



# Catalyzing Economic Growth

Two decades of  
empowering Georgian SMEs



TBC LEASING'S 20<sup>TH</sup> ANNIVERSARY ANNUAL REPORT 2023



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**Who We  
Are**

# At a Glance

## Contributing to Georgia’s economic growth by offering innovative, flexible, and customised asset financing solutions

With 20 years of operational history, we are leading the underpenetrated leasing industry in Georgia with 86% market share, serving up to 2,069 customers and managing a Total Leasing Portfolio of GEL 428 million.

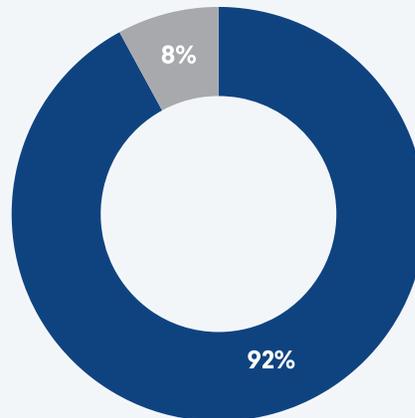
We lead the market by offering a wide range of leasing solutions and complementary advisory services, including financial leasing, operating leasing, and sale and leasebacks to corporates, SMEs, start-ups and individuals. The combination of our asset finance solutions, technical know-how and specialist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

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

We operate within two operating segments: the Business segment, which includes all leases to legal entities or group of entities (MSME and corporate clients) where financed assets can be anything; and Retail segment which includes all leases to all non-commercial individual customers.

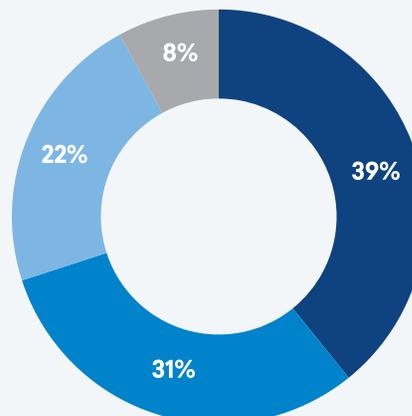
### Total Leasing Portfolio breakdown by Client Segmentation

- Business Segment
- Retail Segment



### Total Leasing Portfolio breakdown by Client Size

- Micro
- Small
- Medium and Large
- Retail Segment





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

Our market-leading position, unique business model, which includes significant sales channels synergy advantages, and our experienced team, make us a compelling investment story.



### **The market leader in Georgia across all operating segments**

- The largest lease provider for Business clients on the market with 87% market share;
- The largest lease provider for Retail clients on the market with 74% market share.



### **A unique business model with vendor and sales channel synergies**

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



### **Long-term high growth opportunities**

- Favourable business and tax environment and an unregulated market;
- Georgia's private sector credit-to-GDP ratio stands at 67%. In 2022, the volume of the SME loan portfolio has increased almost eight fold since 2012, with 28% of bank loans being provided to SMEs in 2022, which reflects favourable economic activity in the country. The leasing industry in Georgia currently represents around 1% of the country's GDP, while the share of leasing is around 5% of GDP in peer countries, which indicates that capacity-wise, the Georgian leasing market has substantial room for growth;
- According to the EIB Bank Lending Survey, there is a significant level of loan rejections in the Georgian market. A lack of eligible collateral and the riskiness of the clients reflects the inability of firms to comply with banks' requirements, making leasing a more attractive way of financing;

# Key Highlights

In 2023, the Company achieved strong financial results, through diversified earning streams, improved employee and customer experience and increased market share.

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**GEL 428 mln**

+25.6% y-o-y on a constant rate base

TOTAL LEASING PORTFOLIO

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**GEL 16.7 mln**

+18.6% y-o-y

NET INCOME

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**24.2%**

-1.6 ppts y-o-y

RETURN ON AVERAGE EQUITY

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**3.9%**

0 ppts y-o-y

RETURN ON AVERAGE ASSET

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**14.5%**

-0.7 ppts y-o-y

NET INTEREST MARGIN

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**1.9%**

-0.1 ppts y-o-y

COST OF RISK

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**51.7%**

+3.8 ppts y-o-y

COST TO INCOME

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**68.0%**

+4.0 pp y-o-y

ENPS



## Fitch Upgrades TBC Leasing's Credit Rating by One Notch

**In 2023, Fitch Ratings upgraded TBC Leasing's Long-Term Issuer Default Rating (IDR) to “BB” from “BB-”, with a Stable Outlook.**

The rating actions follow the upgrade of the Long-Term IDR of TBC Leasing's sole shareholder, TBC Bank (BB/ Stable/bb) on 5 May 2023. The Stable Outlook mirrors that of the parent company. The key rating drivers are listed below.

TBC Leasing's IDRs are driven by support from TBC Bank. Fitch believes the propensity of the parent company to support TBCL is high, reflecting its full ownership, common branding, integration, a record of capital and funding support and high reputational risks from a subsidiary default. Fitch believes that a failure to support TBCL would significantly damage TBC Bank's reputation with its key lenders, undermining its business model and growth potential.

To support TBC Leasing's growth, TBC Bank has provided capital and funding in recent years. The parent company has approved an injection of GEL 3.2 million (USD1.3 million) to be disbursed according to TBC Leasing's needs and has provided a contingency funding line. TBC Bank provides TBCL with letters of support to enable third-party borrowing and facilitates TBC Leasing's bond placements.

For the most recent ratings actions, please follow this link: [fitchratings.com/entity/jsc-tbc-leasing-96849823#rating-actions](https://www.fitchratings.com/entity/jsc-tbc-leasing-96849823#rating-actions)

## Issuance of GEL 100 Million Bonds

In 2023, we successfully issued GEL 100 million 3-year public bonds. The use of proceeds from the placement were directed towards supporting the Company's portfolio growth and repaying of existing public bonds. Along with Georgian commercial banks, which use these securities to attract additional GEL resources from the National Bank of Georgia, the Pension Fund and Georgian insurance companies also invested in bond, which is the second local corporate security purchased by the Pension Fund.

# CEO Statement



## Dear Stakeholders,

I am delighted to share with you our remarkable achievements in 2023. Despite the challenging geopolitical climate in Georgia and the wider region, our company continued to thrive, delivering a strong financial performance and advancing towards our strategic objectives.

2023 was a year full of change and uncertainty around the world. The ongoing conflict in Ukraine served as a stark reminder of the importance of unity and solidarity in times of crisis. At TBC Leasing, we stand in unwavering support of Ukraine and its people, extending our deepest sympathies to those affected by the conflict. We admire the resilience and courage of the Ukrainian people and remain committed to offering any assistance and support within our means. Our thoughts and prayers are with Ukraine as they continue to navigate through these challenging times.

## 2023 At a Glance

Financially, 2023 was another standout year for TBC Leasing, with record-breaking results. We achieved a net income of 17 million GEL, marking a 19% y-o-y increase. Our total leasing portfolio grew by an impressive 26% in constant currency terms, reaching 428 million GEL. These results underscore our unwavering commitment to delivering value and sustainable growth for our stakeholders.

In a significant milestone for TBC Leasing, we embedded the issuance of green leases into our strategy for the first time this year. This strategic shift reflects our commitment to environmental sustainability and our recognition of the role that businesses can play in mitigating climate change. In line with this strategic decision, we have taken a proactive step by issuing local currency denominated public green bonds, under which GEL 15 million will be directed towards financing our green leasing portfolio.

As we conclude 2023, I am pleased to announce that our sustainable leasing portfolio has reached a significant milestone, standing at GEL 32.1 million at the end of the year. Looking ahead to 2024, we have set an ambitious target to increase our leasing portfolio by 25%. This target reflects our confidence in our strategic direction and our commitment to driving sustainable growth in the leasing market. With a robust portfolio and a dedicated team, we are well-positioned to capitalise on emerging opportunities and further solidify our position as a leader in the industry.

While we are excited about the potential impact of green leases, we acknowledge that there is still work to be done in raising awareness among our clients about the benefits of environmental protection. Despite the challenges, we remain steadfast in our dedication to promoting sustainable practices and will continue to engage with our clients to highlight the advantages of adopting green leasing solutions.

I am particularly proud to highlight that our efforts have been recognized on multiple fronts. In 2023, Fitch Ratings upgraded our rating by

one notch to BB with a stable outlook, the highest rating among non-banking financial institutions in Georgia, affirming our strong financial standing and prudent management practices. Additionally, TBC Leasing was honoured to receive the prestigious Best Annual Report and Transparency Award for the third consecutive year from BARTA, underscoring our commitment to excellence in reporting and transparency.

Reflecting on the past year, our strategic focus centred on expanding our presence in the MSME segment and enhancing employee satisfaction. Through meticulous market analysis and close collaboration with our clients, we gained valuable insights into their financial needs and preferences, enabling us to offer tailored solutions and grow our MSME portfolio by 28%. This achievement speaks to our unwavering dedication to supporting small and medium-sized enterprises and simplifying asset financing for them.

None of our accomplishments would have been possible without the dedication and expertise of our exceptional team. We remain committed to nurturing talent and fostering a culture of growth and development. Our robust employee net promoter score (ENPS) of 68% in 2023 reflects the positive impact of our investment in talent development and our supportive work environment.

Looking ahead, we are excited about the opportunities that lie ahead in the leasing market in Georgia. While new players have entered the market, our customer-centric approach and unique product offerings have positioned us as the preferred choice for leasing financing, with a market share exceeding 86%. We will continue to innovate and enhance our product suite to further elevate customer satisfaction and drive sustainable growth.

## **Outstanding Financial Results and a Strong Capital Position**

Our strong financial performance stands as a testament to our prudent capital management and operational excellence. Throughout the fiscal year, we diligently maintained robust Tier 1 and Total Capital ratios, standing at 18% and 27%, respectively. These figures significantly exceed the minimum requirements of our supervisory board and creditors, highlighting our steadfast commitment to financial stability and resilience.

## **Looking Forward**

As we embark on the next phase of our journey, we remain steadfast in our commitment to achieving our medium-term targets, including return on equity (ROE) of more than 25%, a cost-to-income ratio of less than 50%, annual portfolio growth more than 25% and significant growth of retail portfolio share, up to 20% of total leasing portfolio. These ambitious goals reflect our confidence in our strategic direction and our relentless pursuit of excellence.

In closing, I extend my heartfelt gratitude to our dedicated team for their hard work and unwavering commitment to our shared vision. Together, we will continue to drive innovation, deliver value for our stakeholders, and shape the future of leasing in Georgia.

Thank you for your continued support and partnership.

**Gaioz Gogua**

CEO

13 May 2024



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# **Operating Environment**

# Georgia's Economic Overview

Georgia has one of the fastest developing economies in the region. Georgia's economy expanded rapidly during the pre-pandemic period, with nominal GDP growing at a robust compounded annual growth rate of 8% over last five years. After two successive years of double-digit growth in Georgia, economic activity moderated somewhat but remained strong in 2023. Responsible macro policies, intensifying global integration, sound public investments, an attractive business environment, improving governance, and rising public spending underpinned this progress.

According to the IMF's projections, real GDP growth is expected to be on average 5.3%<sup>1</sup> in the period 2023–2028.

**One of the fastest developing economies in the region**

Real GDP Growth by countries | 2023-2028 Growth Average



Source: IMF World Economic Outlook Database, October 2023

**Broad-based and diversified nominal GDP structure**

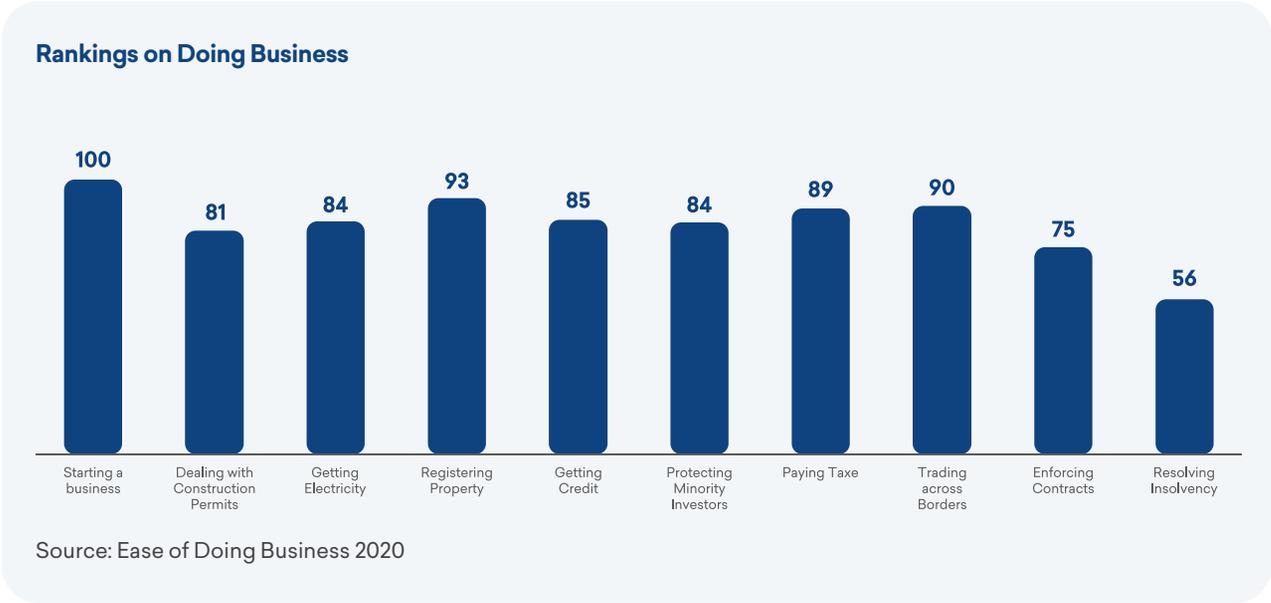
Nominal GDP Structure



Source: Geostat, 2022

<sup>1</sup>Source: IMF World Economic Outlook, October 2023

Georgia was ranked as one of the best performers in the World Bank's Doing Business 2020 report and was ranked 7<sup>th</sup> with a score of 83.7, above the regional average on almost every indicator. Furthermore, Georgia's Economic Freedom score as measured by the Heritage Foundation is 71.8, making its economy the 26<sup>th</sup> freest in the 2022 Index out of 177 countries. Georgia is ranked 18<sup>th</sup> among 45 countries in the Europe region, with an overall score above the regional (69.5) and world averages (60.0).



