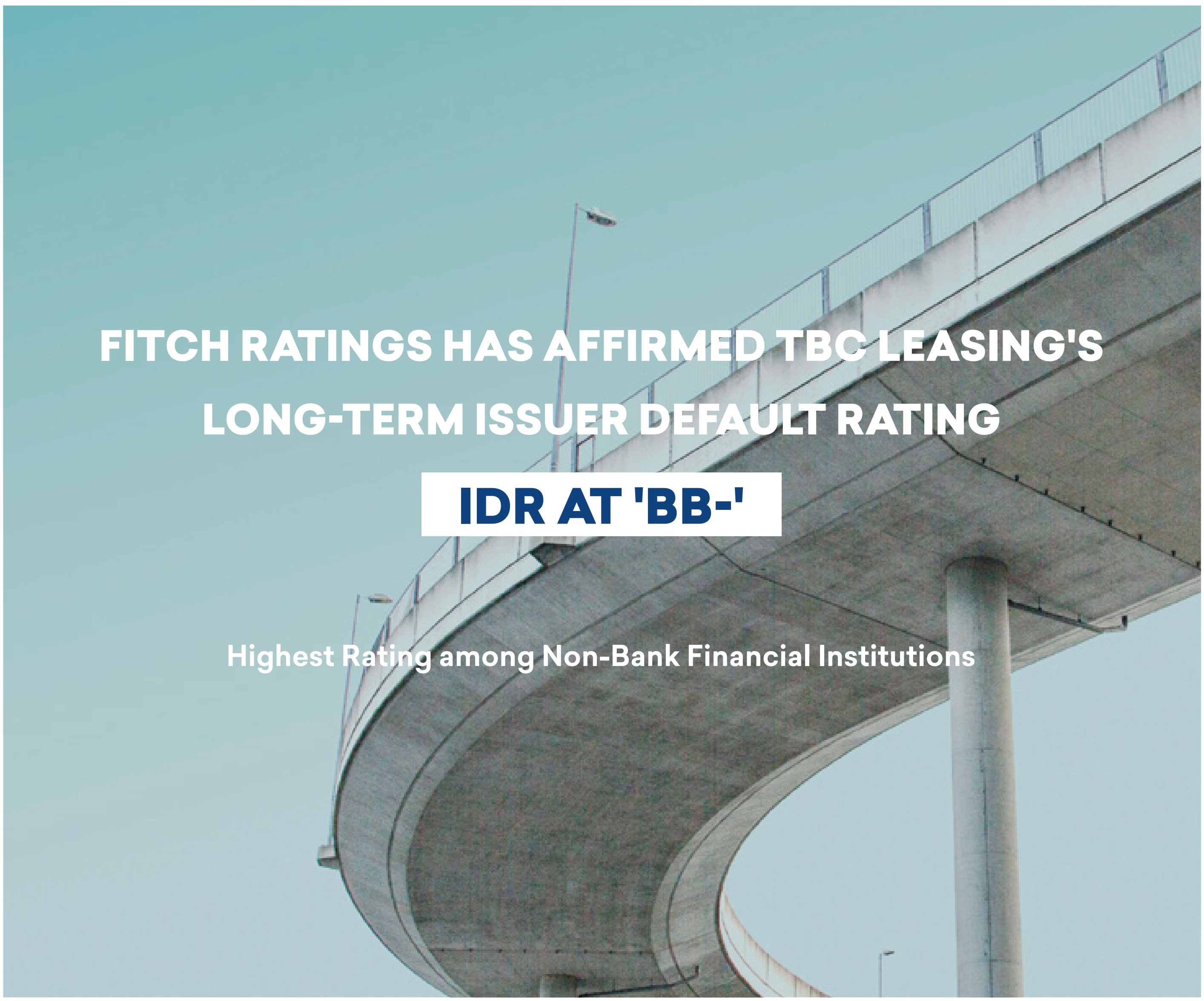
FITCH RATINGS AFFIRMED TBC LEASING AT “BB-” CREDIT RATING

Influential international rating agency Fitch Ratings gave TBC Leasing a long-term credit rating of “BB-”.

The rating affirmed by Fitch reflects the company’s real credit risk and its affirmation means recognized under the globally recognized standard.

At the end of 2020, Fitch maintained TBC Leasing with the highest credit rating of “BB-” among Georgian non-bank financial institutions.

Following the challenging year, maintaining a credit rating is proof that our company is financially sustainable, has the right strategic vision and is moving in the right direction. All this is a prerequisite for creditors and shareholders, and for us, the opportunity to focus on customer needs.



OPERATING INDICATORS

To improve the performance in 2020, our primary focus was integrating with customers, measuring their satisfaction and exploring all of this.

To understand the level of loyalty of TBC Leasing customers, what makes their lives easier, and to improve our services based on this, we conducted NPS and Customer Journey surveys during 2020.

NPS

NPS survey among the corporate and SME customers.

Score - **68**

CUSTOMER JOURNEY

This survey allows us to find answers and get a 360-degree view of products and services in the company. Evaluations are made not only by external but also by internal users. The results of the study make it easier for us to see correctly and prioritize ways to improve services.

Here we must mention the customer satisfaction in which our employees are perceived. We also conducted a survey to measure their happiness.

EMPLOYEE HAPPINESS INDEX

SMS CONFIGURATIONS

To simplify the life of internal and external users, we have developed an automatic message generation system. Both the message box and the content and structure of the information delivery have been improved.

Automatic leasing monthly reminder messages, refinancing rate changes, transactions, etc. are sent to the customer in automatic mode.

CALL CENTER

A centralized call center has been designed to handle phone calls from current and potential customers and redirect them to the appropriate destinations.

The 2020-year results of the Call Center showed an average of 64% of answered inbound calls per day.

2020

Answered: **64%**

Unanswered: **36%**

2019

Answered: **20.3%**

Unanswered: **79.7%**

In addition, waiting time for inbound calls has been reduced:

AVERAGE CALL WAITING TIME:

2020: **40 sec.** 2019: **77 sec.**

Mandatory procedures were established for each customer issue feedback, as well as customer communication guidelines and Q/A documents were developed.

BUSINESS DIRECTIONS AND OVERVIEW

TBC LEASING CLIENTELE

TBC Leasing does not have separate business lines or directions but serves to the wide spectrum of customers from small, medium and corporate business to retail and individuals, helping them in financing and expanding their business activities. Our clients' area of activity covers all sectors of the Georgian economy, which are both an opportunity and a challenge for our company.

TBC Leasing mainly finances companies and startups in the following fields:

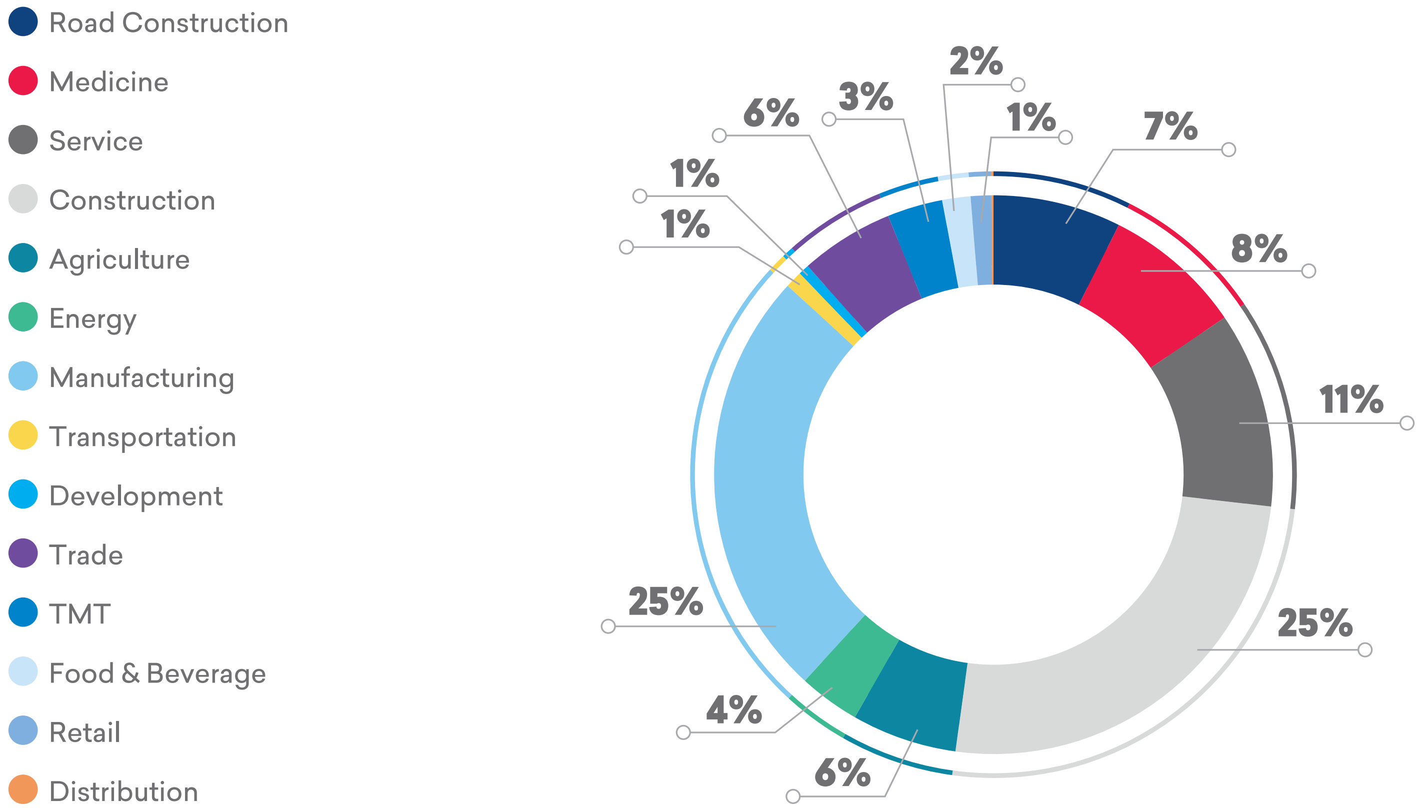
Medicine, Construction, Development, Services, Road Construction, Agriculture, Trade, HoReCa, Light Industry, Renewable Energy, Automotive, Technology, Media and Telecommunications and Printing.

Our company has the widest network of leasing asset providers in the country, which includes both local and international providers, with whom the company has many years of experience. At the same time, based on the knowledge and experience accumulated in the company, we offer our clients leasing products tailored to their business activities, which are in line with the business industry of their activities, as well as the leasing asset of their choice. These leasing products are offered throughout Georgia, in all its regions, both in the branches of the company and TBC Bank, although the service center is located at the company's headquarters in Tbilisi.

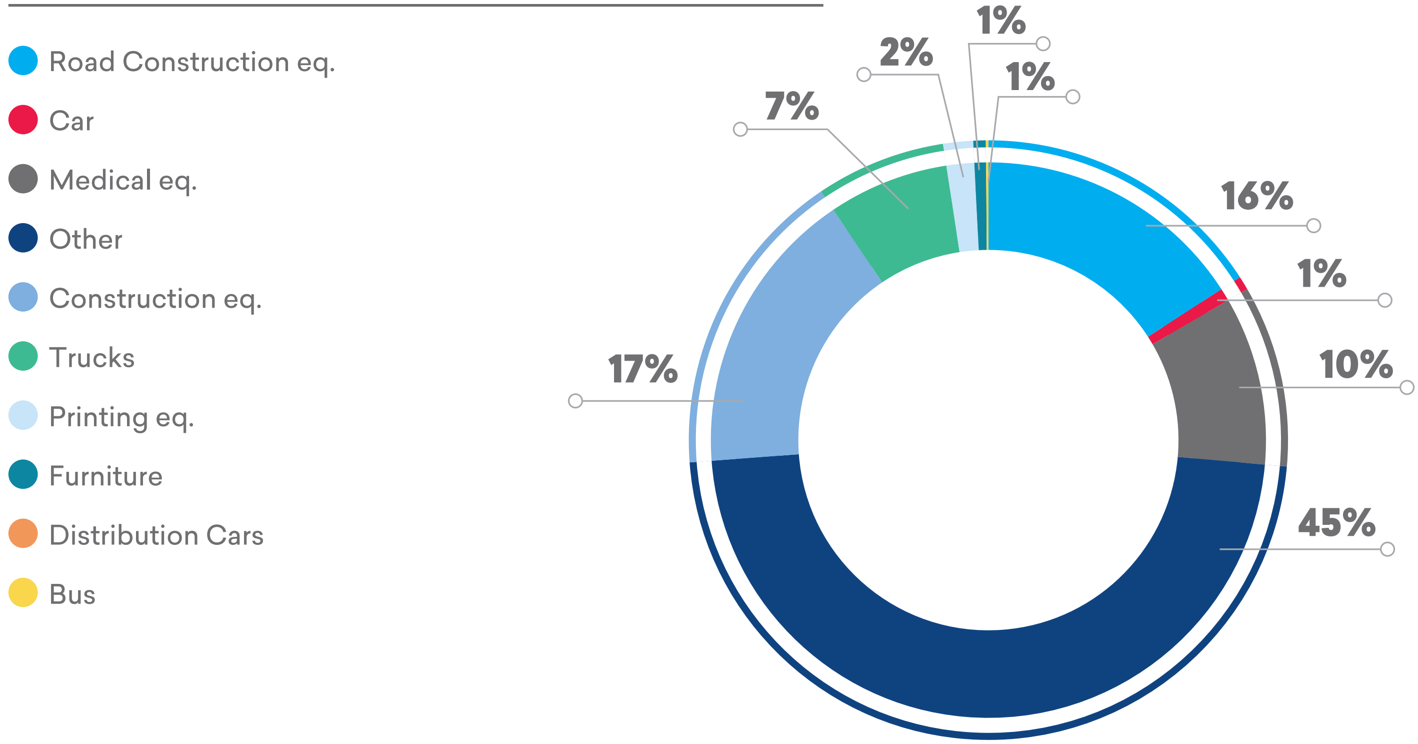
The Leasing Credit Department consists of three sectors, which are divided into the following areas: the **medical sector** oversees medical, service and technology, media, telecommunications and printing sectors. The **agro and industrial sector** is responsible for projects related to agriculture, production and distribution machines, and the **construction department** serves the companies involved in development and road construction.

During 2020, in the context of the global pandemic, the company was able to maintain the volume of small, medium and corporate business portfolio, which has grown average 16% per annum for the last 3 years and amounted to 213 million GEL as of the end of 2020. The company served a total of 575 business clients. In addition to the current challenges, the company has implemented many interesting innovations.