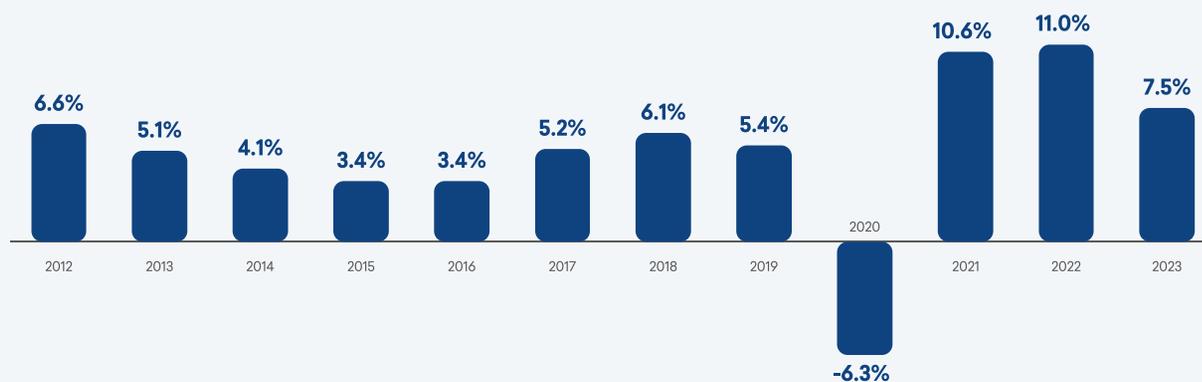
Georgia has 19 preferential trade agreements in force. The Association Agreement with the European Union (EU) signed in 2014, which includes a Deep and Comprehensive Free Trade Area preferential trade regime, and free trade agreements with other major trading partners such as the EU and China, position Georgia well to attract foreign direct investment. The FTA with China, effective from January 2018, and the FTA with Hong Kong, effective from February 2019, increase opportunities to further accelerate our export markets and to attract investors by offering a business-friendly environment, high quality governance and access to a market of three billion customers without customs duties. Visa-free travel to the EU, which was granted to Georgian passport-holders in March 2017, is another major success of Georgian foreign policy.

# 2023 Economic Update

## Economic Growth

After two successive years of double-digit growth in Georgia, economic activity moderated somewhat but remained strong in 2023, with real GDP increasing by 7.5%.

### Real GDP Growth (%)



Source: Geostat

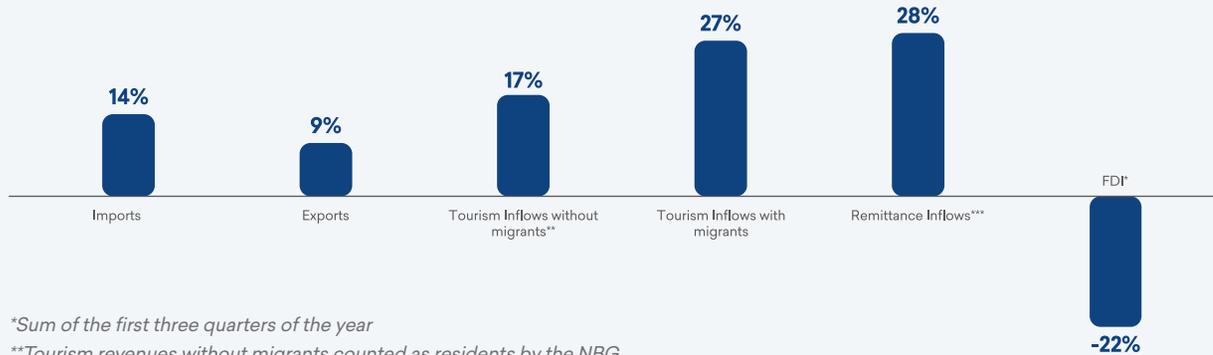
## External Sector

The negative impact of lower international commodity prices on both exports and imports noticeably affected external sector activity throughout 2023. Specifically, the growth of exports and imports denominated in US dollars moderated to 9.1% and 14.0% for the full year 2023, respectively. Importantly, these commodity price dynamics had a particular impact on domestic commodity exports, while re-exports performed strongly. At the same time, the increase of the share of IT services in Georgian exports was notable, with a major driver being the arrival of migrants in 2022.

Given the high base effect caused by elevated immigration in 2022, the annual growth of tourism inflows also normalized to 17.3% y-o-y in 2023, as migrants were gradually counted as residents by the NBS and so were excluded from the tourism sector. At the same time, the share of conventional tourism in total inflows increased, as spending excluding visitors from Russia, Belarus and Ukraine increased by 38.2% y-o-y. Therefore, while the migration peak is likely to be in the past, conventional tourism inflows have at least had a balancing impact. Moreover, remittances also maintained a positive momentum throughout the year after adjustment for Russia, increasing by 27.9%<sup>1</sup> y-o-y, despite decreasing notably in fourth quarter. The high base effect, combined with a significant drop of debt instruments and lower reinvestments, drove an annual reduction in FDI to Georgia of 61.5% in third quarter. Nevertheless, once the record high level of FDI in 2022 is taken into account, foreign investments in 2023 also appear solid.

<sup>1</sup>Remittances from Russia are adjusted for double counting with tourism inflows and other similar effects, based on TBC Capital estimates.

### Y-o-Y Growth of External Inflows and Imports in 2023 (%)



\*Sum of the first three quarters of the year

\*\*Tourism revenues without migrants counted as residents by the NBG

\*\*\*Remittances from Russia are adjusted for double counting with tourism inflows and other similar effects, based on TBC Capital estimates.

Source: NBG, Geostat

### Fiscal Stimulus

It is important to highlight that the strong recent economic growth is not a result of fiscal stimulus. In fact, fiscal consolidation is underway. After reaching 9.2% of GDP in 2020 and a lower, but still large, level of 6.0% in 2021, the budget deficit stood at 3.0% in 2022 and 2.8%<sup>2</sup> in 2023.

### Credit Growth on a Constant Currency Basis

As of December 2023, bank credit increased by 17.0%<sup>3</sup> y-o-y, compared to 12.1% growth at the end of December 2022, at constant exchange rates. The relative acceleration at the end of the year was mainly driven by business loans, while retail credit growth has moderated. At the same time, as inflation reduced significantly, the y-o-y growth in real credit increased from 2.4% in December 2022 to 16.5% in December 2023.

### Inflation, Monetary Policy, And the Exchange Rate

While first half of the year was still very strong in terms of foreign currency inflows, the second half was characterized by normalization towards the long-term trend. Accordingly, while the GEL exchange rate experienced some volatility throughout the year, currency inflows aided by central bank interventions in the second half of the year were sufficient to keep the rate broadly stable. USD/GEL stood at 2.69 at the end of December, almost unchanged from 2.7 at the end of December 2022. Strong dynamics in the first half enabled the NBG to accumulate all-time-high foreign currency reserves topping USD 5 billion. Throughout the year, the central bank purchased 1,449 million USD and sold 169 million USD.

As a result of a broadly stable GEL and sustained disinflationary pass-through from international markets, CPI inflation reduced significantly from 9.8% in December 2022 and stabilized well below the NBG target of 3%, standing at 0.4% y-o-y in December 2023. Domestic and service inflation measures also normalized around the target. Due to low inflation, the NBG delivered four rate cuts of 150 basis points in total, reducing the Monetary Policy Rate (MPR) to 9.5%.

### Going Forward

Economic activity in Georgia moderated somewhat but remained strong in 2023 at 7.5%. Further normalization is expected with Georgia's real GDP increasing by 5.6% in 2024 and 5.4% in 2025, according to TBC Capital projections. More information on the latest analyses and projections can be found at [www.tbccapital.ge](http://www.tbccapital.ge).

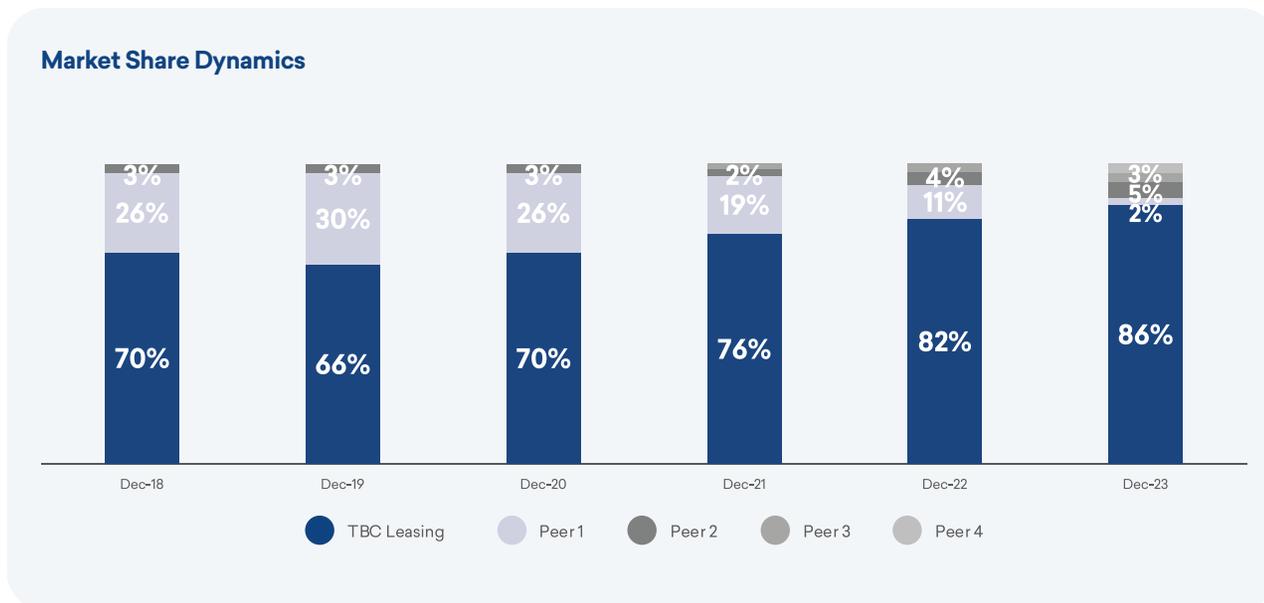
<sup>2</sup> Per IMF program definition.

<sup>3</sup> Based on data published by NBG and FX-adjusted by TBC, based on Dec-2023 end of period exchange rate.

# Industry and Market Overview

The Georgian leasing industry is dominated by five main companies with a focus on large and SME Institutions, while the retail leasing market is largely unexploited. In terms of market share, we maintain our position as a market leader and hold 86% of the market as of December 2023.

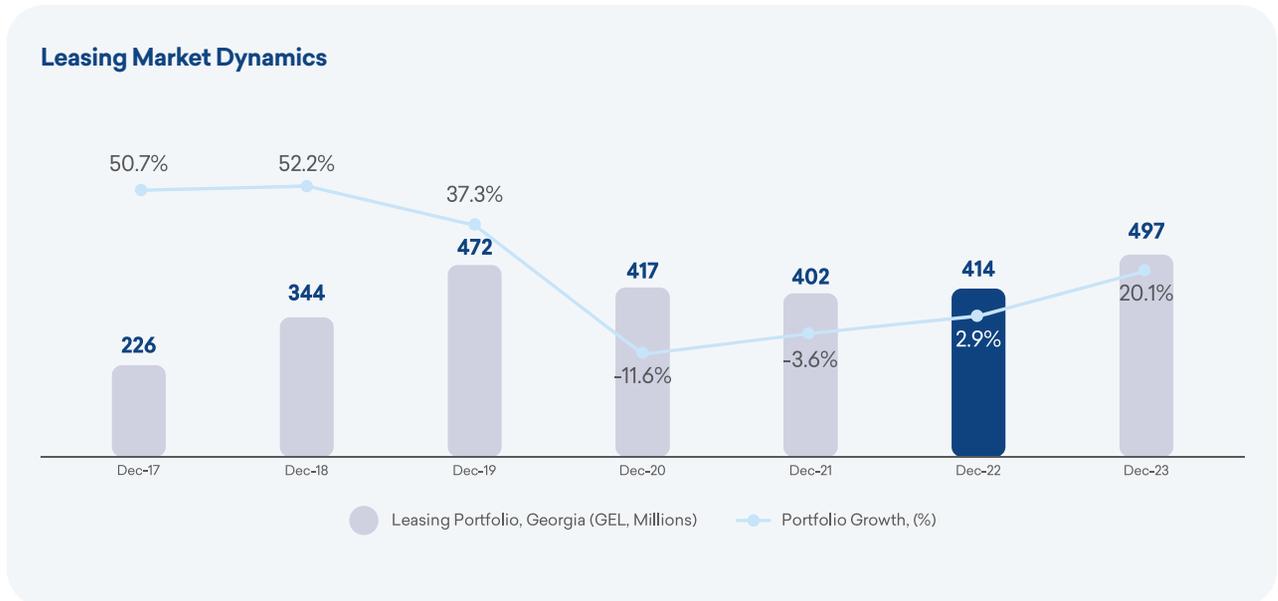
**Leader in Georgia with established #1 market position**



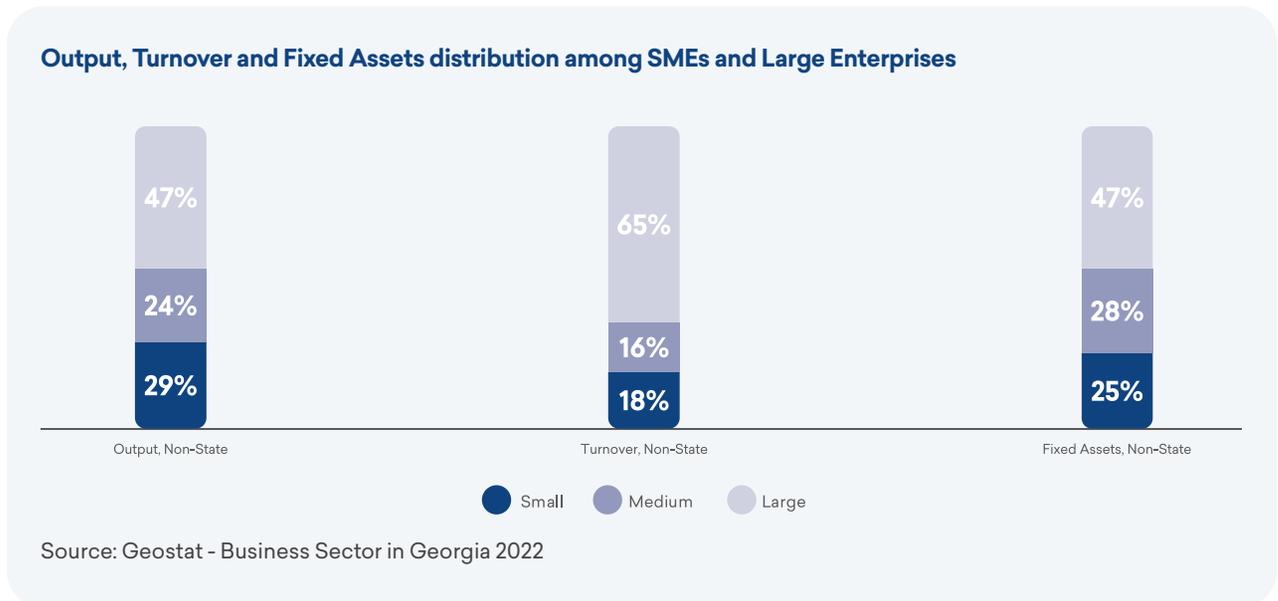
The Georgian leasing industry is at an early stage of its development and is likely to follow broader developments in the economy. The leasing industry in Georgia currently represents around 1% of the country's GDP, with a leasing portfolio of GEL 497 million. Considering that the share of leasing is around 5% of GDP in peer countries, the Georgian leasing sector has substantial room for growth; in the case of Georgia, this would mean a portfolio of GEL 3.4 billion or market potential of GEL 2.5 billion. The leasing industry in Georgia is developing rapidly and becoming increasingly competitive.

Over the last five years, the Georgian leasing market posted 7.6% CAGR. The foremost reason behind the double-digit growth of the sector is that awareness of leasing products as an alternative way of financing has substantially increased among SMEs, which is the main target customer group for leasing products.

**Growth in leasing market expected to continue**



**SMEs dominate the enterprise landscape of Georgia and account for 53% of total production value and 35% of turnover in the private sector.**

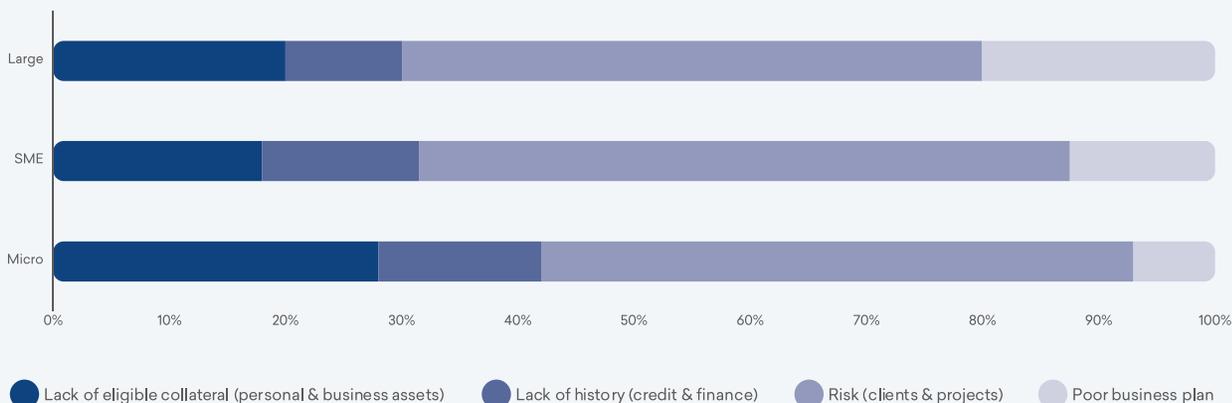


According to a research report from the European Investment Bank, access to funds remains one of the main limitations for SME development in Georgia. The main reasons for rejecting applications are lack of eligible collateral, lack of credit history, project riskiness and poor business plans.

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

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

### Reasons for Loan Application Rejections



Source: Financing in Georgia - Small and medium enterprises and the private sector 2019

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

So far, leasing as a product is at an early stage of development and has not reached its full potential. The main leasing market portfolio consists of standard financial leasing. 100% of our portfolio is asset-based leasing. Given the generally positive development trends in the industry and increased opportunities in the machinery leasing market, it is likely that the operating leasing market will slowly strengthen and provide more incentives for bank-owned leasing companies to develop in this direction.

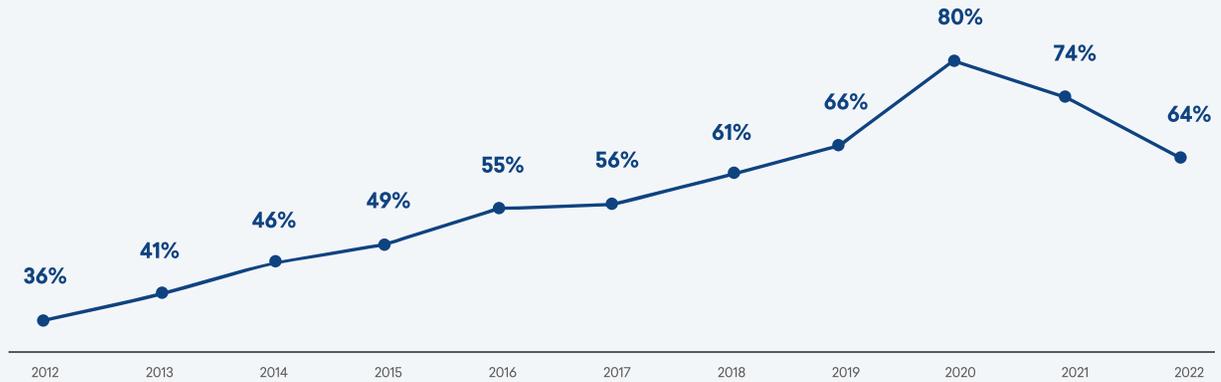
With the banking sector growing, access to financing has improved. The expansion in financial activity reflects the favourable economic environment in Georgia. Georgia stands alongside other peer countries in terms of private sector credit-to-GDP.

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



Source: World Bank, 2022

### Private Sector Credit-to-GDP (Georgia 2011-2022)



Source: World Bank, 2022

The volume of the SME portfolio has increased almost eight fold since 2012, with 28%<sup>1</sup> of all loans being provided to the SME segment. In terms of capacity, the Georgian leasing sector has substantial room for growth. It should be noted that since micro, small and medium enterprises make up the majority of the business in Georgia, their activities and investments are crucial for the economic development of the country. Leasing, in turn, is the best financial instrument for financing fixed assets in micro, small and medium businesses.

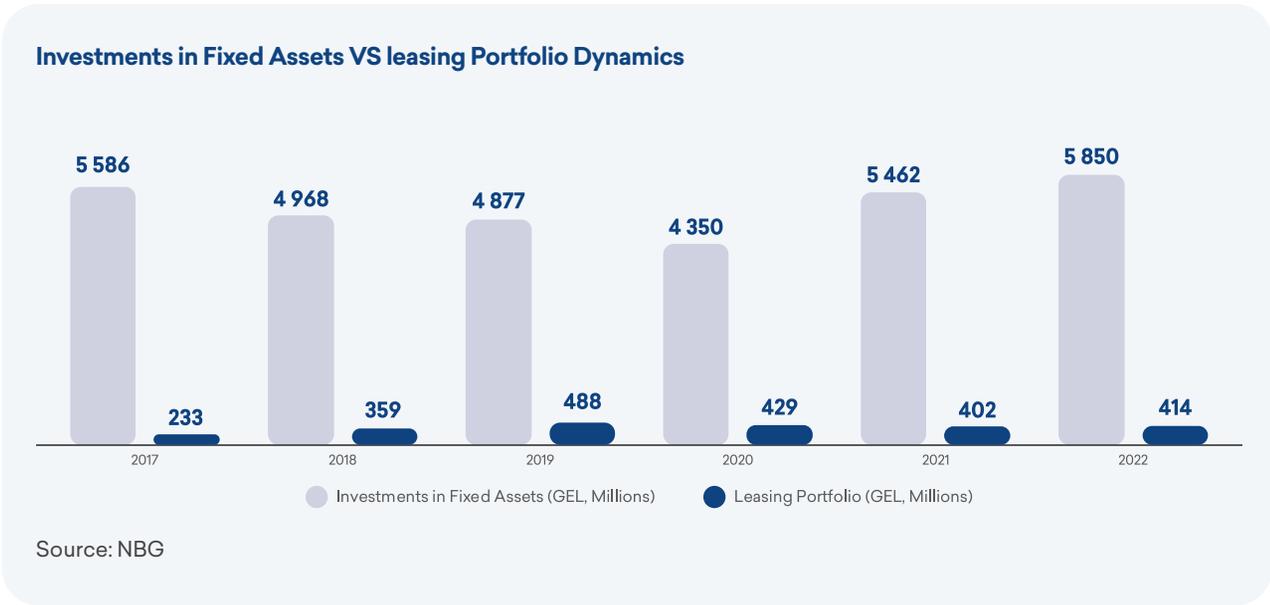
### Composition of the Loan Portfolio by Segment (Excluding Interbank Loans, GEL Billions)



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

Source: NBG

<sup>1</sup>Source: National Bank of Georgia



## Regulatory Environment

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

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

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

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

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



Chapter **3**

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# **Business Model**

## Creating market-leading leasing products and services through innovation and expertise, delivering flexible funding solutions for georgian businesses, thereby creating value across the economy

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

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

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

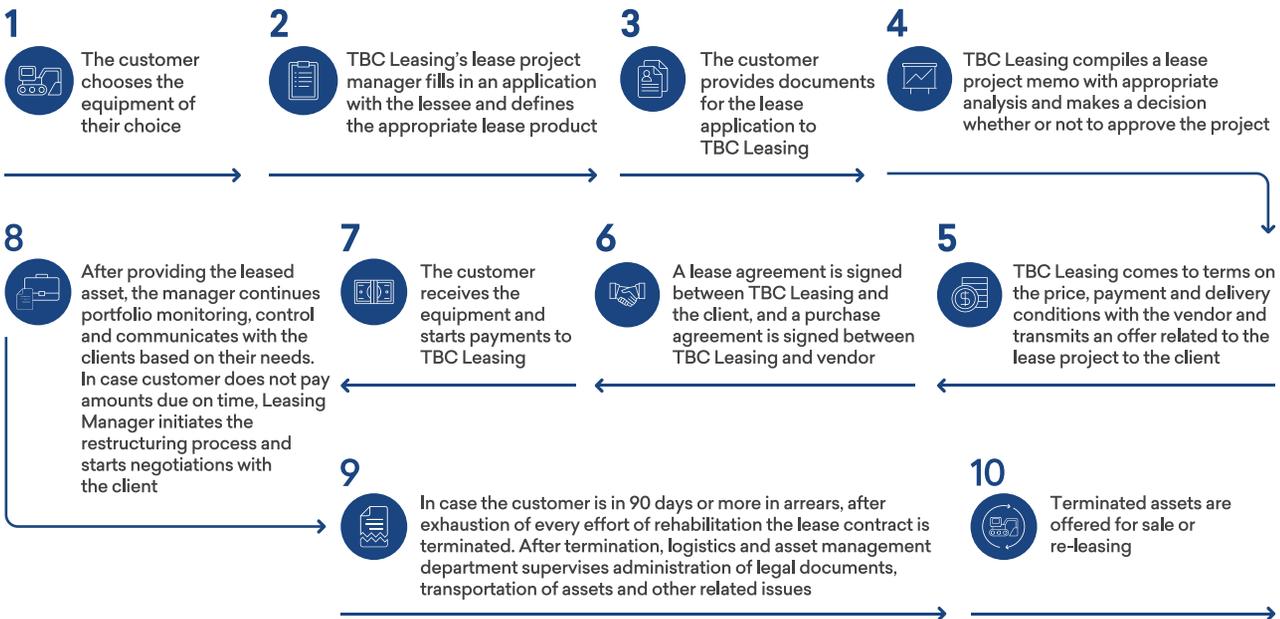
Our solutions mainly comprise leasing and asset financing for machinery and equipment, vehicles, construction equipment, agricultural equipment, IT and communications equipment, medical technology, real estate, and large-scale movable assets (aircrafts, yachts, etc.).