CORPORATE LEASE PORTFOLIO BY INDUSTRIES



CORPORATE LEASE PORTFOLIO BY TYPE OF ASSETS



Due to the increased demand in the market and the company's long-term development strategy, we have actively started developing new products that will help increase the financing volume of energy efficient assets as well as finance the production of renewable energy. With this in mind, the company actively cooperates with international financial institutions such as Finance in Motion, EBRD and FMO.

Individual and retail financing is one of the most active and fast growing directions in the company, which mainly includes financing of new, second-hand imported and second-hand local cars for both individuals and legal entities. TBC Leasing cooperates with all official auto centers and auto dealers in Georgia, which allows us to offer customers a car model that is acceptable to them based on their preferences. 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. Our customers can use this product in Tbilisi, Rustavi and Batumi branches.

During 2020, the company allowed 545 new customers to benefit from car leasing and financed a leasing portfolio of 30 million GEL.

With the growing demand for digital services, the company is actively developing alternative service channels on web and mobile platforms. To this end, a new online platform is planned to be launched soon, which will make it even easier for customers to interact and allow them to remotely access a variety of leasing products.

54%	24.1%	2004
Market share in sales of new vehicles	Vehicles share in the total portfolio	Number of Retail Customers

RENEWED VEHICLE LEASING OFFERS

TBC Leasing's automobile direction serves not only legal entities but also individuals, therefore, the demand is even greater. To increase demand, in 2020 we changed the offer formats and refined them, but most importantly, we made even more customer-driven offers.

Customers could take advantage of special leasing offers in any center of Georgia at any time in 2020, as well as the company had large promotions on the following brands: Hyundai, Jaguar, Toyota, Mazda, Ford. In addition, the company had large-scale promotions, both for any other brand of car, as well as for specific models.

At the turn of 2020, TBC Leasing offered its customers a large-scale promotion, which was screened holistically. Within the campaign, customers interested in buying a car could buy a car in 30 minutes in any car center of Georgia.

2020 – YEAR PANDEMIC

This year, just like all companies, was full of challenges for TBC Leasing. It was vital that the company adjusted to the new reality as quickly as possible.

We took an active part in the state support program and offered a three-month grace period on leasing to all individuals, micro, small and medium-sized business borrowers, as well as all businesses operating in the tourism, food and public industries. It was a step on our part to make life easier for our customers in a pandemic.

The grace period covered both the lease term and its interest and meant that during these three months, consumers would be exempt from leasing payments.

OUR CUSTOMERS

COOPERATION WITH TOP SOLAR PANEL MANUFACTURERS

AE SOLAR

AE Solar is a German TIER1 solar panels manufacturer, the member of the UN Global Compact, and today AE presence and distributorship network 2020 reached more than 70 countries worldwide. The company's sales area includes the continents of Africa, Asia, Europe, South and North America, the Asia-Pacific and the Middle East.

AE Solar has two manufacturing facilities worldwide. In particular, solar panel factories are located in Georgia and China, with 1 GW per year.

Large-scale manufacturing of solar panels in Georgia started in September 2019. Before launching the production, AE Solar has been cooperating with TBC Leasing since 2018. With the resources of our company, AE Solar has increased production capacity.

It is important for TBC Leasing to support a project focused on renewable energy production.

FISHING VESSEL CONSTRUCTION FINANCE

Years later, with the involvement of TBC Leasing, the construction of a new fishing vessel was funded for the first time.
In 2020, a tripartite memorandum was signed at the Poti Maritime Training Center by TBC Leasing, Enterprise Georgia and the owner of a fishing vessel.

Today, offshore fishing is included in the list of businesses supporting the Enterprise Georgia program, which means that the fleet in this area will be significantly renewed and will create new jobs.

TBC Leasing supports priority businesses for the development of the country's economy, including offshore fishing, and finances the mechanical assets needed for their activities.

> A successful business is the proper financing, reporting, financial instruments, including product leasing. Leasing is a comfort. Leasing is so easy to use that you just need to set a goal and desire, prepare the documentation and everything is ready.

Temur Chkonia, Founder of Coca-Cola Bottlers Georgia

> Running our business without technology is unimaginable. Since technologies are constantly evolving, we believe that it is better to have access to the latest technologies and to have them in use rather than in possession. In this regard, the support of TBC Leasing is very important.

Natalia Ananiashvili, Director of Museum of Illusions

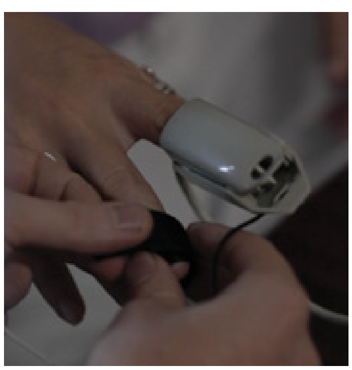
LEASING TO SUPPORT EDUCATIONAL DIRECTION

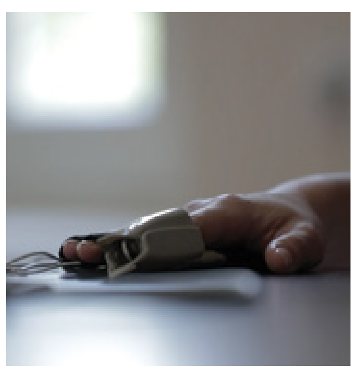
Leasing as a financial tool is often used to acquire technology and equipment. In 2020, in partnership with Eastern European University, Leasing funded the equipment of the newly established Science Lab "Laboratory Z".

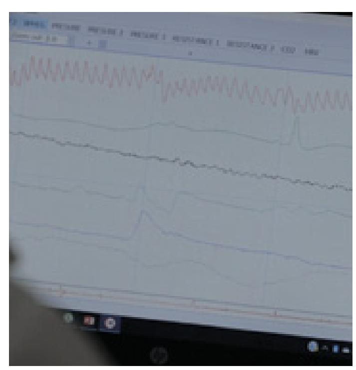
The direction and profile of "Laboratory Z" lies in the study of human behavior, behavior prediction, and personality. The laboratory has all the modern technical equipment necessary for conducting research in many areas.

In particular, the leasing-funded equipment used by the laboratory is of two types: the first - eye tracking, which records eye movement, individual attention and cognitive process, visual memory and perception, and the second - a polygraph, so-called "biofeedback", which records the body's pressure, blood circulation, respiration, etc.

Through this laboratory, Eastern European University students will have the opportunity to gain experience for free, to be directly involved in the project and to significantly improve their qualifications.







TBC LEASING TO SUPPORT BUSINESS IDEAS

Based on the goal set for 2020, we created a communication channel, which aimed to provide specific business ideas for leasing customers.

We hoped that in this way we could answer at least some of the questions existing among our potential customers and make it clear and easily understandable, where, how and for what leasing products could be used for.

TBC Leasing helps existing and potential customers in starting out new business activities in printing, small and large manufacturing, various types of food outlets, sewing, farming, laboratory, medical clinics, etc.

Besides business ideas, TBC Leasing uses its communication channels to offer tailored products to its customers based on the asset types, these products includes: real estate or property leasing, purchase of medical equipment, heavy equipment under construction leasing, company vehicle fleet under operating leasing, etc.

> “SOCAR Georgia Petroleum uses operating leasing to purchase its own fuel carriers. In addition to offering competitively priced financing to purchase expensive equipment, operating leasing also allows us to save time, finances and human resources. “In general, this type of procurement is associated with a huge bureaucratic process, and in the case of operating leasing, we just chose the equipment, signed a contract and quietly waited for the arrival of our equipment.”
>
> Levan Giorgadze, CEO of SOCAR Georgia Petroleum

DOING BUSINESS RESPONSIBILITY

Due to the global pandemic, 2020, like all companies, was full of challenges for TBC Leasing. Developments in the world have shown that the main task of 2020 was to adapt to the crisis situation for responsible businesses and provide maximum support to people or businesses.

For its part, TBC Leasing, instead of simplifying life, has put much focus on creating a sense of stability in people.

CREATING STABILITY IN THE ORGANIZATION

For any company, as well as for TBC Leasing, the most important capital is the team members, because the company is based on them, and the customers. That is why, according to the management decision, by 2020, no employees had been laid off. Also, the remuneration of any of them has not been reduced.

TBC Leasing takes care of employees and customers and, at the same time, understands the responsibility that implies the smooth operation of the company. TBC Leasing took into account the World Health Organization's recommendations regarding the current situation and moved to remote-centric workplace as possible. Also, the employees retained all the additional benefits that the company offers.

During 2020, 2 surveys were conducted to evaluate remote work, in which most of the employees positively evaluated the new style of work:

74%	71%
March-May	June-August

Crisis management was also a significant challenge for the Human Resources Department. Remote control, security, education, staff transportation and weekly work plan - these are the issues that were most relevant last year.

Remote work, virtual meetings and trainings have become an integral part of the new reality. Significantly, 42 employees were trained last year. Also, about 20 meetings were held, during which the team members shared their knowledge and experience with each other.

During this period, the HR direction most often used the following communication formats: online meetings, employee profiles, open room trainings, Home Made Video tutorials to simplify the process.

SOCIALLY VULNERABLE FAMILIES FINANCE

This year, TBC Leasing turned down traditional Christmas gifts and decided to help the people who needed support the most during the crisis. TBC Leasing asked the staff to share the history and contact of families with severe social backgrounds. Almost all cases were funded from online stories. These were families living in Tbilisi, villages, mountainous regions, socially vulnerable and large families, students whose status was suspended due to lack of money, and people struggling with a serious illness.

- A total of GEL 300,000 was allocated to assist more than 300 families across the group;
- 13 cases were financed on behalf of the leasing group;
- Each family received 1000 GEL assistance;
- The exception was a student's case whose study was funded to the full extent;

PAPER RECYCLING TRADITION

As a responsible business, TBC Leasing has taken an environmental initiative and started collecting waste paper throughout the company. From the collected waste paper, new books are printed, which are used to periodically update the existing libraries in the highland regions.

On the first attempt, 300kg of paper was collected and recycled.

It is important to us that the waste paper used by our employees is used for useful purposes instead of getting in the trash. We consider the fact that waste paper delivery is a mutually beneficial project. In addition to participating in the upgrade of the Highland Library, this initiative also addresses more global issues. In particular, by handing over waste paper, we take care of the environment and reduce the damage caused to it. Recycling 1 ton of paper saves 17 mature trees, 26 cubic meters of water and 2.3 square meters of land.

As part of this project, a waste disposal box was placed in the TBC Leasing office and, accordingly, each employee can participate in various social projects.

GRACE PERIOD INTRODUCTION

In addition to internal organizational issues, TBC Leasing began to take care of the interests of consumers during the pandemic.

In particular, at the very beginning of the pandemic, TBC Leasing, as a responsible business, decided to simplify life for consumers and offered a three-month, three-stage grace period, which extended to all individuals, micro, small and medium business borrowers, as well as all kind of businesses that operated in the tourism, food and industry industries that were characterized by public gathering.

The grace period meant that for months, consumers would be exempt from leasing payments.

The grace period was activated from March 13, immediately after the announcement. Individuals were automatically prompted, and those who did not want to take advantage of the offer had to submit a rejection request on our website.

In the case of legal entities, on the contrary, it was necessary to make a request to activate the grace period.

The exemption also applied to those who had already benefited from this condition and, in addition, to those who had a delay of up to 30 days.

Users had to register their wish either to enjoy or refuse the grace period from March 13 to 20.

During this period, TBC Leasing conducted effective communication in terms of the grace period.

Phase I of the grace period started in March 2020, and the last, Phase III ended in March 2021.

Phase I and II benefits were used by 63.6% and 16.2% of the total portfolio, respectively, while the December grace period was used by 20.2% of the total leasing portfolio.

In total, 3,020 clients benefited from the grace period during the year, of which 686 were legal entities and 2,334 were individuals. The volume of their leasing portfolio at the end of the year amounted to 165 million GEL, which is 59% of the total leasing portfolio.

During the grace period, due to the increased demand, we developed all possible communication channels, namely the call center and the social network, and served the customers on an uninterrupted basis. This, on our part, served the purpose of making life easier for our customers, given the current situation.

BUSINESS SUPPORT

During the same period, TBC Leasing, as a company actively involved in the business sector, allocated communication channels to businesses. Communication included blogs about companies as well as topics that the audience was particularly interested in during this period. From mid-March to the end of April, TBC Leasing produced 12 blogs.

TBC Leasing also leased print media advertising pages to consumer companies in the Entrepreneur Magazine.

COLLABORATION OF TBC LEASING AND MZA CHITILI (FINISHED SEEDLINGS)

Within the framework of the TBC Leasing's program #TBCforyou, in collaboration with its customer – "Mza Chitili" (Finished Seedling) and its parent company, WG Techno, "Barbare 21" nursing home was provided with various vegetable seedlings and irrigation system.

The nursing home has planted vegetable seedlings in its own yard, within the area designated for farming, and will use the harvest in the future for personal consumption.

TODAY, "MZA CHITILI" (FINISHED SEEDLING) PRODUCES PRODUCTS IN GREENHOUSES STRETCHING OVER 11,000 SQUARE METERS. IF MARKET DEMAND RISES, THE COMPANY HAS THE RESOURCE TO PRODUCE ABOUT 7 MILLION SEEDLINGS AT A TIME.

INVOLVEMENT IN SUBSIDY PROGRAMS

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

In terms of business promotion, TBC Leasing was involved in all the subsidy projects implemented by "Enterprise Georgia" and the Rural Development Agency, and in 2020, TBC Leasing funded 28 projects that were subsidized by these organizations and thematically covered the leasing area.

For example, in 2020 it was revealed that agriculture is the most important issue for the country's identity. Due to the fact that the agricultural sector is one of the most popular in the field of leasing, therefore, preferential agro-leasing was launched for entrepreneurs involved in agriculture, with the support of the Environment Protection and Rural Development Agency/RDA. The preferential agro-leasing component served to develop value-added infrastructure for agricultural products.

Preferential agro-leasing could be used to finance agricultural enterprises (modern farms, greenhouses, etc.), to produce agricultural products in any form (storage, packaging, processing), or to produce agricultural products. This condition could also be used by enterprises that had already approved state co-financing within the scope of the co-financing project.

In addition to agriculture, Leasing focused on other entrepreneurial projects as well.

TBC Leasing financed almost every project that would subsidize "Enterprise Georgia ", be it food, beverage, various crops, textiles, carpets or other technical and industrial textiles, footwear, furniture, paper, perfumery, building materials, metal or photographic, design or other specialized activities. The pacing item was that the business activity had an outlet with any of the sectors relevant for leasing.

FINANCING

28	15	13
Projects	Enterprise Georgia	Rural Development Agency

PROMOTING ENERGY EFFICIENT PROJECTS

16.4 Million GEL to Support Energy Efficient Projects - Green For Growth Fund (GGF)

In October 2020, a 16.4 million GEL loan agreement was signed between the Luxembourg Foundation, Green For Growth Fund (GGF) and TBC Leasing. The purpose of the agreement was to facilitate the financing of energy efficient projects for small and medium entrepreneurs.