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

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

Through leveraging our business know-how, experience and knowledge, we provide our asset expertise and leasing solutions tailored to our clients' business activities. This is facilitated by our Asset Management Department, which brings together a team of employees whose competencies include detailed knowledge of the characteristics of different types of assets.

### Leasing Process



## Geographical Coverage

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

We have four branches in the largest cities of Georgia. In 2023, we opened our new branch on the 10th kilometer of Aghmashenebeli alley in Tbilisi, where customers will be able to receive leasing services for new and second-hand cars, agricultural and heavy machinery.

## Customer Base

Our customers range in size and scale from small, medium and corporate businesses to retail individuals, supporting them to finance and expand their business activities. Our customer base is also diversified across industries with no industry representing more than 25%. Our diversified customer base includes all sectors of the economy, including Construction, Development, Services, Road Construction, Medicine, Agriculture, Trade, HoReCa, Light Industry, Renewable Energy, Automotive, Technology, Media and Telecommunications and Printing.

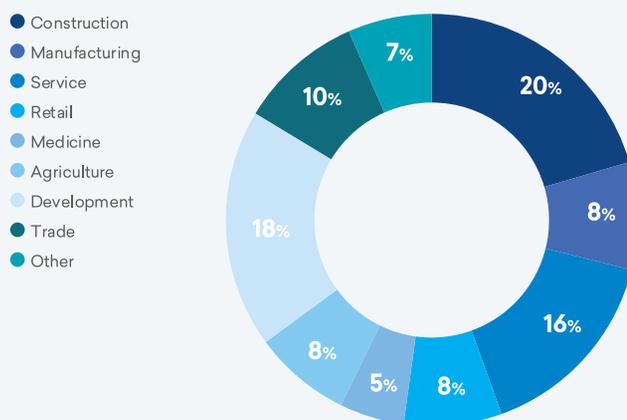
## Operating Segments

Our operating segments are components that engage in business activities that may earn revenues or incur expenses. Our operating segments are:

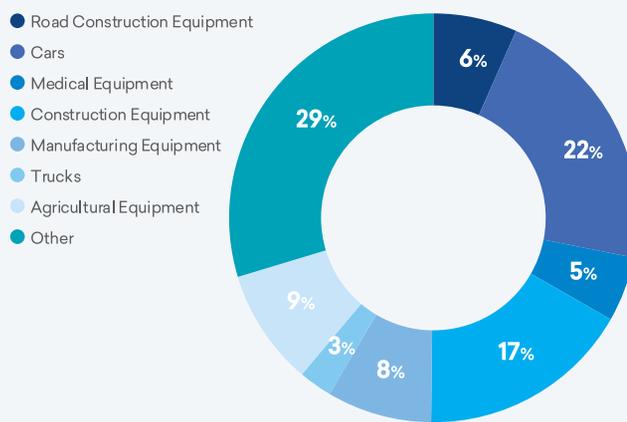
- Business, which includes all leases to legal entities or group of entities where financed assets can be anything;
- Retail, which includes all leases to all non-business individual customers.

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

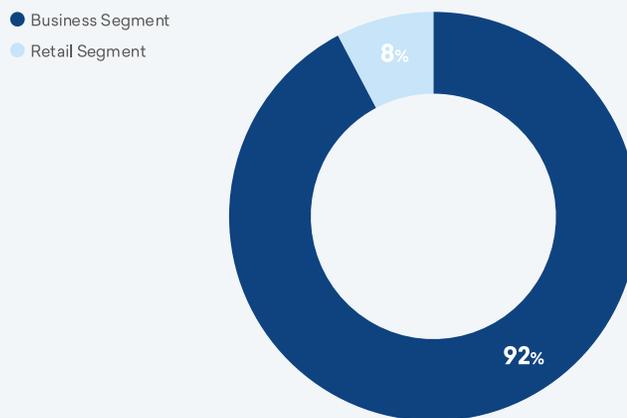
### Total Leasing Portfolio breakdown by Industries



### Total Leasing Portfolio breakdown by Asset Type



### Total Leasing Portfolio breakdown by Client Segmentation



Chapter **4**

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# **Segment Overview**



# Business

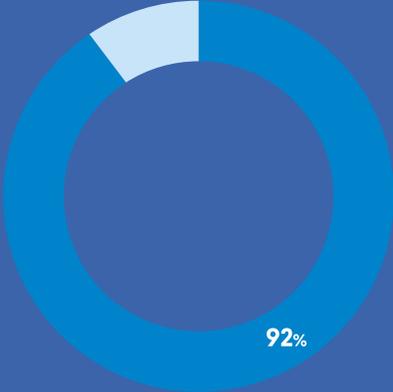
# Segment

We are the leading lease service provider for the Business segment in Georgia, holding 87% market share with 525 Business segment clients and a 394 million GEL Total Leasing Portfolio as of 2023. In 2023, our Business Total Leasing Portfolio, has grown by an average of 17% per annum over the last three years.

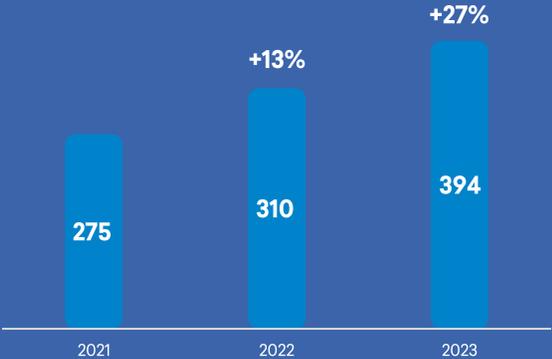
The Business segment comprises 92% of the Total Leasing Portfolio and is well-diversified across different industries.

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

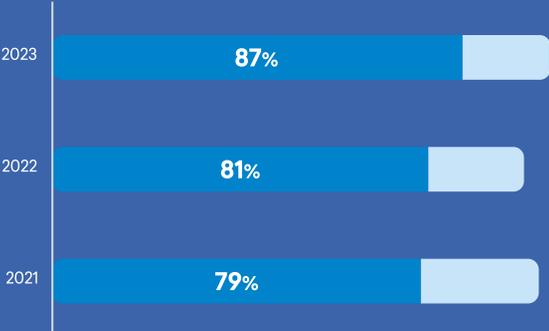
**Business Segment Share in the Total Leasing Portfolio**



**Business Segment Total Leasing portfolio (GEL, Millions)**



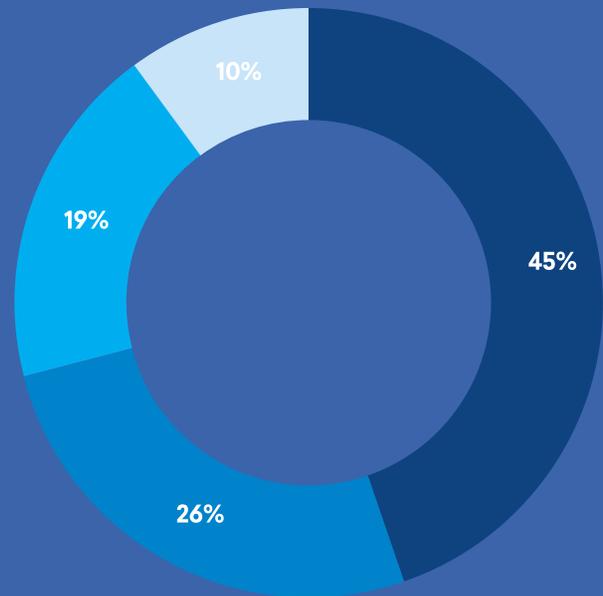
**Business Segment Market Share Dynamics**

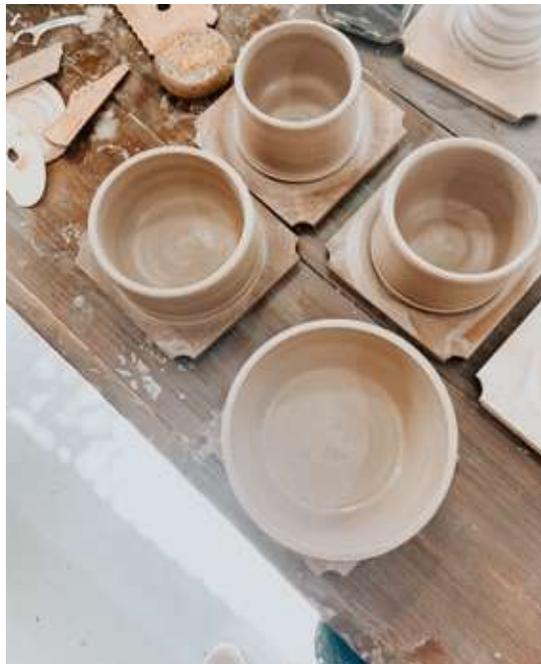




### Business Segment Total Portfolio Breakdown By Sectors

- Real Estate and Construction
- Healthcare and Service
- Manufacturing and production
- Automotive





## Solutions Offered

### Financial Leasing

Financial Leasing is an effective investment method for our customers, providing the right of usage of any new or secondary assets such as machinery or equipment chosen by the customer for predetermined lease monthly instalments, with ownership of the asset remaining with the leasing company. Apart from lease financing, we also offer complementary value added services, such as equipment advisory services and after-sale asset maintenance services. Financial lease is 100% of the Company's portfolio.

#### Cooperation with Enterprise Georgia

The program aims to support the development of businesses in fields of economy prioritized by Georgian government and the diversification of domestic production, through the creation of new enterprises and the expansion and re-equipment of existing enterprises. Within the framework of this project, leases in the range of GEL 100,000-5,000,000 are subsidized for the lease interest rate by the national refinancing rate minus 3% for the full term of the lease. In 2023, we financed 19 projects under the subsidy program, with a total of GEL 11,096,457.

In 2022, in order to promote the growth of export-oriented small and medium-sized businesses, Enterprise Georgia launched an Export Assistance Program. The program provides technical assistance to exporting companies through the elimination

of export barriers in beneficiary companies, the introduction of export incentive mechanisms to facilitate the diversification of export markets, products and services, identifying sectors and products with high export potential, and stimulating international sales.

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

## Cooperation with Rural Development Agency ("RDA")

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

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

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

In 2023, we financed 29 projects under the subsidy program, totalling GEL 6,846,277.

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

## Quick Leasing for Construction, Medical and Agricultural Equipment

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

## Commercial Real Estate Leasing

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

## Automotive Leasing

Under our Automotive segment, we finance new, second-hand imported and second-hand local cars for individuals. We are the leading provider of automotive leasing solutions, including vehicle fleet leasing managing the entire vehicle lifecycle for our clients from purchasing and maintenance to car remarketing. Our expertise in vehicle fleet management has been developed over a decade, enabling us to provide technical support and ongoing management services for the entire commercial vehicle life cycle.

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



# TBC Leasing has been supporting the Georgian business environment for 20 years. Since its inception, TBC Leasing has been providing funds that help businesses grow

Supporting the Georgian business environment and contributing to the development of country's production capacity has been a major cornerstone of TBC Leasing's mission. With a commitment to offering financing solutions tailored to clients' business activities, TBC Leasing has grown to become the country's leading provider of alternative financial services for SME's, start-ups and individuals over the past 20 years.

New businesses, especially those with no credit history, have a hard time securing bank loans. Fortunately, we support start-ups to invest in crucial equipment and assets for the future and give access to technical support while optimising their cash flow and working capital. In 2023, we actively supported Georgian start-ups, some of which started to export to foreign markets. In 2023, several notable projects were financed.

## Green Paper

Our investment in Green Paper was one of the largest investments in production across the region. The company focuses on the production of corrugated cardboard boxes and paper and recycling paper waste. The raw materials for the production are imported from Holland, Turkey, Israel, and other countries and processed with specialized equipment and machinery. The company mainly serves large and small legal entities.

TBC Leasing supported the company to replace and upgrade the production equipment and machinery which stemmed factory productivity through optimizing and simplifying production processes. The project also benefited from the Enterprise Georgia's subsidize program.





## SIXT

In 1920, Martin Sixty opened the first car-rental service in Bavaria, Germany with just three cars. Today, SIXT is a symbol of flexibility, comfort and reliability and can be found in almost all major airports around the world. The company's state-of-the-art digital process landscape makes it possible to maximize ease of service with minimum effort from customer's side. Sixt is represented in 13 countries and in around 100 franchise markets worldwide. With the support of TBC Leasing, the company financed the expansion of its fleet in Georgia.

## Production of the First Georgian Electric Vehicle

TBC Leasing and Sena Auto have signed an investment memorandum under which Sena Auto will start production of the first Georgian electric car, SENA E400. The demand analyses conducted by the company revealed that there are no compact electric sedans on the market for corporate and taxi segments. For this reason, the company created why a sedan-type model with 400 kilometers of mileage with an affordable price. SENA E400 car will be available for sale from 2024.





## Black Sea Arena

Black Sea Arena is the biggest concert hall in the country, located in Guria, Shekvetili, on the Black Sea Coast. The music arena is built on 30,000 square meters of land and can host up to 10'000 people. The concert hall has hosted a wide variety of events, including concerts by Aerosmith, the Scorpions, The Black Eyed Peas, Vanessa Mae, Jessie J, Ennio Morricone, Led Zeppelin's soloist Robert Plant, and Sir Elton John.

In 2023, Imagine Dragons, Bruno Mars and The Killers were some of the international stars included in Georgia's Starring Georgia campaign, a programme of performances aimed at promoting the country's tourism, economy and culture and putting Georgia on the map as an international event destination. TBC Leasing supported the concert hall in obtaining world class equipment.

## 9 MTA

With the support of TBC Leasing, 9 MTA opened its first craft beer space in Batumi, where beer lovers can taste various types of beer together with an assortment of delicious food. "9 Mta" was specially created for the Georgian market in Norway, with the participation of Jikjun Kjetil, the first Norwegian craft brewer, helping to develop the company's products. The company's aim is to refine and diversify the Georgian beer market and to establish a craft beer culture in the country.

The bar offers 24 beer taps from leading international breweries such as Mikkeller, Nogne, BrewDog, BRLO, Stone, ToOI, Omnipollo and five distinctive beers of its own concoction.





## The First Mobile Wine Factory in Georgia

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

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

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

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

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

## Medical Mall

The Medical Mall's business model will bring together advanced technologies, state-of-the-art equipment, and multi-disciplinary medical specialists, to provide the best healthcare service in the country in one place. Demand for this type "one-stop-shop" institution has increased significantly, especially in the post-pandemic period, enabling the Medical Mall concept to provide more flexible and affordable services to its customers across the country.

TBC Leasing supported the company through financing medical equipment. The opening of the center is planned in September 2024.



## NUTS INCORPORATED

### A Georgian Perspective for Developing Nut Crops

Nut crops belong to that rare species whose prices in the world market are characterized by a stable growth trend. In particular, since demand for nuts is increasing in European Union countries, leading to higher prices, Georgian entrepreneurs are increasingly attracted to this area.

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

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

## CAFE DAPHNA

### A Favorite Spot for Tourists

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

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



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

Leasing itself is green in the way that it enables businesses to invest in newer, more efficient, less resource-intensive equipment. Rather than commit capital to purchase machinery outright – especially if there is older, less-efficient equipment currently doing a job – it makes sense to approach a leasing company and ask them to finance the deal.

One of the most promising avenues for leasing in Georgia is still under-exploited: the rapid growth of investments in sustainable equipment (i.e. energy efficiency, renewable energy, and cleaner production).

As part of that sustainability drive, we support our clients to shift towards a greener future by financing sustainable assets. Many of our projects focus on the environment and clean energy, such as solar panels, wind power and small-scale hydro power plants. We have facilitated financing of energy-saving agricultural and manufacturing assets and as of 2023 our green portfolio totaled 32.1 million GEL, out of which 1.8 million GEL was solar panel installations. Furthermore, as of 2023, hybrid vehicles amounted 4.3 million GEL in our portfolio.

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

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

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

To facilitate renewable energy consumption and shift our clients' interest towards sustainable energy usage, we have cooperated with the Rural Development Agency and Enterprise Georgia to offer subsidy programs that significantly reduce our clients' monthly lease instalments and optimized energy costs.

## DEEP GREENING – Scaling Initiative: Promoting Solar Pv Systems in Georgia

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

In parallel with the GGF credit facility, we are also supporting key green services associated with solar PV projects, namely the design and installation costs to our clients. The total grant budget is 150,000 EUR and is available to commercial and industrial clients, covering the design and installation costs of up to 10,000 EUR per client.

To date, we have financed solar panel projects with a total financing volume of c. 6.5 million GEL, each of them received a grant up to 10,000 EUR for design and installation of solar panels. The GGF grant is subsidised with the funding from the European Union under the EU4Energy Initiative.

## Digital Solar Marketplace (“DSM”)

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

## SEGMENT OVERVIEW CONTINUED

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

The digital marketplace enables interested clients to provide the main characteristics of their prospective solar photovoltaic (PV) project and obtain quotes from partner solar PV suppliers. The platform has a leasing and impact calculator for solar PV systems, based on the quotations obtained from our vendors. The calculator enables potential clients to calculate leasing rates from different technology suppliers, including the main impact metrics such as energy & carbon dioxide (CO<sub>2</sub>) emission reduction, savings in monetary terms and the estimated payback period.

The PV online marketplace will raise awareness about the technology, attract potential clients, foster close communication by bringing all involved parties together, stimulate better offers from vendors (by increasing competitiveness), and strengthen relationships with the vendors.

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

### Increasing the Availability of Funding for Energy Efficient Projects

As part of our support for local businesses, especially small and medium-sized enterprises, we have so far successfully attracted significant financial resources from our partner International Financial Institutions.



In 2023, for the first time in the history of the local capital market, we successfully placed national currency denominated green public bonds among financial institutions. The placement volume amounted to 15 million GEL. The proceeds from the issuance will be used to finance the growth of the company's green leasing portfolio. The decision to issue green bonds, along with financing energy-efficient assets such as electric vehicles, production equipment, and solar panels, is in line with our goal to help increase the availability of sustainable financing in the country and to support the development of the local capital market.

Within the framework of the issuance, we obtained a Second-Party Opinion on the Green Bond Framework from Scope Ratings, an international ratings company. Scope Rating's assessment revealed that our bond framework is fully aligned with the Green Bond Principles developed by the International Capital Markets Association (ICMA).

In the framework of this placement, TBC Leasing became a winner of the Capital Market Support Program for the first successful placement of GEL denominated green bonds among financial institutions on Georgia's capital market, which included a generous contribution to co-finance issuance-related fees from the European Union. The support mechanism is being implemented by the European Bank for Reconstruction and Development (EBRD).



In 2023, we concluded our second successful transaction with PROPARCO designed to promote sustainable economic development in Georgia, following our first collaboration in 2019. This 10-million-euro financing will help us to support Georgian SMEs while fighting against climate change and supporting women's economic empowerment. 40% of the credit line will be specifically targeted towards clean energy and energy efficiency projects, while 10% will support projects that empower women as entrepreneurs, business leaders, employees, and as consumers of products and services that enhance their economic participation.



The European Fund for Southeast Europe ("EFSE") provided seven million euros to promote sustainable economic development in Georgia among micro, small and medium enterprises (MSMEs), marking our second successful transaction with the fund. The new facility will support various leasing programs in Georgia. The MSME sector constitutes TBC Leasing's main customer segment. MSMEs are a growing sector with emerging economic potential and dominate the corporate landscape of Georgia, accounting for 55% of total production value and 35% of turnover in the private sector, thus playing a key role in the country's economic development.

In 2020, the European Bank for Reconstruction and Development (EBRD) secured three million euros as part of the European Union's EU4Business initiative for TBC Leasing. The program aimed to help finance investments in MSMEs to support sustainable investments in technologies, meeting best standards in the field of product quality, occupational health and safety, environmental protection, and promoting the use of green technologies, thereby enhancing MSMEs' competitiveness locally and regionally.

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

As part of the EU4Business initiative, we also received an incentive grant and free technical assistance from high-level international expert consultants who facilitated the successful operation of the program by assisting with implementation, monitoring and the provision of technical assistance to our clients in terms of meeting the technical eligibility criteria. Under this arrangement, three million EUR will be directed towards green technologies and clients will benefit with 10% cash back on their green investments.

# 7.5%

GREEN PORTFOLIO SHARE IN  
TOTAL LEASING PORTFOLIO

# 32,120,244

GREEN PORTFOLIO VOLUME, GEL

# Retail Segment

We are a leading lease service provider for vehicle financing among non-business, individual customers holding 74% market share with a Total Leasing Portfolio of 34 million GEL as of 2023. The Retail segment comprises 8% of the Total Leasing Portfolio and is one of the most active and fast-growing directions in the Company.

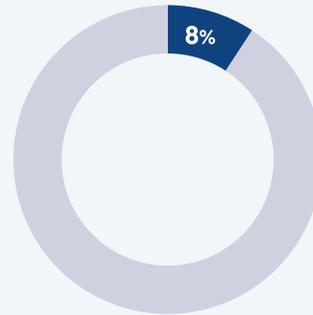
Under the Retail segment we finance new, second-hand imported and second-hand local cars for individuals. We cooperate with all official auto centres and auto dealers in Georgia. However, our customers also have the opportunity to use the services of official importing companies and subscribe to a used car of their choice from the US, Europe or Japan or otherwise find a similar model locally.

Demand for leasing is growing in the financing of second-hand imported cars due to the comparatively flexible and competitive conditions compared to bank financing. In the case of imported second-hand cars, customers are exempted from leasing payments during the transportation period, with monthly payments starting after the financed asset enters the territory of Georgia.

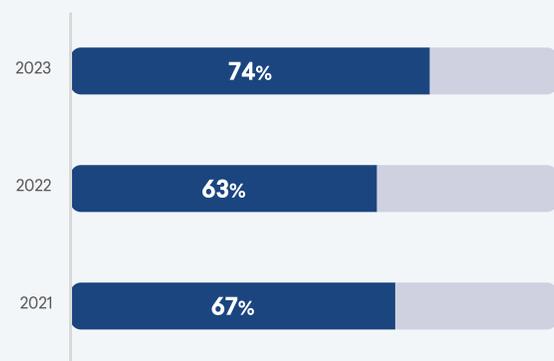
Another strategic direction is to establish a solid position in the new cars market. To date, we have already developed close partnerships with auto centers. As an active supporter of the sector, we also actively participate in sector specific events and collaborate with market participants to introduce exclusive offers and products to customers.

In 2023, we supported the presentation of the new Porsche Cayenne, as well as the introduction of the Mazda CX60, a Japanese model. We also acted as sponsors for Lexus and Audi events.

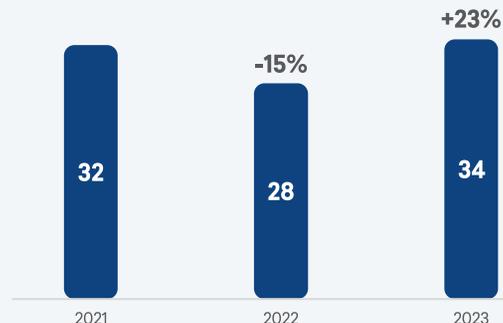
Retail Segment Share in the Total Leasing Portfolio



Retail Segment Portfolio Market Share Dynamics



Retail Segment Total Leasing Portfolio (GEL, Millions)





### Toyota Easy

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

### Lexus Easy

In 2023, we refined and broadened the EASY product line, and in collaboration with the official Lexus representative in Georgia, initiated a new LEXUS EASY offer. This offering will allow our clients to gain access to exclusive offers from the official dealer with quick and easy application approval procedures, with no advance payment requirement. The attractiveness of the offer lies in the client's option to retain the vehicle for a predetermined residual value or return it to the service centre and upgrade to a new one.

### Entering Major Local Automarkets

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

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

### Scooter Leasing

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

## New Branch Opening

In December 2023, we opened our new branch on the 10th kilometer of Aghmashenebeli alley in Tbilisi, where customers will be able to receive leasing services for new and second-hand cars, as well as for agricultural and heavy machinery.



Chapter

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# 5

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# **Our Strategy**

# The Four Pillars of Our Long-term Development Strategy

## Leasing market growth by raising awareness about leasing and broadening the customer base

Increasing our customer base and raising awareness of leasing as an alternative way of financing remains our main strategic priority. As stated above, the essence of leasing was incomprehensible or vague to the majority of the population, with most of our target audience associating leasing with auto loans rather than as an instrument for financing a broader range of assets.

SME clients often struggle to access the financing they need to acquire new equipment or vehicles to grow their operations. It is essential to provide more growth opportunities to SMEs so that they can act as an engine of growth. In collaboration with UK Good Governance Fund, we developed a strategy roadmap for enhancing the Georgian leasing market, which has now been passed on to the Georgian government.

In order to increase our brand capital, we are building up both leasing and our brand awareness through traditional and digital channels, along with identifying strategic physical touch points where our target audience is congregated. In 2023, as part of the strategic communications planning process for 2024, we also focused on measuring leasing awareness in the retail market, as previous quantitative and qualitative research had only focused on small and medium-sized enterprises.

In the retail segment, we were also interested in the extent to which consumers consider leasing as an alternative to a bank loans as a financing model. A survey conducted across the clients of two leading banks in Georgia yielded the following results: 51% of consumers did not consider leasing as an alternative financing option, while 37% gave a positive answer, and 12% found it difficult to answer. In 2023, further research conducted by ACT (Analysis and Consulting Team), third party organisation, also revealed an increase in top of mind (TOM) data in the SME segment.

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

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

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

In 2023, we implemented AUTO.TBCLEASING.GE, a simple and informative auto-lending platform for our clients, where they can leave their information through specialised digital banners placed with Google partners and Georgia's media websites (On.ge, Bm.ge, Tabula.ge) through DEV360. As of December 2023, the platform generated more than 3 million views in previous three months.