This financial resource is the first loan issued from the newly created shares of the Fund. By allocating financial resources in GEL, the partners aim to reduce the risks associated with the exchange rate for entrepreneurs, while at the same time helping them to cope with the pandemic-induced economic challenges.

GGF's new financing will enable the company's clients to make energy efficient investments and contribute to the green recovery of the country's economy.

GEL 16.4 MILLION

TO SUPPORT ENERGY EFFICIENT PROJECTS

GREEN FOR GROWTH FUND (GGF)

SOLAR PANEL FINANCING

TBC Leasing has started financing solar panels for a variety of purposes, including: agriculture, service, catering, sports complex, industrial enterprises, hotels and solar farms. It is important for us to support a project focused on environmental protection, and the production of renewable energy is one of them.

In 2020, we actively cooperated with the German manufacturer of solar energy panels - AE Solar, the member of the UN Global Compact, and today AE presence and distributorship network 2020 reached more than 70 countries worldwide. The company's sales area includes Africa, Asia, Europe, South and North America, Asia-Pacific and the Middle East.

TRAININGS AND EXHIBITIONS FOR CUSTOMERS

Our customers also took an active part in 2019 TBC Business Awards, which took place at the end of the year. Among them were 10 nominees who did not win, but by the decision of the company, in 2020 we gave them as a gift the author training course of one of the leading marketers in Georgia Pavle Gabrich - the Fundamentals of Digital Marketing.

Due to the pandemic situation and the financial crisis in the world, a training course on crisis management for small and medium-sized businesses was held for our SME customers, with the support of FMO and Frankfurt School of Finance and Management.

At the end of 2020, the Agro Export Forum - Agricultural Development Plans and Opportunities was held online. Representatives of both the private sector and state structures took part in the panel discussion. Consumers in the agricultural and manufacturing sectors of TBC Leasing were given the opportunity to learn about the prospects that this field offers. In addition, we introduced leasing to potential customers as a financial product and the benefits of using it.

LEASING ON AGROEXPO ONLINE FORUM

Given the epidemiological situation worldwide, most of the measures to be taken in 2020 were unacceptable, and the development of the agricultural and food industries was as important as ever. That is why, in 2020, ExpoGeorgia launched a large-scale forum for the export of agriculture and food industry online.

The forum was conducted entirely in B2B format, with an online meeting component and incorporated panel discussions and workshops. The main goal of the forum was to help agro and food industry producers find and expand sales channels in both the local and international markets. Due to the main topic, the involvement of TBC Leasing in the Agro-Export Forum, as always, was critically important. That is why, within the framework of the International Online Exhibition of Agroexport, one of the topics of the panel discussion was - how can we use leasing in the agro sector, which was discussed by Tekla Robakidze, Head of TBC Leasing Production and Agriculture.

"The number of farmers and processing plants financed by TBC Leasing is growing every year, the amount of finances is also increasing.
In recent years, thanks to the development of arable land and plantations, there has been a growing.
There are also frequent demands for equipment for vineyard maintenance equipment and grape processing plants, refrigeration facilities, dried fruit production and hazelnut processing plants.

Tekla Robakidze

SME BUSINESS SUPPORT INITIATIVES

In 2020, TBC Leasing signed several major partnerships aimed at promoting small and medium-sized businesses.

€ 6 million allocated from EBRD to support small and medium-sized businesses

The EBRD has allocated a € 6 million loan to TBC Leasing to finance micro, small and medium-sized businesses, mainly for regional projects.

Even during the COVID-19 outbreak, the EBRD remained an important partner for Georgia. The micro, small and medium business sector is an important segment of the Georgian economy and, therefore, its support in this difficult period is a priority of the European Bank for Reconstruction and Development.

TBC Leasing is a long-standing partner of the EBRD.

$ 16 million from Symbiotics for supporting local SMEs

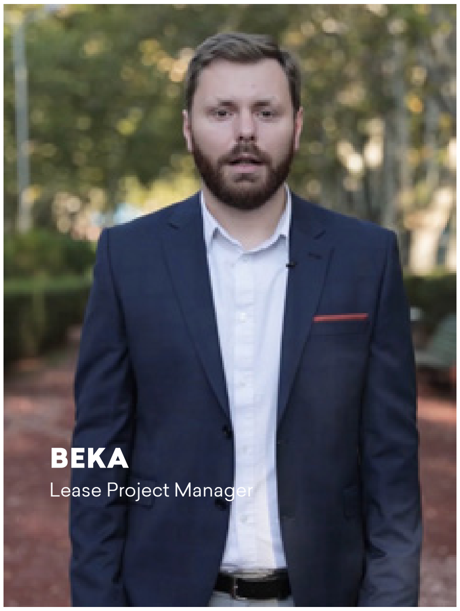
In the framework of the long-term partnership between TBC Leasing and the influential investment company Symbiotics, a new agreement was signed, according to which Symbiotics will provide a major loan of $ 16 million to TBC Leasing.

The new resource will help develop various leasing programs in Georgia and will be focused on the small and medium business sector - regular and potential customers of TBC Leasing.

Small and medium enterprises belong to the growing sector and represent the majority of operating businesses.

Our goal is to expand the number of small and medium-sized businesses registered in the regions, which will balance the geographical concentration of the business sector.

RAISING AWARENESS ABOUT LEASING – EMPLOYEES



Leasing is a product that is difficult to understand for a certain part of the audience throughout Georgia, and our main mission is to make life easier for consumers. That's why we created a video guide where TBC Leasing staff briefly and simply explained the features or benefits of leasing in simple, understandable language.

In 2020, within the video we talked about leasing as a product in general, talked about its advantages, explained the importance of operating leasing, why an interested person should buy a car with leasing, why it is good for a person involved in agro direction to use leasing and which areas can use this product.

CUSTOMER SATISFACTION

A centralized call center has been set up to better serve our customers, redirecting both existing and new customer issues to the appropriate destinations.

The 2020-year results of the Call Center showed an average of **64%** of answered inbound calls per day.

	2020	2019
Answered:	**64%**	**20.3%**
Unanswered:	**36%**	**79.7%**

In addition, waiting time for inbound calls has been reduced:

AVERAGE CALL WAITING TIME:

2020: **40 sec.** 2019: **77 sec.**

Mandatory procedures were established for each customer issue feedback, as well as customer communication guidelines and Q/A documents were developed.

Also, to simplify the life of internal and external users, we have developed an automatic message generation system. Both the message box and the content and structure of the information delivery have been improved.

Automatic leasing monthly reminder messages, refinancing rate changes, transactions, etc. are sent to the customer in automatic mode.

SURVEYS

Throughout 2020, NPS and Customer Journey surveys were conducted to find ways to increase the loyalty of our customers and make their lives easier.

NPS

To summarize the results for 2020, an NPS survey was conducted among the corporate and SME clients.

NPS score - **68**

CUSTOMER JOURNEY - This survey allows us to find answers and get a 360-degree view of products and services in the company. Evaluations are made not only by external but also by internal users. The results of the study make it easier for us to see correctly and prioritize ways to improve services.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

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

In TBC Leasing, as a relatively small-scale company, the role of environmental and social risk management is combined between the organizational risk department and the employees of the credit risk department. Both units are under the risk director of the company.

During 2020, TBC Leasing Risk and Commercial Officers underwent extensive training conducted by the TBC Bank ESRM team. The training covered the importance of environmental and social risks, ways of management and practical experience accumulated in the process.

Green portfolio share in total portfolio	**1.6%**
Green portfolio volume	**4.55 mln GEL**

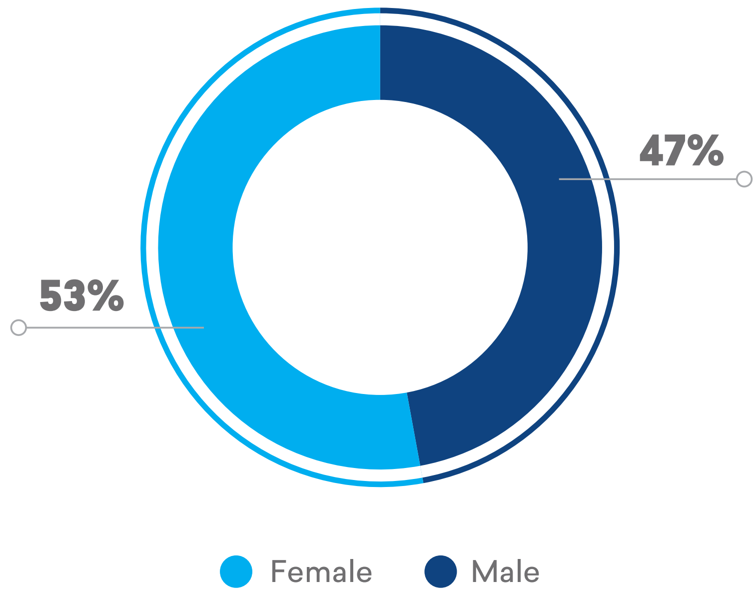
EQUALITY AND DIVERSITY

We have created a sustainable and successful business in which all employees are treated equally and fairly and are supported and coached to succeed. We provide a safe work environment free from any kind of discrimination and each and every employee is valued, respected and treated equally regardless of gender, age, marital status, sexual orientation, race, ethnicity, religious and political beliefs or disability.

We created a gender-balanced workforce through a workplace environment where 53% of employees are women, while the share of women in senior positions is 28%.

ALL EMPLOYEES

121



MIDDLE MANAGEMENT

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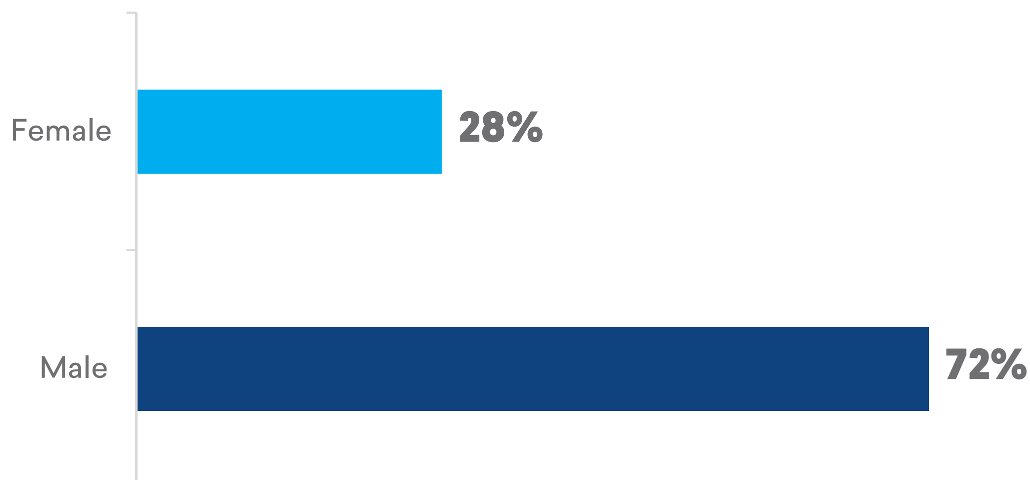
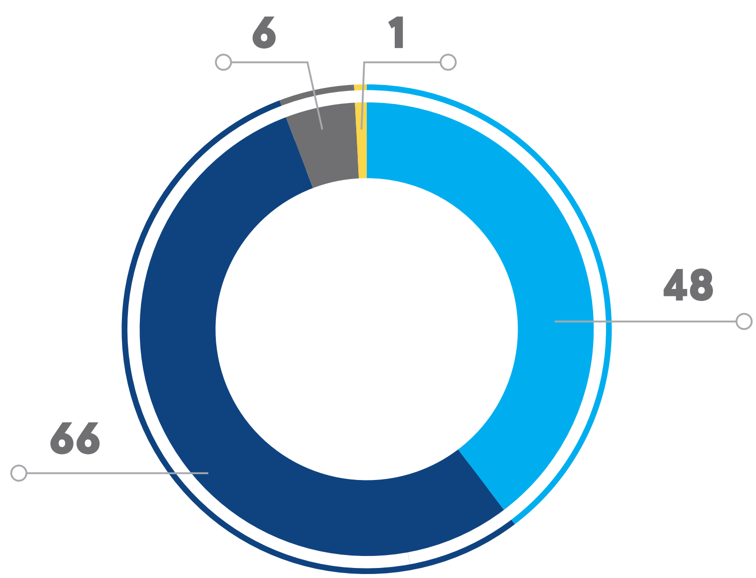


We also have a good mix of people comprised of employees with extensive working experience and young and bright talents with innovative and fresh ideas whose collaboration gives the best results.

ALL EMPLOYEES

- Under 29 years
- 30-39 years
- 40-59 years
- Over 50



RISK MANAGEMENT

CREDIT RISK

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

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

During 2020, the global crisis caused by Covid-19 increased uncertainty and led to a significant economic downturn in many sectors, particularly fitness centers, hotels and leisure, real estate management and development. Such an economic downturn involves the risk of deteriorating financial condition of consumers and increasing credit risk.

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

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

The company leasing portfolio is structurally highly diversified across customer types, product types and industry segments, which minimises the credit risk level. As of December 31, 2020, the business direction represented 88.4% of the total portfolio, while the retail customers accounted for 11.6%, which includes fully auto leases. At the end of 2020, the top three sectors in the business portfolio are the construction, manufacturing and service sectors, where the concentrations are distributed as follows: 27%, 19.4% and 15.9%.

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

The entire TBC Leasing Portfolio is secured in all industry segments where the subject of collateral is financed leasing assets. As of December 31, 2020, the Company's portfolio collateral ratio was set at 1.26% and that of the collateral including 1.35%. Correct determination of the amount of participation in funded assets ensures a high repayment ratio.

As a result of the Covid-19 pandemic, the company identified high-vulnerability clients and defined a payment deferral or restructuring strategy in all industry segments. Since the beginning of the Covid-19 pandemic, TBC Leasing has carried out deferral of principal and interest payments to individuals, MSMEs and corporate clients that have been adversely affected by universal lockdowns. According to the strategy, some clients were given the right to defer payment, both in terms of principal and interest.

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

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

CREDIT RISK CAUSED BY EXCHANGE RATE CHANGES

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

A significant portion of TBC Leasing's portfolio is denominated in foreign currencies, mostly in USD and EUR, which stood at 59% as at 31 December 2020. Income of most of the customers who have lease agreements in foreign currency (80%) is represented in the national currency, due to which they are not protected from fluctuations in the GEL exchange rate. During 2020, the GEL exchange rate depreciated by more than 14.3% against the dollar, which had a significant impact on consumer solvency.