In 2023, we participated in the "International Real Estate Week" and Wine Days organized by the Exhibition Center Expo Georgia, during which we introduced relevant products to the public during a panel discussion.

Since real estate leasing is one of the leading products in our portfolio, we supported the annual real estate conference "GREMO" organized by a real estate consulting platform "Prospect" in Batumi. The conference attendees were major market participants in the real estate sector. Our representatives presented our leasing products to the attendees.

Our long-term goal is to elevate awareness of leasing among SME clients to 70%, aiming to double the lease market in Georgia.

## Digital Marketing content metrics

	2023	2022
Reach	3,081,028	3,056,007
Frequency	24	26
Total Interactions	89,806	94,665
Post Shares	2,015	2,596
Post Engagement	3,411,336	2,893,095

### Leasing portfolio growth by introducing new products and increasing customer satisfaction

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

In 2023, we further developed the Customer Relationship Management (CRM) system that was introduced in 2020, integrating it with our call centre. CRM enables us to effectively manage the whole customer journey strengthening collaboration between our sales, marketing, and customer service departments.

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

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

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

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

satisfaction, but also resulted in improved efficiency.

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

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

In 2022, to make our customers' life easier, we added a simplified hotline number, enabling clients to dial \*2277 and obtain the information they need. In 2023, we trained our call centre operators to be more efficient in handling first point consultations in terms of evaluating problems and complaints and providing appropriate solutions.

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

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



**In 2023, we scored 62% and 68% in our NPS survey with our business and retail clients, respectively.**

The index measures how willing customers are to recommend our products and services to others. The survey was conducted among corporate and SME clients.

In 2023, we introduced a post-service survey that allows customers to rate our service in real-time both in our call centers and service centers. This service allows us to better analyse the quality of our service.

Our long-term strategy involves the introduction of innovative quick asset-based financing products and residual value offerings tailored for various sectors including commercial real estate, construction, medicine, automotive, and retail. This initiative aligns with our goal to achieve a twofold increase in the total leasing portfolio and to double the share of retail in our overall leasing portfolio.

**Process optimization and digitalization**

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

more efficiently and get a closer look at our internal processes.

As stated above, in 2020 we rolled out CRM, the effect of which lies in the systematization of the sales stages. CRM helps us to improve sales efficiency, as the technology allows us to manage each project before selling, manage the sales pipeline dynamically, track the pre-sale process, calculate and analyse the reasons for the loss and manage the portfolio in terms of sales stages, while analysing the pipeline in monetary and quantitative concentrations. We have a system of daily dynamic analysis in place for the commercial direction, which helps to get a live analysis and serves as a monitoring tool.

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

In 2021, we integrated our system with CREDITINFO Georgia which specializes in credit information and the provision of information essential to the decision-making processes of all financial institutions. In 2022, we integrated an updated version of the system which is more technically and operationally sophisticated in terms of speed and readability.

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

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

The business development section includes a new sales model that receives online applications allowing us to automatically review incoming applications and approve leasing under pre-designed terms.

Our long-term vision involves the complete integration of all leasing-related processes into our system and the development of a comprehensive ERP system customized to our company's needs. This initiative will empower us to seamlessly implement a range of digital services within our ecosystem, leading to a significant increase in the digital sales share of retail products, accounting for up to 50% of total sales. Additionally, we aim to double the number of active retail clients of the company through these digital enhancements.

### **Enhancing profitability and efficiency through the development of value-added services and distinctive products**

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

As the leasing company holds ownership of the leased assets, it opens up opportunities to offer clients additional services related to leasing, which could be leveraged to develop distinctive leasing products and gain a competitive edge. Furthermore, drawing upon the leasing company's bargaining power, experience, and expertise across various sectors has the potential to enhance the company's profitability and efficiency.

Services such as advisory and consultation during

asset selection and acquisition, vendor discounts, buyback options, cargo transportation and insurance, customs clearance, trade finance, derivative instruments, asset valuation, and monitoring represent potential avenues for providing value-added services. These services not only have the potential to differentiate the company in the market but also to enhance client satisfaction and ultimately increase profitability.

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 customer arrives. Long-term, stable cooperation with our providers allows us to offer leasing assets at a competitive price.

These advantages allow us to serve our customers on "a single-window concept" principle, offering different types of asset or assets in one space and time, as required, both on a domestic and international level, enabling them to purchase assets from different providers and most importantly providing complete information and expertise on different types of leasing assets.

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

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

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

Our long-term strategy involves harnessing leasing-related services to craft value-added products and cultivate a distinctive competitive edge. This approach is geared towards bolstering the profitability and efficiency of the company by generating fees and commissions, ultimately aiming for a return on equity (ROE) surpassing 25% while keeping the cost-to-income ratio (CIR) below 50%.

Chapter

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# 6

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**Doing Business  
Responsibly**



# Our Colleagues

## Employee Engagement And Motivation

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

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

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

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

In 2023, all employees received five mandatory trainings on environmental protection, IT security, AML Compliance and Operational risks.

In terms of employee engagement and motivation, our management regularly conducts meetings

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

To facilitate young talent acquisition and provide an opportunity to the younger generation, we have launched an internship program. Under this program, we have prioritized internship divisional directions and recruited a total of 25 interns, out of whom 10 interns were offered jobs within the Company.

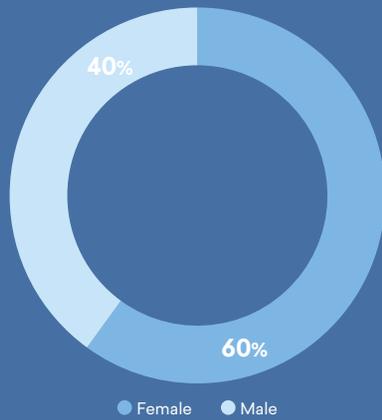
## Equality and Diversity

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

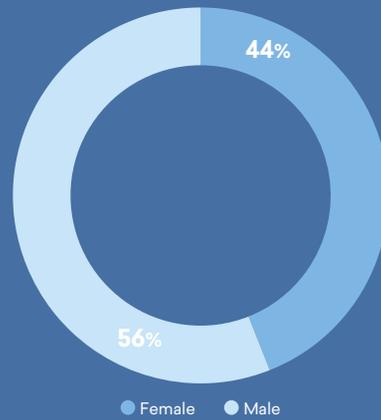
We have created a gender-balanced workforce in our workplace environment, where 60% of employees are women, while the share of women in senior positions is 44%. We also have a diversified mix of people comprised of employees with extensive working experience and young and bright talents with innovative and fresh ideas whose collaboration gives us the best results.



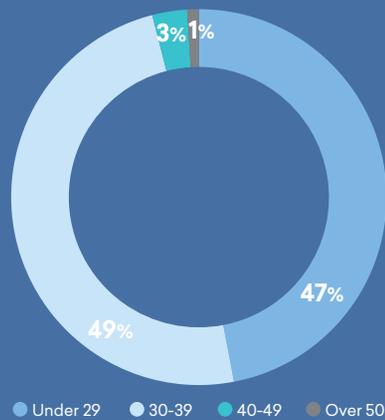
Employee Gender Distribution



Middle Management Gender Distribution



Employee Age Distribution



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

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

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

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

violations and problems.

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

### **Creating Stability In The Organization**

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

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

# Our Community

Since leasing is considered to be one of the most attractive financing tools for financing renewable energy sources and energy efficient assets, it is often regarded as a green product in itself. Alongside our positive external environmental footprint, we carry out several CSR activities to minimize our internal environmental footprint and actively lobby for green initiatives in Georgia.

## Paper Recycling Tradition

We continuously strive to minimize our environmental footprint. To minimize the damage caused by the paper industry, we are promoting going paperless across the Company. We have special waste disposal green boxes placed in our offices and collect wastepaper for recycling. From the collected paper, new books are printed, which are periodically used to update libraries in the highland regions of Georgia. In 2023, approximately 450 kg of paper was collected and recycled.

## Journey Towards a Greener Future – Collaboration with Tene

In 2023, we signed a memorandum of cooperation with TENE, the first green USB cable manufacturer both in Georgia and worldwide to use recycled plastic, mostly bottle caps, for its production. TENE is the first Georgian USB cable producer to be based on innovative and eco-friendly technologies, providing a long, safe life for gadgets. In order to support the protection of the environment, TENE

collects, recycles and uses solid household waste as part of its cable production process, in line with its zero emissions policy.

As part of our collaboration, we placed plastic, paper and batteries recycling bins and plastic cup collectors in TBC Leasing offices. Sandro Liluashvili, the founder of TENE, conducted a training session for our employees to increase awareness on the importance of waste recycling. As a result, we conduct small quizzes across employees on a weekly basis and reward them with TENE USB cables for their engagement.

As Teo Lezhava, Head of TBC Leasing's Brand and Human Resources Department, said "The detrimental effects of climate change and resource depletion are becoming increasingly apparent, leading to a growing recognition of the need for sustainable practices in all aspects of life. Workplaces have a significant environmental footprint and implementing sustainable practices will generate a positive impact on the environment. TBC Leasing is an active supporter of green initiatives and encouraging TENE's environmental initiative further demonstrates our commitment to sustainability. Our employees are constantly eager to contribute to our corporate responsibility campaigns. Embracing sustainability especially among the younger workforce who prioritize socially and environmentally conscious workplaces, further contributes to our employee engagement and retention as they tend to feel proud to be associated with an organization that shares their values."





## PRO BONO

During the early stages of their development, start-ups, small businesses and entrepreneurs may be in need of certain skills in order to keep driving their plans forward, but may be unable to afford the professionals and resources required. By taking the initiative to offer a pro bono service, our employees can offer their expertise and intellectual resources free of charge to give back to the local community, partnering with organisations working to benefit the public. Our pro bono work is meaningful because it is done for the common good, and manifests the social dimension of our corporate social responsibility.

With the facilitation of the Center for Strategic Research and Development of Georgia (CSRDG), we successfully completed two pro bono projects with the community organisations Ana-Bana and Poteria.

"Ana-Bana" needed assistance in building a reading space and a library in Lagodekhi, located at the foot of the Caucasus mountains in the historical region of Hereti. Our employees supported the community in collecting books and bought dozens of them for the library.

The mission of Poteria is to promote the reintegration of women who were victims of violence or offenders into society through training and employment in creative workshops. We provided our assistance in helping the organisation create corporate offerings and increase their sales.



# Our Clients

## Business Support

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

At TBC Leasing, we deeply believe that in addition to supporting our clients through financing the equipment of their choice, it is also important to provide support in communication and other strategic services. That is why, as soon as a lease is issued, we start distributing information in the form of press releases to up to 40 rated business media partners. In 2023, we supported up to 20 clients through social media coverage, reaching 1.5 million customers through different channels.

## Involvement In Subsidy Programs

In terms of business promotion, we are involved in all of the subsidy programs implemented by Enterprise Georgia and the Rural Development Agency. Within the scope of these programs, we funded 50 projects that were subsidized by these organizations (for more information, see the Business Segment overview on page 30).

## Women's Economic Empowerment

TBC Leasing supports projects that empower women as entrepreneurs and business leaders through increasing access to financing for business development, consulting, and raising awareness to enhance their economic participation.

In 2023, we ran a campaign that focused on sharing the experience of these women in our digital channels. Through this campaign we introduced a number of women who can inspire others who want to start their business, but do not have sufficient resources to do so:



**Nino Gogaladze**, who fulfilled her childhood dream of treating hundreds of customers with the delicious "Felamushito" dessert.



**Natia Danelia**, the founder and brand-chef of the "Boncafe" neighborhood concept café in Tbilisi.



**Elena Zillico**, the host of a warm and cozy restaurant.

Another remarkable project of 2023 is "Ganjina", a confectionery-workshop founded by a 23-year-old girl in Tbilisi. The business started off online during the pandemic. Ganjina enables its customers to participate in decorating confectioneries, and also offers a night service to its customers.