The company pays special attention to currency induced credit risk given that a large part of its exposure is denominated in foreign currency. Currency depreciation is often monitored to ensure that the action plan is implemented quickly if necessary. Resistance to certain exchange rate depreciation is also included in the lending standards, which implies a buffer on the risk of currency depreciation for non-hedged customers.
TBC Leasing uses conservative lending standards for non-hedged clients whose funds are denominated in foreign currency to ensure that they can withstand a certain level of exchange rate, in addition to measures in place during the financing process.
Leasing companies, including TBC Leasing, were affected by a change made by the NBG in January 2019, when the efforts oriented to reduce the economy's dependence on foreign currency financing increased the cap to GEL 200,000, under which loans must be disbursed in local currency only.

CONCENTRATION RISK

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

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

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

TBC Leasing loan portfolio is diversified and the maximum portfolio volume in one of the largest sectors (construction) is 3.9% of the leasing portfolio as of December 31, 2020. The given figure is reasonable and shows adequate diversification of the leasing portfolio. By the end of 2020, the leasing portfolio of the 10 largest borrowers accounts for 3%of the total portfolio, which is within the risk appetite and manageable for further deconcentration purposes of the portfolio.

COVID-19 PANDEMIC INDUCED RISK

TBC Leasing activities are threatened by various types of negative effects generated by Covid-19 pandemic on the economy and in general, the slowdown in economic growth and the delayed recovery due to the spread of the Covid-19 virus in Georgia, as well as the emergence of other shocks, may have an additional negative impact on clients' solvency, limiting their future investment and expansion plans. These circumstances will affect the quality and profitability of the portfolio, will reduce the growth rate of the portfolio. Adverse macroeconomic developments may jeopardize the performance of the company, which will be driven by a variety of parameters such as exchange rate depreciation, sharp rise in interest rates, rising unemployment, declining household income, declining property values, declining collateral or corporate default. Potential political and economic instability in trading partner countries may adversely affect the deteriorating current account of Georgia (e.g., reduced exports, and tourist flows, lower remittances, and foreign direct investment).

According to the preliminary estimates of the Bureau of National Statistics of Georgia ("Geostat"), real GDP will decrease by 6.2% in 2020. In the baseline scenario, taking into account the long-term lockdown impact, as well as Geostat's revision of the GDP indicators for the 2nd and 3rd quarters of 2021, based on TBC Capital calculations, the economy will recover by 4.2% in 2021. According to the latest forecasts of the World Bank[6], the Georgian economy will grow by 4.0% in 2021 and by 6.0% in 2022.

The negative impact of the Covid-19 pandemic was also sharp on the lari exchange rate. During 2020, lari depreciated by 14.3% against US dollar from 2.87 to 3.28.

Despite the depreciation of the lari by the end of 2020, the consumer price fell by about 2.4%, which is mainly explained by the state subsidy program for utilities. During 2020, the NBG reduced its refinancing rate from 9% to 8%. Given the easing of inflation, the resumption of tourism flows and less pressure on the exchange rate, there may be a gradual reduction in tariffs.

In 2020, the NBG significantly intervened in the foreign exchange market and sold a total of 873.2 million USD. The interventions were mainly financed by foreign debt. According to the budget plan, the deficit will still be large in 2021. Its ratio to GDP is 7.6%.

To decrease its vulnerability to economic cycles and factors, the company ensures that industries are identified and sectoral concentration limits are set within its risk appetite framework. Company has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia, as well as in neighboring countries, to identify early warning signals indicating imminent economic risks. This system is created on the level of parent company that allows us to promptly assess significant economic and political occurrences and analyse their implications for the company's performance. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress-testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the company to have an advance evaluation of the impact of macroeconomic shocks on its business and portfolio. The resilience towards a changing macroeconomic environment is incorporated into the company's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through the reasonable level of credit service and proper provision.

6 World Bank, Global Economic Prospects, January 2021

FRAUD RISKS

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

External fraud events may arise from the actions of third parties against the company, most frequently involving events related to banking cards and cash. Internal frauds arise from actions committed by the company's employees, and such events happen less frequently. None of the cases had a material impact on the Group's profit or loss account. As a result of the Covid-19 pandemic, the threat of fraud and the rapid rise of digital crime have intensified, and fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds.Therefore, unless properly monitored and managed, the potential impact can become substantial.

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

ENTERPRISE RISK MANAGEMENT

A centralised Enterprise Risk Management (ERM) function is in place to ensure the effective development, communication and implementation of risk strategy and risk appetite across the Group. The ERM function facilitates cross-risk activities such as aggregation, analytics and reporting and addresses issues that are not specific to a single type of risk. ERM ensures harmonization of procedures to implement optimal prevention mechanisms, facilitates the logical and efficient movement of management issues between directions, facilitates the resolution of issues that require the involvement of different departments. Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. TBC Leasing relies on the scenarios predicted by macroeconomists at the group level and analyzes them to consider possible outcomes and keep the company with adequate capital.

Compliance with ratios and stable financial condition;

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

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

CREDIT RISK MANAGEMENT

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

LEASING APPROVAL

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

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

LEASING MONITORING

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

RESTRUCTURING AND COLLECTIONS

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

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

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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

- Stage I – the company classifies its exposures as Stage I if no significant deterioration in credit quality has occurred since the initial recognition and the instrument was not credit-impaired when initially recognised;
- Stage II – the exposure is classified as Stage II if any significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired;
- Stage III – the exposures for which the credit-impaired indicators have been identified are classified as Stage III instruments.
- The ECL amount differs depending on exposure allocation to one of the three stages:
- Stage I instruments – the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the subsequent 12 months from the reporting date.
- Stage II instruments – the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as the existence of contractual repayment schedules, options for the extension of repayment maturity and monitoring processes held by the company affect the lifetime determination.
- Stage III instruments – a default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

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

RESPONSE TO COVID-19

To respond to the Covid-19 pandemic, the Group identified highly vulnerable sectors and identified payment deferral, refinancing or restructuring strategies across all business areas. As soon as the pandemic spread, the company provided universal deferral of payments, and later grace periods were applied to individuals and legal entities that were negatively affected by the government's so-called "lockdowns". The government has developed a special support program for the affected sectors such as restaurants, hotels, etc. TBC Leasing conducts intensive financial monitoring to identify the borrower's weakened financial and business prospects in order to offer them a restructuring plan tailored to their individual needs.

In parallel, TBC Leasing actively conducts stress tests and scenario analysis to test borrowers' resilience to various stressful conditions. Stress tests include assumptions about local currency depreciation, GDP growth, sectoral growth, unemployment, inflation, changes in real estate and commodity prices, interest rate changes, and the development of credit and deposit portfolios;

The company has revised lending standards to address the Covid-19 pandemic and tightened them as appropriate. The revision and tightening of standards, among other measures, included the following: changes in delegation of decision-making and approval rights to vulnerable sectors, the risk factor used on the incomes of individual borrowers in affected sectors, and the integration of macroeconomic sector expectations into business borrowing.

FINANCIAL RISK MANAGEMENT

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

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

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

LIQUIDITY RISK

Liquidity risk for TBC Leasing is primarily insolvency or solvency only at high cost. Since the main activity of the company is leasing financing, its imperative goal is to continuously 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 - develop a financing plan in the event of destruction and unforeseen additional circumstances, based on the experience and support of successful partnerships with local banks and foreign financial institutions.

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

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

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

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

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

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

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

CAPITAL RISK

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

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

The company is constantly conducting stress and sensitivity analyzes 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 2020, TBC Leasing first offered the customer the opportunity to use variable rate leasing, thus reducing the impact of interest rate risk - due to the mismatch between the determinants of assets and liabilities. At present, the company serves a variable rate contract of 20% of the total portfolio. Such agreements are indexed to the market interest rate of the so-called monetary policy of the National Bank of Georgia. At the refinancing rate. The variable rate leases and shares issued by the company are consistent with the variable rate loan liabilities acquired by the company, with the variable rate investment attracted by the company being financed by leasing agreements with indexed interest rates. As a result, a fair ratio was achieved - income from financial activities varies according to financing costs, while leasing fees are reduced according to the reduction of market rate to consumers, thanks to this approach the company has been able to improve key valuation indicators.

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

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

CURRENCY RISK

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

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

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

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

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

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

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

	31 December 2020		31 December 2019	
In thousands of Georgian Lari	**Impact on profit or loss before tax**	**Impact on equity**	**Impact on profit or loss before tax**	**IMPACT ON EQUITY**
US Dollar/ Euros strengthening by 10% (2019: 10%)	233	233	(282)	(282)
US Dollar/ Euros weakening by 10% (2019: 10%)	(233)	(233)	282	282

NON-FINANCIAL RISK MANAGEMENT

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

ANTI-MONEY LAUNDERING (AML)

The Company is committed to high standards both of anti-money laundering and counter-terrorist financing (AML/CTF) and requires management and all employees to adhere to these standards in order to prevent the use of the TBC Leasing's products and services for money laundering/terrorist financing purposes. The Company's AML/CTF program is based on the applicable legal and regulatory requirements, which are in line with FATF recommendations, EU regulations and best practices.
The Company's AML/CTF compliance program, as implemented comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; customer acceptance policy; customer screening against a global list of terrorists and specially designated nationalities relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities of the Company's customers.

As part of the second line of defense, the Legal Department, which performs AML functions ensures that risks are managed in accordance with the risk appetite defined by the Company and promotes a strong risk culture throughout the organization. Following regulatory changes, the Company developed a new AML policy and latter is now under approval. The new regulation expanded the definition of a politically exposed person (PEP) and imposed additional Know Your Client (KYC) requirements for clients.

LEGAL

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

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

BEHAVIOR RISK

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

The TBC Leasing Code of Conduct sets high ethical standards for all employees, which must be observed by each employee. Employees carefully fulfill the responsibilities imposed on them. In order to maintain the trust and persuasiveness of the company's operations, such as: trust, loyalty, prudence and caution, employees are crucial.

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

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

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

FINANCIAL REVIEW

	NET LOSS / PROFIT		NIM
2020	**- 3.2 mln**	2020	**6.4%**
2019	**8.2 mln**	2019	**10.6%**
	-138.7% YoY		-4.2 pp YoY

	ROE		ROA
2020	**-8.1%**	2020	**-0.8%**
2019	**27.6%**	2019	**2.6%**
	-35.7 pp YoY		-3.4 pp YoY

	COR		CIR
2020	**4.0%**	2020	**52.9%**
2019	**2.4%**	2019	**42.9%**
	1.6 pp YoY		10 pp YoY

	TOTAL ASEET		TOTAL EQUITY
2020	**406.5 mln**	2020	**35.5 mln**
2019	**342.3 mln**	2019	**39 mln**
	18.7% YoY		-9.1% YoY

	TOTAL PORTFOLIO		NPL
2020	**281 mln**	2020	**1.7%**
2019	**260 mln**	2019	**3.8%**
	8.3% YoY		-2.1 pp YoY

KEY FINANCIAL HIGHLIGHTS

INCOME STATEMENT HIGHLIGHTS

In thousands of GEL	2020	2019	Change YOY
Income on investment in leases	**45,578**	**49,174**	**-7.3%**
Income From Operating Leasing	3,218	3,122	3.1%
Interest expense	**(25,466)**	**(20,680)**	**23.1%**
Direct leasing costs	(8,220)	(7,701)	6.7%
Net lease income	**15,110**	**23,915**	**-36.8%**
Credit loss allowance for net investment in finance lease	(8,117)	(563)	1341.7%
Credit loss allowance for other financial asset	(2,768)	(4,957)	-44.2%
Administrative and other operating expenses	**(9,277)**	**(10,371)**	**-10.5%**
Interest income on bank deposits	2,438	262	830.5%
(Loss) / Profit for the year	**(3,158)**	**8,166**	**-138.7%**

BALANCE SHEET HIGHLIGHTS

In thousands of GEL	31.12.2020	31.12.2019	Change YOY
Investment in finance lease	281,321	259,762	8.3%
Credit loss allowance	(10,487)	(2,731)	284.0%
Net investment in finance lease	**270,834**	**257,031**	**5.4%**
Advances towards leasing contracts	**10,281**	**30,779**	**-66.6%**
Assets repossessed from terminated leases	7,583	6,129	23.7%
Property and Equipment	6,670	8,253	-19.2%
Investment Property	2,359	2,210	6.7%
Other financial assets	7,166	10,111	-29.1%
Total assets	**406,471**	**342,318**	**18.7%**
Loans from banks and financial institutions	264,246	242,196	9.1%
Debt Securities in issue	58,114	-	100.0%
Subordinated loan	35,412	31,227	13.4%
Advances received from customers	8,623	18,836	-54.2%
Total liabilities	**370,978**	**303,273**	**22.3%**
Total equity	**35,493**	**39,045**	**-9.1%**

INCOME FROM FINANCIAL LEASING

The net leasing income generated by the company during 2020 decreased by 36.8% compared to the previous year and amounted to GEL 15.1 million.

The decrease in net income is due, on the one hand, to a decrease in leasing income and, on the other hand, to an increase in interest expenses.

LEASING INCOME

Constraints triggered by the COVID-19 pandemic led to a slowdown in economic activity, including a temporary decline in demand for leasing products and, consequently, a slowdown in the planned loan portfolio growth rate, which in turn reduced leasing income.

Furthermore, to support our customer, the company has been involved in a program implemented by the government to mitigate the negative effects of the pandemic and has offered a grace period to vulnerable business sectors that have been most affected by the pandemic.

Regarding the use of the grace period, a negative effect of the modification of GEL 2.7 million was observed on the net profit of the company, which is 14% of the net leasing income in 2019.

Despite the decline in economic activity in the country, the loan portfolio grew by 8.3% by the end of 2020, generating GEL 45.6 million in revenue, which is 7.3% less than the same data of the previous year.

INTEREST EXPENSES

Due to the uncertainty related to the pandemic, we have increased the amount of cash and maintained a high level of liquidity (more than 20% of total assets) by 2020, which was ensured at the expense of increasing the amount of funds attracted. Consequently, the increase in interest expenses on attracted funds was mainly due to the maintenance of liquidity levels. Also, according to the prospectus completed in December 2019, in the first half of 2020, the company placed 58.4 million GEL worth of debt securities on the stock exchange.

In total, interest expenses increased by GEL 4.8 million during 2020, which is 23.1% more than the same period last year.

In addition, the company has placed its available free cash on bank deposits and current savings accounts. As a result, the increase in interest expenses incurred by the Company was partially offset by the cash accrued income in banks, which amounted to GEL 2.4 million, reflecting the Company's 2020 profit in loss as other income.

As a result of the decrease in net leasing income, the net interest margin for 2020 decreased by 4.2 pp compared to 2019 and amounted to 6.4%.

In thousands of GEL	**2020**	**2019**	**Change**
Income on investment in leases	45,578	49,174	-7.3%
Income From Operating Leasing	3,218	3,122	3.1%
Interest income on bank deposits	2,438	262	830.5%
Interest expense	(25,466)	(20,680)	23.1%
Direct leasing costs	(8,220)	(7,701)	6.7%
Net lease income	**17,548**	**24,177**	**-27.4%**
NIM	**6.4%**	**10.6%**	**-4.2 pp YoY**

In 2020, the company focused on maximum customer support, which led to a sharp decline in core profitability, respectively, the average return on equity decreased by 35.7 pp compared to 2019 and amounted to -8.1%, while the return on average assets decreased by 3.4pp to -0. 8%. However, the company maintains stability, as evidenced by Fitch's updated rating. Also with the planned economic growth in the country by 2021 the company expects increased economic and business activity.

In thousands of GEL	**2020**	**2019**	**Change**
Net Income	(3,158)	8,166	-138.7%
Average Equity	38,907	29,604	31.4%
ROE	**-8.1%**	**27.6%**	**-35.7 pp YoY**
ROE before expected credit loss allowances	**19.9%**	**46.2%**	**-26.3 pp YoY**

In thousands of GEL	**2020**	**2019**	**Change**
Net Income	(3,158)	8,166	-138.7%
Average Asset	377,631	309,913	21.9%
ROA	**-0.8%**	**2.6%**	**-3.4 pp YoY**

CREDIT LOSS ALLOWANCE

The total reserve expenditure for 2020 was GEL 10.9 million. In 2020, an additional reserve was created in connection with the Covid-19 pandemic, which led to a significant increase in reserve spending. The resulting cost of risk (COR) was 4%.

In thousands of GEL	**2020**	**2019**	**Change**
Credit loss allowance for net investment in finance lease	8,117	563	1341.7%
Credit loss allowance for other financial asset	2,768	4,957	-44.2%
Total Provision Charge	**10,885**	**5,520**	**97.2%**
COR	**4.0%**	**2.4%**	**1.6 pp YoY**

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative expenses decreased by 10.5% compared to the previous year, which is related to the slowdown in the growth rate of the portfolio.

The reduction in administrative and other operating expenses by 2020 was driven by a reduction in the costs of professional services, marketing and bank transfers.

However, in 2020, the management refused to accept the full bonus, as a result, despite the negative impact of the Covid-19 pandemic, we were able to fully retain staff.

Despite the decrease in administrative expenses, against the background of reduced net leasing income, the Cost to income ratio increased by 10 pp and amounted to 52.9%.

In thousands of GEL	**2020**	**2019**	**Change YOY**
Income on investment in leases	45,578	49,174	-7.3%
Income From Operating Leasing	3,218	3,122	3.1%
Interest income on bank deposits	2,438	262	830.5%
Interest expense	(25,466)	(20,680)	23.1%
Direct leasing costs	(8,220)	(7,701)	6.7%
Net lease income	**17,548**	**24,177**	**-27.4%**
Staff Expenses	4,998	5,067	-1.4%
Depreciation and Amortization charge	1,740	1,784	-2.5%
Other Administrative and Operating Expenses	2,539	3,520	-27.9%
Total Administrative and Operating Expenses	**9,277**	**10,371**	**-10.5%**
Cost to Income	**52.9%**	**42.9%**	**10 pp YoY**

Tier 1 and Tier 2 capital adequacy ratio is 11.3% and 22.5%, respectively, which differs by 6.6% and 3.5% compared to the same indicators in 2019

CAPITAL ADEQUACY	**2020**	**2019**	**Change**
Tier 1	11.3%	12.1%	**-6.6%**
Tier2	22.5%	21.8%	**3.2%**

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 YOY
Open currency position	<20%	3.3%	-4.0%
Debt Service Ratio	>100%	435.3%	130.9%
Capital Adequacy 1	>9%	10.5%	12.1%
Capital Adequacy 2	>12%	17%	18.0%
Financial leverage ratio	<91%	88%	79.9%
Related parties exposure	<20%	5.2%	6.2%

CREDIT PORTFOLIO LEVEL

In 2020, the company's focus shifted from increasing the loan portfolio to maintaining the quality of the portfolio, for which it took the following actions:

- Due to the 2020 pandemic-induced challenges, the company offered a grace period to vulnerable business sectors, as well as
- Through the efforts of the Problem Asset Management Department, the company has maintained the desired level of portfolio quality. Accordingly, the repayment ratio of non-performing loans improved by 2.1 pp compared to 2019.

In thousands of GEL	2020	2019	Change
Investment in finance lease	281,321	259,762	8.3%
NPL	4,881	9,785	-50.1%
NPL	**1.7%**	**3.8%**	**-2.1 pp YoY**

DEFINITION OF RATIOS

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

DEFINITION OF BOND COVENANT

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

GOVERNANCE

CORPORATE GOVERNANCE

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

The Supervisory Board ensures that the Company’s governance structure enables adequate oversight and accountability, as well as a clear segregation of duties. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate clarity regarding the strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised Enterprise Risk Management (ERM) function ensures effective development, communication and implementation of risk strategy and risk appetite across the Company.

The sole shareholder of the Company is TBC Bank, a joint stock company incorporated in Georgia, which holds 100% of the Company shares. TBC Bank is the largest commercial bank in Georgia.

The management board (the “management board”) is the principal decision-making body of the Company and is collectively responsible for promoting the Company’s purpose, culture, values and long term success strategy and the delivery of sustainable value to stakeholder by establishing and overseeing the strategic direction of the Company.

In addition, the affairs of the Company are supervised by a supervisory board (the “Supervisory Board”) of the Company. The Supervisory Board has overall responsibility to set the tone at the top of the Company and monitor compliance with the established objectives, while the Management Board governs and directs the Company’s daily activities.

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

The Supervisory Board has established its respective sub Committee Audit Committee. The sub Committee is comprised by the members of Supervisory Board, the independent member is Audit Committee Chairman.

The Audit Committee Chairman provides a report on committee business at Supervisory Board meeting, including the matters being recommended by Supervisory Board.

The Company recognizes the importance of ensuring diversity and sees significant benefit to our business in having a Supervisory Board and management team that is drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to the Board discussions and helps to improve the quality of decision making.

There is 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 2020, there were two female members in the management board, though 28% of Company’s middle management roles were performed by females. Moreover, 53% of employees across the Company’s entire workforce were female.

SUPERVISORY BOARD BIOGRAPHIES

George Tkhelidze – Chair of the Supervisory Board

George joined TBC Bank in 2014 from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an Associate Director in Barclays Debt Finance and Corporate Restructuring teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. Early in his career, George held various managerial positions at Aldagi Insurance Company, where he also served as the Chief Executive Officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).

Nino Masurashvili - Deputy Chair of the Supervisory Board

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002. Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. Nino was appointed as deputy CEO, retail and SME banking in 2006. Between 2006 and 2008, Nino was the Chairman of the supervisory board of UFC. Nino has been a member of the supervisory board of TBC Credit. In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995 and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group. Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

Tornike Gogichaishvili - Member of the Supervisory Board

Tornike joined TBC Bank in 2018 as Chief Operating Officer and Deputy CEO following 20 years of financial services and operations management experience. Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010 Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia). Between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004. Tornike Gogichaishvili graduated from the Faculty of International Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, 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 in February 2020 was appointed Managing Director of TBC Capital. Prior to joining TBC, Meri was an investment director for 10 years at SEAF (a global investment firm headquartered in Washington, DC), which oversaw more than 20 investment transactions in local and international markets. She holds a Bachelor's and a Master's degree in European Management from the Mayor of Business Administration. She is the CFA Charter-holder.

Aleksi Khoroshvili - Member of the Supervisory Board / Chair of the Audit Committee

Aleksi Khoroshvili is an independent member of TBC Leasing Supervisory Board. Aleksi held various positions at Ernst & Young from 2003 to 2009, and from 2009 joined Liberty Bank as Chairman of the Audit Committee. Since 2015, Aleksi has been appointed as the CEO of Liberty Bank. In 2018 he was an independent member of the Advisory Committee of Ilia State University and in 2019 independent member of the Supervisory Board of the Georgian-American School in Batumi. Aleksi holds a bachelor's degree in finance and accounting from Caucasus Business School, where he also spent a study year at the University of North Dakota during the 2002-2003 period. He also holds a MIT Sloan & MIT CSAIL Certificate in Artificial Intelligence and its implications in Business Strategy.

COMPANY MANAGEMENT BIOGRAPIES

Gaioz Gogua – Chief Executive Officer

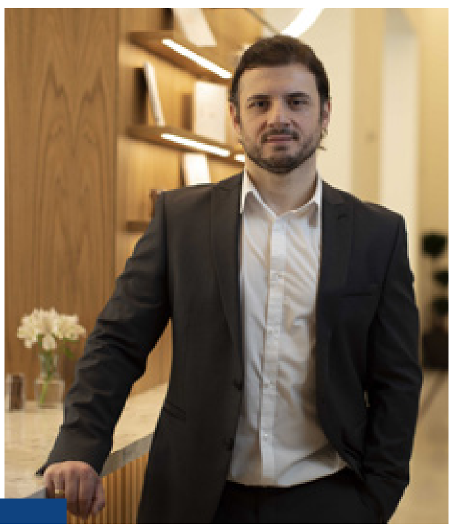
Gaioz (Gaga) Gogua has been the CEO of TBC Leasing since 2017. He gained 18 years of experience working in the banking sector while working in various positions at TBC Bank. Gaga began his career on the TBC team in 2001, working as a Credit Officer. In 2003-2004 he held the position of the Head of the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

Nugzar Loladze –Chief Financial Officer

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

Zurab Gugushvili – Chief Commercial Officer

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



Giorgi Maisuradze - Chief Risk Officer

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

JOINT STOCK COMPANY TBC LEASING

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

31 December 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND MANAGEMENT OF JSC TBC LEASING
OUR OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC TBC Leasing (the "Company") as at 31 December 2020, 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 2020;
- 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 1.2 million, which represents 2.5% of revenue (Income on investment in leases and income from operating leasing)
Key audit matters	• Expected credit loss allowance of net investment in finance lease

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.

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	GEL 1.2 million
How we determined it	2.5% of revenue (Income on investment in leases and income from operating leasing)
Rationale for the materiality benchmark applied	We chose Revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 2.5% which is consistent with quantitative materiality thresholds used for companies in this sector.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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

Expected credit loss allowance on Net investment in finance lease ('NIFL')

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

Under IFRS 9 management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by assessing whether there has been a significant increase in credit risk ('SICR') or default of the borrower since lease contract origination. Additionally, certain events during the year (e.g. payment holidays) resulted in necessity for management to apply judgement in determining the stage of credit quality of the exposure.

It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The impact of COVID-19 on the economy has further increased the level of uncertainty in the macroeconomic forecasts.

Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the models in situations where past experience was not considered to be reflective of future outcomes due to limited or insufficient data.
We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant:

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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 critical judgements and assumptions applied in determination of LGDs, PDs and FLI.

We independently verified the accuracy of the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies.

We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) 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 (including COVID-19) and explanations were obtained for deviations from the expectation.

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

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

Setting of appropriate staging criteria including identification of SICR and default, taking into consideration the impact of payment holidays granted to the borrowers due to COVID-19 pandemic;
Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD');
Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks; and
Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macro economic variables in light of COVID-19 impact.

Refer to pages 77 to 87 (Significant Accounting Policies), page 88 (Critical Accounting Estimates and Judgement In Applying Accounting Policies), and pages 96 to 100 (note 11: Net investment in finance lease).

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.

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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

28 May 2021
Tbilisi, Georgia

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

STATEMENT OF FINANCIAL POSITION

In thousands of Georgian Lari	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	7	69,974	19,357
Due from banks	8	21,383	-
Prepayments	9	3,089	3,552
Tax assets, net		2,795	2,974
Advances towards leasing contracts	10	10,281	30,779
Net investment in finance lease	11	270,834	257,031
Property and equipment	12	6,670	8,253
Intangible assets	13	2,381	1,725
Investment property	14	2,359	2,210
Assets repossessed from terminated leases	15	7,583	6,129
Derivative financial Instruments	31	1,791	-
Other financial assets	16	7,166	10,111
Other assets		165	197
TOTAL ASSETS		**406,471**	**342,318**
LIABILITIES			
Loans from banks and financial institutions	17	264,246	242,196
Advances received from customers	18	8,623	18,836
Debt securities in issue	19	58,114	-
Derivative financial Instruments	31	-	734
Subordinated loans	20	35,412	31,227
Other liabilities	21	4,583	10,280
TOTAL LIABILITIES		**370,978**	**303,273**
EQUITY			
Share capital	22	3,659	3,659
Additional paid-in capital	22	7,550	7,550
Retained earnings		24,516	27,674
Cash flow hedge reserve	28	(232)	162
TOTAL EQUITY		**35,493**	**39,045**
TOTAL LIABILITIES AND EQUITY		**406,471**	**342,318**

Chief Executive Officer
Gaioz Gogua

28 May 2021

Chief Financial Officer
Nugzar Loladze

The notes set out on pages 76 to131 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of Georgian Lari	Note	2020	2019
Income on investment in leases		45,578	49,174
Income from operating leasing		3,218	3,122
Interest expense		(25,466)	(20,680)
Direct leasing costs	25	(8,220)	(7,701)
Net lease income		**15,110**	**23,915**
Credit loss allowance for net investment in finance lease	11	(8,117)	(563)
Net lease income after expected credit loss		**6,993**	**23,352**
Credit loss allowance for other financial assets	16	(2,768)	(4,957)
Gain from revaluation of investment property	14	149	91
Gain/(Loss) from sale/release of repossessed assets	15	702	(169)
Gain on initial recognition of repossessed assets		48	437
Write-down of repossessed assets to net realizable value	15	(187)	(163)
Gains net of losses / (losses net of gain) from derivative financial instruments	31	6,077	(2,867)
Foreign exchange translation (losses less gains) / gains less losses		(8,205)	1,544
Administrative and other operating expenses	26	(9,277)	(10,371)
Other income		3,310	1,269
LOSS (PROFIT) FOR THE YEAR		**(3,158)**	**8,166**
Other comprehensive (loss) / income:			
Items that may be reclassified subsequently to profit or loss:			
(Loss) / Gains on cash flow hedges	28	(394)	162
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(3,552)**	**8,328**

The notes set out on pages 76 to131 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 2019	**3,059**	**2,150**	**-**	**19,508**	**24,717**
Profit for the year	-	-	-	8,166	**8,166**
Other comprehensive income	-	-	162	-	**162**
Shares issued	600	5,400	-	-	**6,000**
Balance at 31 December 2019	**3,659**	**7,550**	**162**	**27,674**	**39,045**
Loss for the year	-	-	-	(3,158)	**(3,158)**
Other comprehensive loss	-	-	(394)	-	**(394)**
Balance at 31 December 2020	**3,659**	**7,550**	**(232)**	**24,516**	**35,493**