**48**

Projects

**19**

Enterprise Georgia

**29**

Rural Development Agency

# Our Investors

## Financial Performance Review

### Income Statements Highlights

<i>In thousands of GEL</i>	2023	2022	Change, y-o-y
<b>Finance income from lease receivables</b>	<b>71,837</b>	<b>57,795</b>	<b>24.3%</b>
Revenue From Operating Leasing	960	1,489	-35.5%
<b>Interest expense</b>	<b>(30,485)</b>	<b>(23,288)</b>	<b>30.9%</b>
Direct leasing costs	(11,075)	(9,336)	18.6%
<b>Net lease income</b>	<b>31,237</b>	<b>26,660</b>	<b>17.2%</b>
Credit loss (allowance)/recovery for Finance lease receivables	(2,000)	(576)	247.2%
Credit loss allowance for other financial assets	(4,570)	(4,590)	-0.4%
<b>Administrative and other operating expenses</b>	<b>(13,092)</b>	<b>(9,426)</b>	<b>38.9%</b>
Interest income on bank deposits	3,577	2,160	65.6%
<b>Profit for the year</b>	<b>16,728</b>	<b>14,109</b>	<b>18.6%</b>

### Balance Sheet Highlights

<i>In thousands of GEL</i>	31.12.2023	31.12.2022	Change, y-o-y
Finance lease receivables, Gross	376,055	290,145	29.6%
Credit loss allowance	(7,768)	(7,681)	1.1%
<b>Finance lease receivables</b>	<b>368,287</b>	<b>282,464</b>	<b>30.4%</b>
<b>Advances towards leasing contracts</b>	<b>27,191</b>	<b>29,530</b>	<b>-7.9%</b>
Assets repossessed from terminated leases	2,935	17,766	-83.5%
Property and Equipment	3,292	3,403	-3.3%
Investment Property	-	2,837	-100.0%
Other financial assets	29,624	10,276	188.3%
<b>Total assets</b>	<b>514,452</b>	<b>407,271</b>	<b>26.3%</b>
Loans from banks and financial institutions	255,898	211,481	21.0%
<b>Debt Securities in issue</b>	<b>103,127</b>	<b>58,580</b>	<b>76.0%</b>
Subordinated loans	42,184	32,357	30.4%
Advances received from customers	23,450	17,933	30.8%
<b>Total liabilities</b>	<b>435,750</b>	<b>344,204</b>	<b>26.6%</b>
<b>Total equity</b>	<b>78,702</b>	<b>63,067</b>	<b>24.8%</b>

## Net Lease Income

In 2023, notwithstanding the Company's reduction in yield on its lease portfolio, which transitioned from 23.1% in 2022 to 22.5% in 2023, there was a notable surge in finance income derived from lease receivables, amounting to GEL 72 million, marking a remarkable increase of 24.3%. Additionally, Gross Finance lease receivables experienced a substantial rise from GEL 290 million to GEL 376 million, a trend that aligns with the escalation in finance income.

The interest expense saw a notable increase of 30.6%, primarily attributed to the escalated loan volume necessary to fund the expansion of our portfolio. Conversely, our streamlined funding process is anticipated to yield an increase in the COF from 8.3% to 9.0%.

<i>In thousands of GEL</i>	<b>2023</b>	<b>2022</b>	<b>Change, y-o-y</b>
Finance income from lease receivables	71,837	57,795	24.3%
Interest income on bank deposits	3,577	2,160	65.6%
Interest expense	(30,485)	(23,288)	30.9%
<b>Net lease income</b>	<b>44,929</b>	<b>36,667</b>	<b>22.5%</b>
Average Gross Finance lease receivables	319,762	249,731	28.0%
Average Finance Lease Receivables	310,033	241,268	28.5%
Average Funds Balance	338,634	281,407	20.3%
<b>Yield</b>	<b>22.5%</b>	<b>23.1%</b>	<b>-0.6 pp</b>
<b>COF</b>	<b>9.0%</b>	<b>8.3%</b>	<b>0.7 pp</b>
<b>NIM</b>	<b>14.5%</b>	<b>15.2%</b>	<b>-0.7 pp</b>

## Total Leasing Portfolio

<i>In thousands of GEL</i>	<b>2023</b>	<b>2022</b>	<b>Change, y-o-y</b>
Total Leasing Portfolio	427,920	338,021	26.6%
Total Leasing Portfolio FX Adjusted	424,591	338,021	25.6%

Our Total Leasing Portfolio grew by 26.6% during the year on a constant currency rate. To adjust the portfolio to account for FX changes, the official exchange rates as of 31.12.2022 are used.

## Lease Portfolio Quality

In 2023, the portfolio quality indicators remained strong. The Non-Performing Loan ratio was reported at 3%, marking a decrease of 0.5 percentage points compared to the previous year. Additionally, the Cost of Risk stood at 1.9%, indicating sound risk management practices within the company's portfolio.

<i>In thousands of GEL</i>	<b>2023</b>	<b>2022</b>	<b>Change, y-o-y</b>
Non-Performing Leases	12,684	11,880	6.8%
<b>NPL</b>	<b>3.0%</b>	<b>3.5%</b>	<b>-0.5 pp</b>
Credit loss (allowance)/recovery for Finance lease receivables	2,000	576	247.2%
Credit loss allowance for other financial asset	4,570	4,590	-0.4%
<b>Total Provision Charge</b>	<b>6,570</b>	<b>5,166</b>	<b>27.2%</b>
<b>COR</b>	<b>1.9%</b>	<b>2.0%</b>	<b>-0.1 pp</b>

### Administrative and Other Operating Expenses

Direct lease costs and administrative expenses have been efficiently controlled to scale in line with the growth of our portfolio. Furthermore, we have executed strategies geared towards bolstering operational efficiency. The cost-to-income ratio for the current year stands at 51.7%.

In 2023, our company saw a rise in staff expenses due to the expansion of our business operations and the subsequent increase in our workforce. As we scaled up to meet growing demands, hiring additional staff became necessary to maintain service quality and operational effectiveness. This investment in human capital underscores our commitment to driving sustained growth to our company.

<i>In thousands of GEL</i>	2023	2022	Change, y-o-y
<b>Net leasing and operating income</b>	<b>46,732</b>	<b>39,143</b>	<b>19.4%</b>
Staff Expenses	8,568	5,502	55.7%
Depreciation and Amortization charge	1,222	1,338	-8.7%
Other Administrative and Operating Expenses	3,302	2,587	27.6%
<b>Total Administrative and Operating Expenses</b>	<b>13,092</b>	<b>9,426</b>	<b>38.9%</b>
Direct leasing costs	11,075	9,336	18.6%
<b>Cost to Income</b>	<b>51.7%</b>	<b>47.9%</b>	<b>3.8 pp</b>

### Net Profit

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

<i>In thousands of GEL</i>	2023	2022	Change, y-o-y
Net Income	16,728	14,109	18.6%
Average Equity	69,157	54,726	26.4%
<b>ROAE</b>	<b>24.2%</b>	<b>25.8%</b>	<b>-1.6 pp</b>
<b>ROAE before expected credit loss allowances</b>	<b>33.7%</b>	<b>35.2%</b>	<b>-1.5 pp</b>

<i>In thousands of GEL</i>	2023	2022	Change, y-o-y
Net Income	16,728	14,109	18.6%
Average Assets	432,996	357,469	21.1%
<b>ROAA</b>	<b>3.9%</b>	<b>3.9%</b>	<b>0.0 pp</b>

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

<b>Capital Adequacy</b>	2023	2022	Change, y-o-y
Tier 1	17.6%	17.4%	0.2 pp
Tier2	27.0%	26.4%	0.6 pp

## 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 2023	Actual 2022
Open currency position	<20%	10.9%	7.2%
Debt Service Ratio	>100%	344.3%	113.2%
Capital Adequacy 1	>9%	17.2%	17.4%
Capital Adequacy 2	>12%	20.4%	21.2%
Financial leverage ratio	<91%	78.0%	74.3%
Related party exposure	<20%	5.0%	2.3%

## Definition of Ratios

- **Finance lease receivables, Gross** – Is the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value, discounted at the interest rate implicit in the lease.
- **Total Leasing Portfolio** – Includes Gross Finance lease receivables and leases where inception of the lease has been exercised.
- **COF** – Cost of Fund is equal to total interest expense for the period, divided by average monthly funds balance of the same period.
- **NIM** – Net interest margin is equal to net leasing income, excluding direct leasing costs, divided by the average monthly finance lease receivables of the same period.
- **Net leasing income** – For the purposes of calculating financial ratios net leasing income also includes income from interest accrued on deposits.
- **ROE** – Return on average equity equals the Company's net loss /income divided by the monthly average of total shareholders' equity over the same period.
- **ROE before expected credit loss allowances** – ROE before expected credit loss allowances equals the Company's net loss/income excluding all credit loss allowances, divided by the monthly average of total shareholder's equity over the same period.
- **ROA** – Return on average assets is equal to the Company's net loss/income divided by the monthly average of total assets over the same period.
- **COR** – Cost of risk is equal to Credit loss (allowance)/recovery for Finance lease receivables plus credit loss allowance for other financial assets, divided by the average monthly gross finance lease receivables plus average net other financial assets over the same period.
- **CIR** – Cost-to-income ratio is the administrative expenses plus direct leasing costs divided by the net lease income and other operating income over the same period.
- **NPL** – Leases with overdue payments over 90 days plus unhealthy restructured leases overdue for less than 90 days divided by the Total Leasing Portfolio.
- **Tier 1** – Capital Adequacy Ratio 1 is the ratio of shareholders' equity to total assets, except for cash and cash equivalents and due from banks.
- **Tier 2** – Capital Adequacy Ratio 2 is the ratio of total shareholders' equity and subordinated loans to total assets, except for cash and cash equivalents and due from banks.

## Definition of Bond Covenant

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

Chapter

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**7**

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# **Risk Management**

# Principal Risks and Uncertainties

## Credit Risk

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

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

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

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

The Company's leasing portfolio is structurally highly diversified across customer types, product types and industry segments, which minimises the credit risk level. As of December 31, 2023, the business segment represented 92% of the total portfolio, while retail customers accounted for 8%, which includes fully auto leases. At the end of 2023, the top three sectors in the business portfolio are construction, development and service sectors, where the concentrations are distributed as follows: 22%, 20% and 17%.

The most significant credit risk mitigation tool of leasing liability is co-payment, which must be provided by the lessee at the time of concluding the contract. At the

same time, one of the key components of credit risk management is the effective management of a financed leasing asset, which avoids the expected risk of material and technical depreciation. Additional collateral for leasing contracts may include: real estate, mortgages on assets and shares on the balance sheet, third party guarantees, and the option of repurchase provided by the supplier.

The entire TBC Leasing Portfolio is secured in all industry segments where the subject of collateral is leased asset itself. As of December 31, 2023, the Company's portfolio coverage ratio by leased assets was 120%. Correct determination of the amount of participation in funded assets ensures a high repayment ratio.

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

## Credit Risk Caused by Exchange Rate Changes

TBC Leasing faces the credit risk posed by exchange rate fluctuations. Because a large portion of the funds financed in the Company's portfolio are denominated in foreign currency, any potentially significant depreciation of the Georgian Lari is a significant risk that could adversely affect portfolio quality. Non-hedged borrowers may incur a greater debt burden as their foreign currency denominated liabilities increase.

Although leasing companies fall under an NBG regulation for GEL financing, under which disbursements under GEL 200,000 can only be denominated in local currency, a significant portion of TBC Leasing's portfolio is still denominated in USD and EUR, comprising 72% of the total as at 31 December 2023. Since the income of most of the customers who have lease agreements in a foreign currency is in Georgian Lari, they are not protected from fluctuations in the GEL exchange rate. However, in 2023, the GEL exchange rate strengthened by almost 0.5% against US dollar, which had a positive impact on clients' solvency.

The Company pays special attention to currency induced credit risk, given that a large part of its exposure is denominated in foreign currency. Currency depreciation is monitored regularly to ensure that action can be taken quickly if necessary. Resistance to certain exchange rate depreciation is also included in our lending standards, implying a buffer on the risk of currency depreciation for non-hedged customers.

TBC Leasing uses conservative lending standards for non-hedged clients whose funds are denominated in foreign currency to ensure that they can withstand a certain level

of exchange rate fluctuation, in addition to measures in place during the underwriting process.

## Concentration Risk

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

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

The Company has 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 its portfolio. In addition, we have risk appetite limits for the top 10 and 20 borrowers, which are monitored on a monthly basis. TBC Leasing continuously monitors concentration risk for individual borrowers as well as sectors and key risk carriers and sets limits to mitigate risk. Within its risk appetite, the Company sets limits for both individual and sectoral concentrations. The risk appetite criteria are reviewed once a year to reduce the risk of concentration arising. Effective monitoring tools are used to ensure compliance with the limits.

TBC Leasing's loan portfolio is reasonably and adequately diversified, with a maximum portfolio volume in one of the largest sectors (construction) of 20% of the leasing portfolio as of December 31, 2023. By the end of 2023, the leasing portfolio of the 10 and 20 largest borrowers accounted for 12.6% and 22.7% of the total portfolio respectively, both of which were in the green zone as forecasted at prior year end, when a de-concentration plan was devised for these ratios to move them down from the amber zone (The Company uses a three-layered traffic light approach in setting the risk limits: Green zone, a desired zone of the Company's risk appetite; Amber zone, a desired zone has been breached, however risk level is still acceptable for the Company; and Red Zone, a risk has exceeded the allowable limit and is going outside the risk appetite).

## War in Ukraine Induced Risk

While inflows to the Georgian economy are quite diversified, the country is still vulnerable to geopolitical and economic developments in the region. In particular, the Russian invasion of Ukraine, the consequent sanctions imposed on Russia and the resulting elevated uncertainties have had an adverse impact on the Georgian economy. At the same time, just as the migration effect made an important contribution to economic growth in 2022 and 2023, any sizeable outflow could lead to a deterioration in the business environment. The reverse would probably be the case in any rapid conflict resolution scenario, which would create positive spill overs, such as the likely faster recovery of growth in Russia and Ukraine, which should also be taken into account.

## Fraud Risks

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

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

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

## Enterprise Risk Management

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

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

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

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

# Credit Risk Management

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

## Lease Approval

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

A multi-tiered system of lease approval committees is in place with different approval levels to consider the lessee's overall creditworthiness. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the lease. At the highest level, from 1 million USD up to 1.5 million USD lease amount, the Chief Executive Officer, Commercial Director and Chief Risk Officer are involved. If the amount of the borrower's lease application exceeds 1.5 million USD it would require review and approval by the Supervisory Board Risk Committee. In addition, if the amount of the borrower's lease application exceeds 1.5 million USD and also exceeds 15% of TBC Leasing's capital, it would require review and approval by Chairman of the Supervisory Board together with 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.