The notes set out on pages 76 to131 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

In thousands of Georgian Lari	Note	2020	2019
Cash flows from operating activities			
Cash receipts from lessees		176,007	206,675
Cash receipts from lessees before commencement		10,086	13,050
Cash receipts from sale of repossessed assets		5,708	9,549
Cash inflow from Derivative financial instruments		3,574	-
Cash receipts from terminated lease contracts		2,732	1,431
Interest received from current account		2,087	291
Interest received from deposit		344	-
Cash paid for purchase of assets for financial leasing purposes		(132,511)	(211,274)
Cash paid for direct leasing costs		(8,946)	(5,669)
Cash paid to employees		(3,769)	(3,465)
Cash paid for administrative and other operating expenses		(2,344)	(3,374)
Cash outflow from derivative financial instruments		-	(1,912)
Cash paid for purchase of assets for operating leasing purposes		(119)	(605)
Cash from operations		**52,849**	**4,697**
Interest paid on loans from banks and financial institutions	27	(15,657)	(16,821)
Interest paid on debt securities issued	27	(5,261)	(428)
Interest paid on subordinated loans	27	(3,042)	(2,683)
Taxes paid		(6,827)	(10,124)
Net cash from / (used in) operating activities		**22,062**	**(25,359)**
Cash flows from investing activities			
Purchase of property and equipment	12	(200)	(520)
Purchase of intangible assets	13	(674)	(681)
Net cash used in investing activities		**(874)**	**(1,201)**
Cash flows from financing activities			
Loans from banks and financial institutions received	27	192,057	177,879
Debt securities issued	27	57,796	-
Cash received from deposits (Due From Banks)		10,000	-
Loans from banks and financial institutions repaid	27	(203,291)	(147,531)
Cash paid for deposits (Due From Banks)		(31,439)	-
Repayment of lease liabilities		(563)	(598)
Proceeds from issuance of ordinary shares		-	6,000
Debt securities redemption		-	(8,606)
Net cash from financing activities		**23,453**	**27,144**
Effect of exchange rate changes on cash and cash equivalents		4,869	134
Net increase in cash and cash equivalents		**50,617**	**718**
Cash and cash equivalents at the beginning of the year	7	19,357	18,639
Cash and cash equivalents at the end of the year	**7**	**69,974**	**19,357**

The notes set out on pages 76 to131 form an integral part of these financial statements

1. INTRODUCTION

These financial statements have been prepared in accordance with International Financial Reporting Standards and Law of Georgia on Accounting, Reporting and Auditing for the year ended 31 December 2020 for JSC TBC Leasing (the “Company”). The Company was incorporated in 2003 and is domiciled in Georgia. The Company is closed joint stock company limited by shares and was set up in accordance with Georgian regulations and is registered by Vake-Saburtalo law court with identification number: 205016560.

PRINCIPAL ACTIVITY. The Company’s principal business activity is providing finance and operating leases to companies and individuals within Georgia. The company is the largest provider of wide spectre of leasing products to more than 2,800 large, corporate, MSME and individual clients all across Georgia. The company’s products include financial and operating leases in agro, medical, construction, service, manufacturing and retail business sectors. The Company offers its products through various type of sales channels including parent bank, official representative dealerships, vendors and direct sales channels. The Company leases various types of assets, from industrial equipment and equipment used in information technology to vehicles, which are purchased from suppliers in Georgia and abroad. The company is a partner of governmental agencies like Enterprise Georgia and Agricultural Projects’ Management Agency (APMA), which provide subsidies to companies to assist the growths of their businesses. The company employs over 120 people on permanent bases and operates head office and three retail branches.

The shareholder of the Company was JSC TBC Bank (the “Parent”) with ownership interest 100 % as at 31 December 2020 and 2019. As of 31 December 2020, 2019 TBC Leasing had no ultimate controlling party.

REGISTERED ADDRESS AND PLACE OF BUSINESS. The Company’s registered office is located at 76m Chavchavadze Avenue, Tbilisi 0160, Georgia.

PRESENTATION CURRENCY. These financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated.

2. OPERATING ENVIRONMENT OF THE COMPANY

The company’s business is based in Georgia. Its economy is particularly sensitive mostly to tourism. The legal, tax, and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Georgian economy continues to be negatively impacted by ongoing political tension in the region.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Georgian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, lockdowns, and limitations on business activity, including closures. The above measures were in place for the most period during 2020 but gradually relaxed in 2021. These measures have, among other things, severely restricted economic activity in Georgia and have negatively impacted, and could continue to negatively impact businesses, market participants as well as the Georgian and global economy for an unknown period of time.

Management is taking necessary measures to ensure the sustainability of the Company’s operations and support its customers and employees.

The future effects of the current economic situation and the above measures are difficult to predict and management’s current expectations and estimates could differ from actual results. For the purpose of measurement of expected credit loss (“ECL”), the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. Note 29 provides more information on how the Company incorporated forward-looking information in the ECL models.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

In reaching this assessment, the managements have specifically considered the implications of the COVID-19 pandemic upon the Company's performance and projected funding and capital position. On this basis, the managements are satisfied that the Company will maintain adequate levels of funding and capital for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements).

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. Refer to Note 4 for critical judgements applied by the Company in determining the business models for its financial assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

FINANCIAL ASSETS – MODIFICATION. The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a lease when the

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

borrower is not in financial difficulties.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

The amount recognised in OCI should be the lower of:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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

COMMENCEMENT OF THE LEASE TERM. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

RECEIVABLES FROM TERMINATED LEASES. The Company recognises receivables from terminated contracts at the moment of lease contract termination. These receivables are recognised at amount representing sum of accrued/earned finance income and current part of minimum lease payments already due from lessee at the moment of lease contract termination. Receivables are accounted for at amortised cost less ECL.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

ASSETS REPOSSESSED FROM TERMINATED LEASES. Assets returned as a result of termination of lease contracts are considered as assets, which can be sold or leased again. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. 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. For tax reporting purposes, assets are qualified as fixed assets and initial value is determined per provisions of Georgian Tax Code, depreciated tax value calculated from the purchase date of the asset to be leased by the Company.

OFFSET OF FINANCIAL ASSETS AND LIABILITIES. Financial assets and liabilities are offset and reported net on the Statement of Financial Position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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

At each reporting date management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the 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.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

DEPRECIATION. Land is not depreciated. Depreciation on other items of property and equipment is calculated, using declining balance method to allocate their cost to their residual values over their estimated useful life, except for vehicles leased out under operating leases, which uses straight-line method. Estimated useful lives are presented in table below:

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

	Years
Leasing ERP software	10
Other intangible assets	5-7

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

LOANS FROM BANKS AND FINANCIAL INSTITUTIONS. Loans from banks are initially recognized at fair value. Subsequently amounts due are stated at amortized cost using the effective interest rate method.

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

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

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

SHARE CAPITAL. 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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. Input VAT related to acquisition of Property, Plant and Equipment items are deferred for 5 to 10 years for entities having more than 20% VAT exempted turnover.

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

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

At 31 December 2020 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 3.2766 (2019: USD 1 = GEL 2.8677); EUR 1 = GEL 4.0233 (2019: EUR 1 = GEL 3.2095).

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

In thousands of Georgian Lari	**2020**	**2019**
10% increase in Stage 2 exposures	Increase credit loss allowance on leases by GEL 192 thousand	Increase credit loss allowance on leases by GEL 95 thousand
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on leases by GEL 469 thousand (GEL 469 thousand)	Increase (decrease) credit loss allowance on leases by GEL 125 thousand (GEL 125 thousand)
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on leases by GEL 937 thousand (GEL 903 thousand)	Increase (decrease) credit loss allowance on leases by GEL 1,103 thousand (GEL 611 thousand)
10% deterioration (improvement) in FLI estimates	Increase (decrease) credit loss allowance on leases by GEL 423 thousand (GEL 428 thousand)	Increase (decrease) credit loss allowance on leases by GEL 30 thousand (GEL 30 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).

Due to the prolongation and severity of the COVID-19 pandemic impact, the scenario probabilities were also adjusted to reflect the management's expectations regarding their future realization. The baseline, upside and downside scenarios were assigned probability weighing of 60%, 10% and 30%, respectively (31 December 2019: 50%, 25% and 25%).

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING (ISSUED ON 29 MARCH 2018 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

DEFINITION OF A BUSINESS – AMENDMENTS TO IFRS 3 (ISSUED ON 22 OCTOBER 2018 AND EFFECTIVE FOR ACQUISITIONS FROM THE BEGINNING OF ANNUAL REPORTING PERIOD THAT STARTS ON OR AFTER 1 JANUARY 2020). THE AMENDMENTS REVISE DEFINITION OF A BUSINESS. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

DEFINITION OF MATERIAL – AMENDMENTS TO IAS 1 AND IAS 8 (ISSUED ON 31 OCTOBER 2018 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

INTEREST RATE BENCHMARK REFORM – AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 (ISSUED ON 26 SEPTEMBER 2019 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Company has not early adopted.

SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE – AMENDMENTS TO IFRS 10 AND IAS 28 (ISSUED ON 11 SEPTEMBER 2014 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER A DATE TO BE DETERMINED BY THE IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

IFRS 17 "INSURANCE CONTRACTS"(ISSUED ON 18 MAY 2017 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company does not expect to apply the standard.

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

PROCEEDS BEFORE INTENDED USE, ONEROUS CONTRACTS – COST OF FULFILLING A CONTRACT, REFERENCE TO THE CONCEPTUAL FRAMEWORK – NARROW SCOPE AMENDMENTS TO IAS 16, IAS 37 AND IFRS 3, AND ANNUAL IMPROVEMENTS TO IFRSS 2018-2020 – AMENDMENTS TO IFRS 1, IFRS 9, IFRS 16 AND IAS 41 (ISSUED ON 14 MAY 2020 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

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

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

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

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

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

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

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

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

of IAS 8. The Company calculated the effect of the new amendment and concluded that it did not have any material impact on the Company.

AMENDMENTS TO IFRS 17 AND AN AMENDMENT TO IFRS 4 (ISSUED ON 25 JUNE 2020 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

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

The Company is currently assessing the impact of the amendments on its financial statements.

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT, DEFERRAL OF EFFECTIVE DATE – AMENDMENTS TO IAS 1 (ISSUED ON 15 JULY 2020 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance The Company is currently assessing the impact of the amendments on its financial statements.

INTEREST RATE BENCHMARK (IBOR) REFORM – PHASE 2 AMENDMENTS TO IFRS 9, IAS 39, IFRS 7, IFRS 4 AND IFRS 16 (ISSUED ON 27 AUGUST 2020 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective

6. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

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. The Company is currently assessing the impact of the amendments on its financial statements.

AMENDMENTS TO IAS 8: DEFINITION OF ACCOUNTING ESTIMATES (ISSUED ON 12 FEBRUARY 2021 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

COVID-19-RELATED RENT CONCESSIONS – AMENDMENTS TO IFRS 16 (ISSUED ON 31 MARCH 2021 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 APRIL 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Company is currently assessing the impact of the amendments on its financial statements.

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION – AMENDMENTS TO IAS 12 (ISSUED ON 7 MAY 2021 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its financial statements.

7. CASH AND CASH EQUIVALENTS

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Current accounts with banks	69,974	19,357
Cash and cash equivalents	**69,974**	**19,357**

At 31 December 2020, cash and cash equivalents of GEL 23,700 thousand (2019: GEL 16,993 thousand) are held on the Company's current accounts with JSC TBC Bank.

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

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Current accounts with banks with "BB-" to "BB+" rating	24,099	19,081
Current accounts with banks with "B-" to "B+" rating	45,581	23
Current accounts with banks unrated	294	253
Cash and cash equivalents	**69,974**	**19,357**

As of 31 December 2020, GEL 50,385 thousand cash balances were pledged as collateral for loans obtained from banks and financial institutions. As of 31 December 2019 cash balances were not pledged as collateral.

The information on related party balances and transactions is disclosed in Note 34.

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 2020**	**31 December 2019**
Recognition of right of use assets against lease liabilities	259	1,138
Non-cash investing activities	**259**	**1,138**

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Initial recognition of lease liabilities	259	1,138
Non-cash financing activities	**259**	**1,138**

8. DUE FROM BANK

In thousands of Georgian Lari	31 December 2020	31 December 2019
Placements with banks with original maturities of more than three months	21,383	-
Due from banks	**21,383**	**-**

At 31 December 2020, due from bank included the placement of GEL 16,383 thousand in the accounts of JSC TBC Bank. The information on related party balances and transactions is disclosed in Note 34.

9. PREPAYMENTS

In thousands of Georgian Lari	31 December 2020	31 December 2019
Prepaid insurance for leasing assets	3,000	3,414
Other prepayments	89	138
Total prepayments	**3,089**	**3,552**

10. ADVANCES TOWARDS LEASING CONTRACTS

Advances towards leasing contracts comprised GEL 10,281 thousand as at 31 December 2020 (2019: GEL 30,779 thousand). The advances towards leasing contracts are all current, subsequently reclassified to net investment in finance lease usually within one to three months period after the reporting date.

11. NET INVESTMENTS IN FINANCE LEASE

Net and gross investments in finance lease are as follows:

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Gross investment in finance lease	353,425	341,474
Unearned finance income	(72,104)	(81,712)
Investment in finance lease	**281,321**	**259,762**
Credit loss allowance	(10,487)	(2,731)
Total net investments in finance lease	**270,834**	**257,031**

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 2020	133,093	102,671	64,964	31,307	13,922	7,468	**353,425**
Unearned finance income	(33,072)	(20,783)	(10,894)	(4,656)	(1,712)	(987)	**(72,104)**
Credit loss allowance	(3,729)	(3,053)	(2,016)	(994)	(455)	(240)	**(10,487)**
Net investment in finance lease as at December 2020	**96,292**	**78,835**	**52,054**	**25,657**	**11,755**	6,241	**270,834**
Gross investment in finance lease as at 2019	148,624	98,030	56,055	25,321	9,388	4,056	**341,474**
Unearned finance income	(41,988)	(23,482)	(10,482)	(3,922)	(1,091)	(747)	(81,712)
Credit loss allowance	(1,121)	(784)	(479)	(225)	(87)	(35)	**(2,731)**
Net investment in finance lease as at December 2019	**105,515**	**73,764**	**45,094**	**21,174**	**8,210**	**3,274**	**257,031**

In 2020, grace periods were granted to customers due to the COVID-19 pandemic. In March 2020 the Company offered a three-month grace period to all our customers. In June 2020, the grace period was extended for another three months to our vulnerable customers only. The same payment holiday was offered in December 2020 as well to the vulnerable clients only, which amounted to around 20% of the total portfolio. Clients were given payment holidays on interest and principal amounts. Net modification loss of net investment in finance lease is amounted to GEL 2,709 thousand.

During the year more than 3,000 clients used grace periods, from were as of 31 December 2020 the active clients who used grace period are 2,228 with a total exposure of GEL 165,419 thousand, which amounted at around 59% of the total portfolio.

The Company has no contractual amount outstanding on net investment in finance lease, which was written off during the 2020 and 2019 reporting period and is still subject to enforcement activity.

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

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

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

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

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

The Company's policy was to classify each lease as 'current and not impaired' or 'past due but not impaired' until a specific objective evidence of impairment of the lease is identified. The primary factors that the Company considered whether a lease is impaired were deterioration of financial position of lessee, its overdue status and realizability of the leased asset.

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

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

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

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

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

The effect of collateral at 31 December 2020:

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

The effect of collateral at 31 December 2019:

	Over-Collateralised assets		Under-Collateralised assets	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in finance lease - gross	228,651	365,934	31,111	21,041

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

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

11. NET INVESTMENTS IN FINANCE LEASE CONTINUED

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

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

12. 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 2019	10	-	260	332	452	9,252	118	407	**10,831**
Accumulated depreciation	-	-	(108)	(116)	(84)	(823)	(15)	-	**(1,146)**
Carrying amount at 1 January 2019	**10**	**-**	**152**	**216**	**368**	**8,429**	**103**	**407**	**9,685**
Additions	13	7	142	71	85	605	55	731	**1,709**
Disposals	-	-	-	-	(129)	(461)		-	**(590)**
Transfer to financial lease and repossessed assets	-	-	-	-	-	(1,036)	-	-	**(1,036)**
Depreciation charge	-	(1)	(43)	(49)	(60)	(1,176)	(40)	(404)	**(1,773)**
Elimination of accumulated depreciation on disposals and transfers	-	-	-	-	21	237	-	-	**258**
Carrying amount at 31 December 2019	**23**	**6**	**251**	**238**	**285**	**6,598**	**118**	**327**	**7,846**
Cost at 31 December 2019	23	7	402	403	408	8,360	173	1,138	**10,914**
Accumulated depreciation	-	(1)	(151)	(165)	(123)	(1,762)	(55)	(404)	**(2,661)**
Carrying amount at 31 December 2019	**23**	**6**	**251**	**238**	**285**	**6,598**	**118**	**734**	**8,253**
Additions	-	-	19	56	-	119	95	259	**548**
Disposals	-	-	(5)	(2)	(41)	(83)	(56)	(407)	**(594)**
Transfer to financial lease and repossessed assets	-	-	-	-	-	(349)	-	-	**(349)**
Depreciation charge	-	(1)	(55)	(54)	(57)	(1,071)	(24)	(465)	**(1,727)**
Elimination of accumulated depreciation on disposals and transfers	-	-	1	1	28	156	35	318	**539**
Carrying amount at 31 December 2020	**23**	**5**	**211**	**239**	**215**	**5,370**	**168**	**439**	**6,670**
Cost at 31 December 2020	23	7	416	457	367	8,047	212	990	**10,519**
Accumulated depreciation	-	(2)	(205)	(218)	(152)	(2,677)	(44)	(551)	**(3,849)**
Carrying amount at 31 December 2020	**23**	**5**	**211**	**239**	**215**	**5,370**	**168**	**439**	**6,670**

* Vehicles for operating leasing

12. PROPERTY AND EQUIPMENT CONTINUED

The table below represents maturity analysis of operating lease payments:

In thousands of Georgian Lari	31 December 2020	31 December 2019
Due in 1 year	2669	3095
Due between 1 and 2 year	1939	2422
Due between 2 and 3 year	713	1736
Due between 3 and 4 year	20	631
Due between 4 and 5 year	4	17
Due in 5 year or more	-	3
Total undiscounted lease payments	**5,345**	**7,904**

13. INTANGIBLE ASSET

In thousands of Georgian Lari	Leasing ERP Software	Right of use Assets	Total
Carrying amount at 1 January 2019	**1,136**	**24**	**1,160**
Additions	576	-	**576**
Amortization charge	(11)	-	**(11)**
Carrying amount at 31 December 2019	**1,701**	**24**	**1,725**
Cost at 31 December 2019	1,721	57	**1,778**
Accumulated amortization	(20)	(33)	**(53)**
Carrying amount at 31 December 2019	**1,701**	**24**	**1,725**
Additions	675	26	**701**
Disposals	-	(32)	**(32)**
Amortization charge	(8)	(5)	**(13)**
Elimination of accumulated Amortisation on disposals	(29)	29	**-**
Carrying amount at 31 December 2020	**2,339**	**42**	**2,381**
Cost at 31 December 2020	2,396	51	**2,447**
Accumulated depreciation	(57)	(9)	**(66)**
Carrying amount at 31 December 2020	**2,339**	**42**	**2,381**

As at 31 December 2020 and 2019 leasing ERP software was in testing phase and respectively no amortization expense was charged.

14. INVESTMENT PROPERTY

As of 31 December 2018, investment property comprised of a land plot (10,839 sq. m) with buildings (3,047 sq. m) acquired on public auction by the Company at 25 December 2012. The cost of acquisition was GEL 890,513. Initially the property was recognised as other asset with the purpose to use in settlement of outstanding balance of net investment in finance lease from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to court in order to cancel the auction results. In 2016 court decided in favour of the Company, therefore the Company's Management reassessed the purpose of holding the property and concluded to keep it in ownership for capital appreciation purposes, therefore the property was reclassified to investment property. During the year 2019 water drain works has been performed and the associated costs GEL 19 thousand has been capitalized. As of 31 December 2020, 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 2020 the fair value of investment property was estimated at GEL 2,359 thousand (2019: GEL 2,210 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 149 thousand (2019: GEL 91 thousand) for year 2020 was recognised in profit and loss.

In thousands of Georgian Lari	**Transferred from repossessed assets at cost**	**Fair value as of 31 December 2020**	**Valuation technique**	**Other key infor-ma-tion**	**Un-ob-servable inputs**	**Range of unobservable inputs (weighted average)**	**Sensitivity of the input to fair value**
Investment property	891	2,359	Sales com-parison approach	Land and building	Price per square meter	160 - 180	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

SENSITIVITY ANALYSIS. 10% increase or decrease in the price per square metre would result in increase or decrease of GEL 236 thousand in fair value of the investment property.

Investment property as at 31 December 2019:

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

15. ASSETS REPOSSESSED FROM TERMINATED LEASES

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Carrying value at the beginning of the year	6,129	7,805
Assets repossessed from terminated leases during the year at fair value	10,442	8,955
Disposal through sales	(3,129)	(6,327)
Disposal through transfer to new leases	(5,192)	(4,141)
Write down to net realizable value	(187)	(163)
Other movement	(480)	-
Carrying amount at the end of the year	**7,583**	**6,129**

Write down to net realisable value of GEL 187 thousand (2019: GEL 163 thousand) is the effect of reassessment of net realisable value on the repossessed assets from terminated leases as of the reporting date, which are accounted as inventory defined by accounting policy. Gain/(loss) from sale and release of repossessed assets comprised GEL 702 thousand and GEL (169) thousand for 2020 and 2019 years respectively.

16. OTHER FINANCIAL ASSETS

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**
Gross receivables from terminated lease	19,121	17,868
Less: Credit loss allowance for receivables from terminated leases	(14,616)	(11,908)
Total carrying amount of receivable from terminated leases at AC	**4,505**	**5,960**
Gross other receivables	3,576	6,107
Less: Credit loss allowance for other receivables	(2,346)	(3,051)
Total carrying amount of other receivables at AC	**1,230**	**3,056**
Gross loans issued to lessees	4,412	3,311
Less: Credit loss allowance for loans issued to lessees	(2,981)	(2,216)
Total carrying amount of loans issued to lessees at AC	**1,431**	**1,095**
Total other financial assets	**7,166**	**10,111**

16. OTHER FINANCIAL ASSETS CONTINUED

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

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

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

17. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

Loans from Banks and financial institutions:

In thousands of Georgian Lari	31 December 2020	31 December 2019
Loans from foreign banks and financial institutions	**217,163**	**105,497**
Georgian Laris	57,059	20,772
US Dollars	56,354	56,394
Euros	103,750	28,331
Loans from local banks and financial institutions	**47,083**	**136,699**
Georgian Laris	44,897	69,215
US Dollars	2,185	37,663
Euros	1	29,821
Total loans from banks and financial institutions	**264,246**	**242,196**

Loans from banks and financial institutions are secured by certain cash and cash equivalents, certain leases receivable and advances towards leasing contracts as detailed in Note 7, 11 and 10. The amount of gross investment in leases pledged as collateral comprised 191,893 thousand GEL (2019: GEL 203,899 thousand), the amount of advances towards leasing contracts pledged as collateral comprised 10,930 thousand GEL (2019: GEL 55,665 thousand), as well as the amount of cash and cash equivalents pledged as collateral comprised GEL 50,385 thousand (2019: GEL 0 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements was in compliance with all covenants as of December 2020 and 2019.

As at 31 December 2020 accrued interest payable included in loans from banks and financial institutions amounted to GEL 2,861 thousand (2019: GEL 2,074 thousand).

Refer to Note 32 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 34.

18. ADVANCES RECEIVED FROM CUSTOMERS

Advances from customers that were outstanding at the year-end comprised GEL 8,623 thousand as at 31 December 2020 (2019: GEL 18,836 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 4,153 thousand as at 31 December 2020 (2019: GEL 15,050 thousand) represents security deposit received from customers in advance, while the remaining part of balance is lease payments received in advance and advances received for sale of repossessed assets.

19. DEBT SECURITIES IN ISSUE

In thousands of Georgian Lari	**Currency**	**Maturity date**	**31 December 2020**	**31 December 2019**
Bonds issued on domestic market	GEL	20.03.2023	58,114	-
Total debt securities in issue			**58,114**	**-**

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

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

Debt security in Issue are secured by certain leases receivable and advances towards leasing contracts as detailed in Note 11 and 10. The amount of gross investment in leases pledged as collateral comprised 64,105 thousand GEL (2019: GEL 0 thousand), the amount of advances towards leasing contracts pledged as collateral comprised 1,670 thousand GEL (2019: GEL 0 thousand).

As at 31 December 2020 accrued interest payable included in debt security in issue amounted to GEL 184 thousand.
Refer to Note 32 for the estimated fair value of debt security in issue. The information on related party balances and transactions is disclosed in Note 34.

20. SUBORDINATED LOANS

In thousands of Georgian Lari	**Maturity date**	**31 December 2020**	**31 December 2019**
Subordinated loans from TBC	31.07.2023	2,448	2,448
Subordinated bonds	25.01.2023	32,964	28,779
Total Subordinated Loan		**35,412**	**31,227**

As at 31 December 2020, accrued interest payable included in subordinated loans amounted to GEL 390 thousand (2019: GEL 333 thousand).

Refer to Note 32 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 34.

21. OTHER LIABILITIES

In thousands of Georgian Lari	31 December 2020	31 December 2019
Liabilities to asset providers	1,609	7,170
Lease liabilities	569	796
Liabilities to service providers	419	520
Accrued expenses	455	341
Total other financial liabilities	**3,052**	**8,827**
Bonuses payable	1,531	1,453
Total other non-financial liabilities	**1,531**	**1,453**
Total other liabilities	**4,583**	**10,280**

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

The table below represents the maturity of lease liabilities as of December 2020 and 2019 respectively:

In thousands of Georgian Lari	2020	2019
Up to 1 month	36	92
1 month to 3 months	76	116
3 months to 1 year	338	301
1 year to 5 years	119	287
Total lease liabilities	**569**	**796**

22. SHARE CAPITAL

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

23. OTHER INCOME

In thousands of Georgian Lari	2020	2019
Interest income on bank deposits	2,438	262
Other income	872	1,007
Other income	**3,310**	**1,269**

24. SEGMENT REPORTING

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

Currently, the company does not have a separate operating segment and records its financial results as a whole mainly based on management's assessment of monoline characteristics of its business activities.

Thus, for the current reporting year management does not separate business directions into several operating segments and believes that they share a majority of the aggregation criteria and due to their similar economic characteristics, the Company aggregates them into single operating segment.

The table below represents the income on investment in leases by product:

Product Types	**2020**	**2019**
Corporate Lease Portfolio	30,799	34,029
New Cars	7,834	5,548
Project Financing New and Used Cars	1,617	1,609
Used Local Cars	2,772	4,580
Used Imported Cars	2,556	3,408
Total Income on investment in leases	**45,578**	**49,174**

The Company does not operate in different geographical areas.

During the year 2020 the revenue from transactions with a single external customer, where a group of entities under common control shall be considered a single customer, is less than 5 percent of a Company's total revenues.

25. DIRECT LEASING COSTS

The table below represents direct leasing costs for the 2020 and 2019 years respectively.

In thousands of Georgian Lari	**2020**	**2019**
Insurance expenses	5,427	4,468
Property tax on leasing assets	2,590	2,881
Other leasing costs	203	352
Total direct leasing costs	**8,220**	**7,701**

26. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of Georgian Lari	2020	2019
Staff costs	4,998	5,067
Depreciation and amortization charge	1,740	1,784
Professional services	475	562
Expenses on assets maintenance	313	507
Taxes other than income tax	293	353
Bank charges	252	508
License and subscription cost	247	272
Occupancy and rent	164	116
Advertising costs	133	362
Other property insurance expenses	149	19
Land and buildings maintenance	27	95
Other expenses	486	726
Total administrative and other operating expenses	**9,277**	**10,371**

As of 31 December 2020, professional services included GEL 193 thousand related to financial audit (2019: GEL186 thousand) and Gel 15 thousand related to TAX Audit (2019: GEL15 thousand). Presented expenses are exclusive of taxes.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Liabilities from financing activities			
In thousands of Georgian Lari	Loans from banks and financial institutions	Debt Securities in Issue	Subordinated Loans	Total
Net debt at 31 December 2019	**242,196**	**-**	**31,227**	**273,423**
Cash flows	(26,891)	52,534	(3,042)	22,601
Foreign exchange adjustments	32,915	-	4,097	37,012
Interest accrual	16,719	5,580	3,130	25,429
Other non-cash movements	(693)	-	-	(693)
Net debt at 31 December 2020	**264,246**	**58,114**	**35,412**	**357,772**

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 34.

28. HEDGING

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

THE RISK MANAGEMENT STRATEGY AND HOW IT IS APPLIED TO MANAGE RISK

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

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

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

HEDGING INSTRUMENTS AND HEDGED ITEMS

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

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

Amounts expressed in thousands of nominal currency

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

28. HEDGING CONTINUED

Amounts expressed in thousands of nominal currency

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

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

Amounts expressed in thousands of nominal currency

Type		Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to lease asset purchase	USD	3,915		Off-balance sheet exposure
Hedging Instrument	Swap contracts	USD	3,254	3.0058-3.0455 USD/GEL	Derivative financial Instrument
Hedging Instrument	Forward contracts	USD	661	1.1215 EUR/USD	Derivative financial Instrument
Hedged item	Firm commitment to lease asset purchase	EUR	3,869		Off-balance sheet exposure
Hedging Instrument	Swap contracts	EUR	3,869	3.3412-3.4166 EUR/GEL	Derivative financial Instrument
Hedged item	Firm commitment to NIFL	EUR	451		Off-balance sheet exposure
Hedging Instrument	Back-to-Back loans	EUR	451	3.2829 EUR/GEL	Derivative financial Instrument

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	5,370		Advances towards leasing con-tracts
Hedging Instrument	Senior loan	USD	5,370	5.7%-6%	Loans from banks and financial institutions
Hedged item	Firm commitment to NIFL	EUR	2,526		Advances towards leasing con-tracts
Hedging Instrument	Senior loan	EUR	2,526	4%- 5.70%	Loans from banks and financial institutions

28. HEDGING CONTINUED

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

Hedge Item Type *In thousands of Georgian Lari*	**The amount recognised in Other Comprehensive Income (2020)**	**The amount recognised in Other Comprehensive Income (2019)**
Firm commitment to lease asset purchase	(46)	188
Firm commitment to NIFL	(348)	(26)
(Loss)/Gain on cash flow hedges	**(394)**	**162**

HOW HEDGING ACTIVITIES MIGHT AFFECT THE AMOUNT, TIMING AND UNCERTAINTY OF FUTURE CASH FLOWS

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

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

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.

29. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

The Company uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Company classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition, but the financial instrument is not considered credit-impaired. The exposures for which the credit-impaired indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

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

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

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

SICR indicator	Entrance conditions	Exit conditions	Leasing Company
1. DPD 30 threshold	The number of days past due exceeded the limit of 30 days (irrespective of the overdue amount). In case of Corporate/SME borrowers, if the entrance condition is met to at least one contract, all of the borrower's contracts are classified to Stage 2.	The number of days past due (on any contract of the client) does not exceed 30 anymore (irrespective of the overdue amount).	**Applicable**
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	**Applicable,** SICR will be identified if the restructuring of the contract is classified as 'GOOD restructuring' in the internal classification. 'Commercial restructuring' classification will not be treated as the SICR trigger.
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	**Applicable**

29. FINANCIAL RISK MANAGEMENT CONTINUED

In addition to the standard SICR criteria described in the table above, due to global pandemic situation, the following was applied to the year ended 31 December 2020 lease portfolio: all clients from Covid-affected sectors (which are in turn determined by our credit risk department, using sector forecasts, where these sectors show significant declines), were moved to stage 2 (unless obviously they fell in stage 3). In addition to that, restructurings that where categorized as “GOOD” before grace, are not removed from stage 2 pool because of application of grace period.

Default criteria: As a result of COVID-19, the company applied additional criteria to compromised contracts, facilitating early identification of defaults, not detected otherwise mainly due to payment holidays. The criteria are based on the repayment history of the exposures after the beginning of pandemic and also after the end of the second stage grace period. Bigger clients were assessed according to the recent financial monitoring information and respective debt/service ratios.

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

PROBABILITY OF DEFAULT (PD). Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. The model is based on the estimation of short-term and long-term PD estimates. The former is estimated on the yearly default rate observed for a period that is considered representative of short-term default propensity. The lessee’s risk group differentiates the parameter. The latter is representative of the long-term default propensity of Leasing company clients regardless of their risk group assignment.

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

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

LOSS GIVEN DEFAULT (LGD). The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument’s lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 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.

Before 2020, the company was calculating LGD based on lease asset/collateral approach, meaning expected loss in case of default was assumed to be difference between EAD at default date and discounted/depreciated value of lease asset (plus additional collateral, if any) at the same date.

Starting from YE 2020, we think sufficient data is accumulated in a reliable and consistent accounting and reporting environment, and calculation and usage of statistical LGD has become possible. This change contributed to further improvement and sophistication of our provisioning model and is consistent with international best practice as well as principles used on group level. Improvement is especially important as ECL became more critical part of accounting and reporting process due to Covid 19 reasons.

29. FINANCIAL RISK MANAGEMENT CONTINUED

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) scenarios of the state of the Georgian economy with weights assigned to each scenario of: 60%,10% and 30% respectively as at year ended 31 December 2020 and 50%, 25% and 25% as at year ended 31 December 2019. To derive the baseline macro-economic scenario, the Company takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF"), TBC Capital, as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit. The forward looking information is incorporated in both individual and collective assessment of expected credit losses and was one of the main drivers for COVID-19 related increase in provision charges in 2020.

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

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

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

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

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

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

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

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

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

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% (2019: 10%) increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	31 December 2020		31 December 2019	
In thousands of Georgian Lari	Impact on profit or loss before tax	Impact on equity	Impact on profit or loss before tax	IMPACT ON EQUITY
US Dollar/ Euros strengthening by 10% (2019: 10%)	233	233	(282)	(282)
US Dollar/ Euros weakening by 10% (2019: 10%)	(233)	(233)	282	282

29. 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 2020, categorised by the earlier of contractual interest re-pricing or maturity dates.

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2019, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	19,357	-	-	-	**19,357**
Net investment in finance lease	19,747	15,743	70,025	151,516	**257,031**
Derivative financial Instruments	35,832	8,603	15,364	-	**59,799**
Other financial assets	7,487	125	1,746	753	**10,111**
Total financial assets	**82,423**	**24,471**	**87,135**	**152,269**	**346,298**
Financial Liabilities					
Loans from banks and financial institutions	1,909	31,815	141,616	66,856	**242,196**
Debt securities in issue	-	-	-	-	**-**
Advances received from customers	16,591	1,312	933	-	**18,836**
Subordinated loans	103	-	-	31,124	**31,227**
Derivative financial instruments	35,589	8,603	16,341	-	**60,533**
Other financial liabilities	7,778	119	643	287	**8,827**
Total financial liabilities	**61,970**	**41,849**	**159,533**	**98,267**	**361,619**
Net interest rate sensitivity gap before effect of economic hedges	**20,453**	**(17,378)**	**(72,398)**	**54,002**	**(15,321)**
Effect of economic hedges	24,474	4,939	1,204	-	**30,617**
Net interest rate sensitivity gap	**44,927**	**(12,439)**	**(71,194)**	**54,002**	**15,296**

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

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

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2019 is as follows:

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

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 2020 is presented in the following table:

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

29. FINANCIAL RISK MANAGEMENT CONTINUED

The expected liquidity gap as at 31 December 2019 as reclassified, is presented in the following table:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	TOTAL
Financial Assets					
Cash and cash equivalents	19,357	-	-	-	**19,357**
Net investment in finance lease	19,747	15,743	70,025	151,516	**257,031**
Derivative financial instruments	35,832	8,603	15,364	-	**59,799**
Other financial assets	7,487	125	1,746	753	**10,111**
Total financial assets	**82,423**	**24,471**	**87,135**	**152,269**	**346,298**
Financial Liabilities					
Loans from banks and financial institutions	1,909	31,815	141,616	66,856	**242,196**
Debt securities in issue	-	-	-	-	**-**
Advances received from customers	16,591	1,312	933	-	**18,836**
Subordinated loans	103	-	-	31,124	**31,227**
Derivative financial instruments	35,589	8,603	16,341	-	**60,533**
Other financial liabilities	7,778	119	643	287	**8,827**
Total financial liabilities	**61,970**	**41,849**	**159,533**	**98,267**	**361,619**
Effect of economic hedges	**24,474**	**4,939**	**1,204**	**-**	**30,617**
Liquidity gap	**44,927**	**(12,439)**	**(71,194)**	**54,002**	**15,296**
Cumulative liquidity gap	**44,927**	**32,488**	**(38,706)**	**15,296**	

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

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

30. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company considers its capital to be equity and subordinated loans. The amount of capital that the Company managed as of 31 December 2020 was GEL 70,905 thousand (2019: 70,272 thousand).

31. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2020	
In thousands of Georgian Lari	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	-	1,638
- GEL payable on settlement (-)	-	(1,648)
- GEL receivable on settlement (+)	17,189	-
- USD payables on settlement (-)	(17,038)	-
- EUR receivable on settlement (+)	10,261	-
- USD payables on settlement (-)	(9,842)	
- EUR receivable on settlement (+)	12,605	
- GEL payable on settlement (-)	(11,374)	
Fair value of foreign exchange forwards and swaps	**1,801**	**(10)**
Net fair value of foreign exchange forwards and swaps	**1,791**	

31. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

	2019	
In thousands of Georgian Lari	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	30,177	
- GEL payable on settlement (-)	(29,726)	
- EUR receivable on settlement (+)		25,676
- GEL payable on settlement (-)		(26,955)
- GEL receivable on settlement (+)	1,695	
- EUR payables on settlement (-)	(1,605)	
- USD receivable on settlement (+)	2,251	
- EUR payables on settlement (-)	(2,247)	
Fair value of foreign exchange forwards and swaps	**545**	**(1,279)**
Net fair value of foreign exchange forwards and swaps		**(734)**

The gains net of losses from derivative financial instruments for year 2020 amounted to GEL 6,077 thousand. For year 2019 the losses net of gain from derivative financial instrument amounted to GEL 2,867 thousand.

32. FAIR VALUE DISCLOSURES

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

(a) RECURRING FAIR VALUE MEASUREMENTS

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

	31 December 2020				31 December 2019			
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	-	1,791	-	**1,791**	-	-	-	**-**
Non-Financial Assets								
Investment property	-	2,359	-	**2,359**	-	2,210	-	**2,210**
Total Assets Recurring Fair Value Mea-surements		**4,150**	**-**	**4,150**		**2,210**	**-**	**2,210**
Liabilities Carried at Fair Value **Financial liabilities**								
Derivative financial instruments	-	-	-	**-**	-	734	-	**734**
Total Liabilities Recurring Fair Value Measurements	**-**	**-**	**-**	**-**	**-**	**734**	**-**	**734**

32. FAIR VALUE DISCLOSURES CONTINUED

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	2020	2019	Valuation technique	Inputs used
Assets at Fair Value				
Financial Assets				
Derivative financial instruments	1,791		Forward pricing using present value calculations	Market interest rates, official exchange rate
Non-Financial Assets				
Investment property	2,359	2,210	Market approach based on the highest and best use analysis of the property	Price per square meter
Total Assets Recurring Fair Value Measurements	**4,150**	**2,210**		
Liabilities Carried at Fair Value				
Financial Assets				
Derivative financial instruments	-	734	Forward pricing using present value calculations	Market interest rates, official exchange rate
Total Liabilities Recurring Fair Value Measurements	**-**	**734**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2020 (2019: none).

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

32. FAIR VALUE DISCLOSURES CONTINUED

(b) ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE BUT FOR WHICH FAIR VALUE IS DISCLOSED

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

	31 December 2020				31 December 2019			
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	69,974	-	-	**69,974**	19,357	-	-	**19,357**
Due from banks	-	21,383	-	**21,383**	-	-	-	**-**
Net investments in finance lease	-	-	274,964	**270,834**	-	-	265,515	**257,031**
Other financial assets	-	-	6,766	**7,166**	-	-	9,562	**10,111**
Total assets	**69,974**	**21,383**	**281,730**	**369,357**	**19,357**	**-**	**275,077**	**286,499**
Financial liabilities								
Loans from banks and financial institutions	-	262,841	-	**264,246**	-	240,429	-	**242,196**
Debt securities in issue	-	58,400	-	**58,114**	-	-	-	**-**
Advances received from customers	-	4,153	-	**4,153**	-	15,050	-	**15,050**
Subordinated loans	-	35,213	-	**35,412**	-	31,124	-	**31,227**
Other financial liabilities	-	3,052	-	**3,052**	-	8,827	-	**8,827**
Total liabilities	**-**	**363,659**	**-**	**364,977**	**-**	**295,430**	**-**	**297,300**

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

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

33. 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 2020 and 2019 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 financial condition and/or the overall operations of the Company.

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

During 2020, in agreement with international financial institutions, the restructurings related to the COVID -19 for 2020 were not included in the calculation of financial covenants, but rather reported separately for monitoring purposes. The Company was in compliance with the covenants as of 31 December 2020 and as of 31 December 2019.

COMPLIANCE WITH LEASE LIABILITIES. In case of early termination of the lease agreement, the company will be obliged to pay 369 thousand USD, however, termination of lease agreement is not considered by the Company.

34. 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.

34. RELATED PARTY TRANSACTIONS CONTINUED

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

	2020			2019		
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	23,700	-	-	16,993	-	-
Due from banks	16,383	-	-	-	-	-
Net investment in finance leases (effective interest rate: 15.0%-40.0%)	-	-	164	-	-	373
Loans from banks and financial institutions (contractual interest rate: 6%-12,5%)	14,899	-	-	73,858	-	-
Subordinated loans	2,448	135	-	2,448	-	-
Debt securities in issue	20,063	455	-	-	-	-
Derivative financial instruments	1,760	-	-	87	-	-
Other financial assets	-	368	-	1	95	-
Prepayments	-	2,629	-	-	2,667	-
Other liabilities	54	-	-	-	-	-

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

	2020			2019		
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	1,519	-	-	1,377	-	-
Finance income	-	-	48	-	-	60
Other income	1,921	54	-	242	338	-
Interest expense	5,409	191	-	5,467	53	-
Bank and other service charge	-	-	-	-	-	-
Gain from derivative financial instruments	2,009	-	-	322	-	-
Other expenses	66	111	-	71	3,830	-

Key management compensation is presented below:

	2020		2019	
In Georgian Lari	Expenses	Accrued liability	Expenses	Accrued liability
Short-term benefits	798	257	940	422

During the year ended 31 December 2020 and 2019 the remuneration of members of the key management, being the members of the Management Board, comprised salaries, bonuses and compensation of insurance and business trip expenses.

35. EVENTS AFTER REPORTING PERIOD

A pandemic is still spreading in the country, but since the beginning of 2021, the Georgian government has taken measures to decrease the mobility of people by announcing public holidays. Also, the curfew is still in effect. A number of these actions contribute to slowing the pandemic spread.

The first phase of vaccination of the population of the country has also started and the vaccination of the population will continue throughout 2021.

Since the beginning of the pandemic, our company has been actively involved in government programs.
Quickly adapting to remote work mode, workplace hazard controls, protecting the security of the company's customers and employees, providing staff transportation, and developing a weekly work plan - these are nonfinancial issues that the company's management successfully tackles.

To raise funds, the company continues to actively cooperate with international financial institutions, which is important for maintaining stability and liquidity. In addition, in the first quarter of 2021, the company received USD 3.6 million in funding from the EBRD.

2020

2020