## Lease 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 credit risks faced across various industry segments. The Company uses a robust portfolio 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 portfolio's risk profile.

## Restructuring And Collections

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

In the process of leasing debt collection, the

purpose of the Problem Assets Management Department is to develop a payment strategy and agree with the borrower to withdraw as much money as possible or negotiate the payment of the leasing liability by selling or owning the collateral.

The Rehabilitation and Problem Assets Management Department monitors financially 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.

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

After a transfer to the Problem Assets Management Department, when the Company is unable to negotiate with the borrower on terms acceptable to the parties, it may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Qualified incumbent experts and lawyers work in the rehabilitation and problem assets management units to accomplish litigation and repossession processes efficiently.

## Measurement Of Expected Credit Losses

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

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

Measurement of the expected credit loss (ECL) is based on four components used by the Company: (i) the probability of default ("PD"); (ii) exposure at default ("EAD"); (iii) loss given default ("LGD"); and (iv) the discount rate. The Company uses a three-stage model for ECL measurement and classifies its borrowers across the following 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 a significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired;
- Stage III – the exposures for which the credit-impaired indicators have been identified are classified as Stage III instruments.
- The ECL amount differs depending on exposure allocation to one of the three stages:
- Stage I instruments – the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the subsequent 12 months from the reporting date;
- Stage II instruments – the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, the lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as the existence of contractual repayment schedules, options for the extension of repayment maturity and monitoring processes held by the Company affect the lifetime determination;
- Stage III instruments – a default event has already occurred and the lifetime ECL is estimated based on expected recoveries.

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

# Financial Risk Management

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

The Company faces risks due to internal and external factors, that cannot be avoided but need to be mitigated, therefore as a result of identifying these risks, any financial instrument that is used by TBC Leasing on a daily basis serves the mission to prevent or reduce material losses.

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

## Liquidity Risk

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

TBC Leasing uses several methods to measure the level of liquidity risk, including liquid assets and cash flow. Individual and combined assessments bring cash flow into line with the outflow in the short, medium and long term, taking into account the resources derived from financial activities - from the coverage of the lease agreement and the financing available to the Company. In the case of liquid assets, the Company considers easily available balance sheet assets that can be freely disposed of: for example, such assets include term deposits, deposit agreements and other instruments placed in different banks for the Company.

Based on the pre-determination of internal institutional and environmental factors, the Company conducts liquidity stress testing by analysing the driving forces of the major cash flows and the business landscape itself and, as a result of forecasting, establishes strategic alternatives based on light, systemic and strong impacts. In addition, TBC Leasing tests liquidity against the volatility of service or funding as well as fluctuations in seasonal demand for certain leasing products.

Along with the difference analysis, the Company assesses and ensures risk compliance control over a period of 3 months to 1 year through the following

financial indicators: the liquidity coverage ratio, the current ratio, and the net stable financing ratio.

The average maturity of TBC Leasing Portfolio is 48 months, which maintains its positive liquidity in the short and medium term. The Company has also introduced new products with a maturity of 72-120 months, as a result of which the liquidity difference significantly improved for long-term items.

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

TBC Leasing usually limits the level of cash to obtain maximum profitability and ensure effective returns on existing assets. To avoid a liquidity crisis during the pandemic, the management decided that the Company would maintain a high level of liquidity (around 10-12% of total assets). As key indicators confirm, this decision only had a minimal negative impact on the Company's financial soundness and profitability. In the post-pandemic environment, the Company has already started to decrease the cash levels (including cash and cash equivalents) down to historically normal levels of around 3-5% of total assets.

Our thorough risk assessment, detailed cash flow forecasting and diversified investment strategy enable the Company to achieve its long-term organizational and financial goals.

## Capital Risk

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

Since leasing is not a regulated business in Georgia, leasing companies are not subject to the minimum regulatory capital requirements set by the National Bank. 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 65% of the Company's portfolio is denominated in foreign currency, there is a risk that in the event of an instantaneous depreciation of the Georgian Lari, the established limits may be violated. For this reason company maintains capital buffers that can withstand potential risks caused by the currency devaluation. Based on the stress test analysis, it should be noted that in case of a 10% GEL depreciation, the reduction of the capital adequacy limit is expected to be 0.82 pp.

The Company is constantly conducting stress and sensitivity analyses to proactively identify and create

the required capital buffers. At the same time, the Company has immediately available, pre-approved additional share capital in the amount of GEL 2.5 million, which will be used if necessary.

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

## Interest Rate Risk

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

In 2022, TBC Leasing started offering variable interest rate products, before it was only offering products only in fixed interest rate. Agreements with floating interest rates are indexed to Tbilisi Interbank Interest Rate (TIBR). In the case of the hard currency denominated leases, USD and EUR contracts, six-month SOFR and EURIBOR rates are used, respectively. The floating interest rate leases are consistent with the variable rate loan liabilities acquired by the Company, with the variable rate investment attracted by the Company being financed by leasing agreements with indexed interest rates. As a result, a fair ratio was achieved: income from financial activities varies according to financing costs, while leasing fees are reduced according to the reduction of the market rate to consumers. Thanks to this approach, the Company has been able to improve its key valuation indicators.

The analysis of the difference between interest rates is based on an estimate of the maturity of receivables and payables. The Company aims to maintain a normal type of profitability curve, which is achieved by hedging long-term and short-term components. Company manages Interest Rate Risk (IRR) mainly by two major metrics: Economic Value of Equity (EVE) and Net Interest Income (NII), which are monitored regularly on monthly bases.

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

## Currency Risk

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

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

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

The degree of currency risk impact on the Company is assessed by the controlling parties in terms of individual currency risk ratios, total currency risk ratios and open currency position ratios. The Company limits its foreign exchange exposure in terms of its total capital, with its maximum allowance set at 25% for aggregate open currency exposure. Also, since the open currency position (OCP) limits are managed based on delegation level, strictest one is set on treasury manager level and the most tolerable one is set on CEO level.

Fluctuations in daily activities and currencies can cause losses, although they can be eliminated by managing currency exposure, assessing expectations and hedging. The Company aims to maintain a closed position, close to 0%, for which it uses specific financial instruments. Hedging operations are performed in accordance with the Company's hedging and risk management strategy and policies, which includes the use of forward transactions, swap contracts, spot conversions and other financial products available in the Georgian foreign exchange market. Financial activity, changes in leasing portfolio, and attracted foreign investment may be subject to hedging from the moment of entering into the relevant relationship.

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

In 2023, TBC Leasing maintained a hedged position to hedge against currency risks, with its aggregate open currency position fluctuating within an average of 2% of the total equity.

# Non-Financial Risk Management

## Operational Risk Management

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

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

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

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

Operational risk case identification is reported to the parent company level, systematic analysis is performed and remedial and preventive steps are taken.

## ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM (ESMS)

Our environmental policy is developed in line with TBC Group's best practice and ensures that we comply with all applicable environmental, health, safety and occupational regulations and apply appropriate best practices, as well as take appropriate measures to ensure that our customers fulfill their environmental and social responsibilities.

Our environmental policy is fully in line with Georgian environmental legislation, including the Law of Georgia on Environmental Protection and international best practices. The full policy is available at: [www.tbcleasing.ge](http://www.tbcleasing.ge)

Environmental and social risk management functions are spread between the Enterprise Risk Management Department and the Credit Risk Management division. Both units are under the risk director of the Company. TBC

Leasing Risk and Commercial staff undergo extensive training on an annual basis, conducted by TBC Bank's ESRM team. The training covers the importance of environmental and social risks, ways of management and practical experience accumulated in the process.

## Anti-Money Laundering (Aml)

The Company has high standards to protect against Money Laundering and Terrorist Financing (AML / CTF) and requires all employees and management to adhere to these standards to prevent the use of TBC Leasing products and services for money laundering / terrorist financing. The Company's AML / CTF program is based on applicable legal and regulatory requirements that comply with FATF recommendations, EU regulations and best practices. The Company has implemented internal policies, procedures and detailed instructions designed to prevent itself from being used or involved in money laundering, financing of terrorism or other unlawful activities such as bribery, corruption or tax evasion.

The Company's AML / CTF compliance programme includes written policies, procedures, internal controls and systems, including but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC preventive measures (Customer Due Diligence Procedure); rules for user identification and verification; user risk classification and risk categories; checking users against official lists of terrorists, special categories and banned persons as well as lists of financial and other sanctions; procedures for monitoring and reporting deal / transactions and the suspicious activities of the Company's customers; and regular staff training and awareness raising.

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

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

## Legal

The Legal Department of the Company is responsible for managing all legal liability and compliance issues that arise within the Company as a result of legal risks. Its objectives are as follows:

- Identify the legal risks. Analyse the legal risks associated with business plans and initiatives, including compliance and liability risks, as well as risks associated

with business actions.

- Calibrate the legal risks. Assess and calibrate the legal risks the company is facing, together with the Compliance functions, to ensure regulatory compliance and set up the Company's tolerance and level of risk.
- Manage the legal risks. Develop strategies, plans, processes, and policies, and provide the legal and other resources required to deliver them.

The Legal Department strives to accomplish these objectives by providing a wide range of professional legal services, including: (i) interacting with internal and external clients as well as outside counsel, government agencies and regulatory agencies; (ii) issuing memos and opinions; (iii) drafting standard and customised contracts; (iv) being responsible for corporate governance matters; (v) providing regulatory updates; and (vi) representing the Company in court, other dispute resolution venues, and before third parties.

The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions: Legal support and administration; the Lease Contract Management group; Investor relations/cross border transactions; Corporate governance; and AML/Compliance. Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skills and capabilities of its members. The department ensures the effective execution of its duties through different processes and procedures.

The Legal Department performs the compliance functions within the Company to ensure the effective execution of the compliance programme by: (i) helping the Company understand the legislative and regulatory change that may impact its business model and operations; and (ii) assisting the company in understanding the legal and regulatory implications of its new projects, products, services and expansion plans.

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

## Employee Risk

### BEHAVIOUR RISK

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

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

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

TBC Leasing's Enterprise Risk Department, Operations Department and HR Division work together to create a unified framework for behavioural risk and assist business and other

departments in the following ways:

- Implement and manage policies and procedures to ensure that the relevant departments and individual staff comply with the regulatory provisions and the Code of Conduct, Code of Ethics and Company Rules.
- For the customer, the information provided by the employee about the product must be accurate and complete; this information is provided (both in written and oral form) easily and clearly, according to the type of customer.
- It is important to have such conversations and emails with clients and to maintain track records that contain sales-related information, including customer attraction information and the complex products on offer for existing and potential customers.
- Provide timely, introductory training on appropriate behaviour for new employees. It is important that staff are periodically trained to learn about relevant standards that are being developed and updated.
- Establish a healthy corporate culture that promotes employee openness, enabling them to speak openly. Specifically, this means introducing processes to prevent and detect conflicts of interest, creating ethical incentives and bonuses, and adapting motivation and disciplinary practices.
- The above approach ensures that behavioural risk management is not limited to risk management units, but also fully covers Sales Departments and fully integrates appropriate behaviour into the skills needed to work. As part of behaviour risk, we also monitor employee gambling activities: once a quarter, with the approval of employees, we check the bank accounts of employees to monitor any gambling. In the case of detection, we apply preventive measures to avoid repetition. We have implemented an incident management policy where employees can anonymously report workplace incidents, such as harassment, fraud, misconduct etc. The purpose of this policy is to create a healthy work environment and encourage ethical behaviour.

Chapter

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# 8

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**Governance**

# Corporate Governance

Joint Stock Company TBC Leasing's (the "Company" or TBC Leasing) Corporate Governance is in compliance with all applicable laws and regulations. This report includes information on corporate governance during the 2023 financial year, as prescribed by the National Bank of Georgia's Code on Corporate Governance for the issuers of publicly offered securities, dated 07 December, 2021 (the "Code"). Overall issues on corporate governance are handled in this section, while specific risk issues are handled in the Risk Management section in the Report.

## The company's corporate governance model

TBC Leasing is the largest subsidiary of JSC TBC Bank, the largest commercial bank in Georgia, and TBC Bank is in turn a subsidiary of TBC Bank Group PLC, a company with a registered office in London and listed on the premium segment of the London Stock Exchange. JSC TBC Bank as a commercial bank is thereby subject to the provisions of the Corporate Governance Code of commercial banks.

The main decision-making bodies of the Company are the General Meeting of Shareholders, the Supervisory Board, and the Management Body as led by the Director (a dualistic system of management). The members charged with governance do not own shares of the Company. The Company recognizes the importance of ensuring diversity and considers it a significant benefit for its business to have a Supervisory Board and Management Body consisting of individuals with diverse backgrounds as it brings the necessary experience, competence, cultural diversity, and diverse perspectives to meeting sessions and facilitates quality decision making. There are a number of talented women in key positions who report to the Management Body. As at 31 December 2023, 57% of the Company's middle management roles were performed by females and 60% of employees across the Company's entire workforce were female.

The General Meeting of Shareholders is the highest management authority of the Company. The General Meeting can be ordinary or extraordinary. Ordinary meetings are held on a yearly basis, no later than six months after drawing up the annual Balance Sheet, though no later than three months from the end of the economic year. In all other cases, extraordinary General Meetings are held. The General Meeting of Shareholders takes decisions regarding issues assigned to the competence of the General Meeting of Shareholders under the legislation of Georgia and

the Company's Charter.

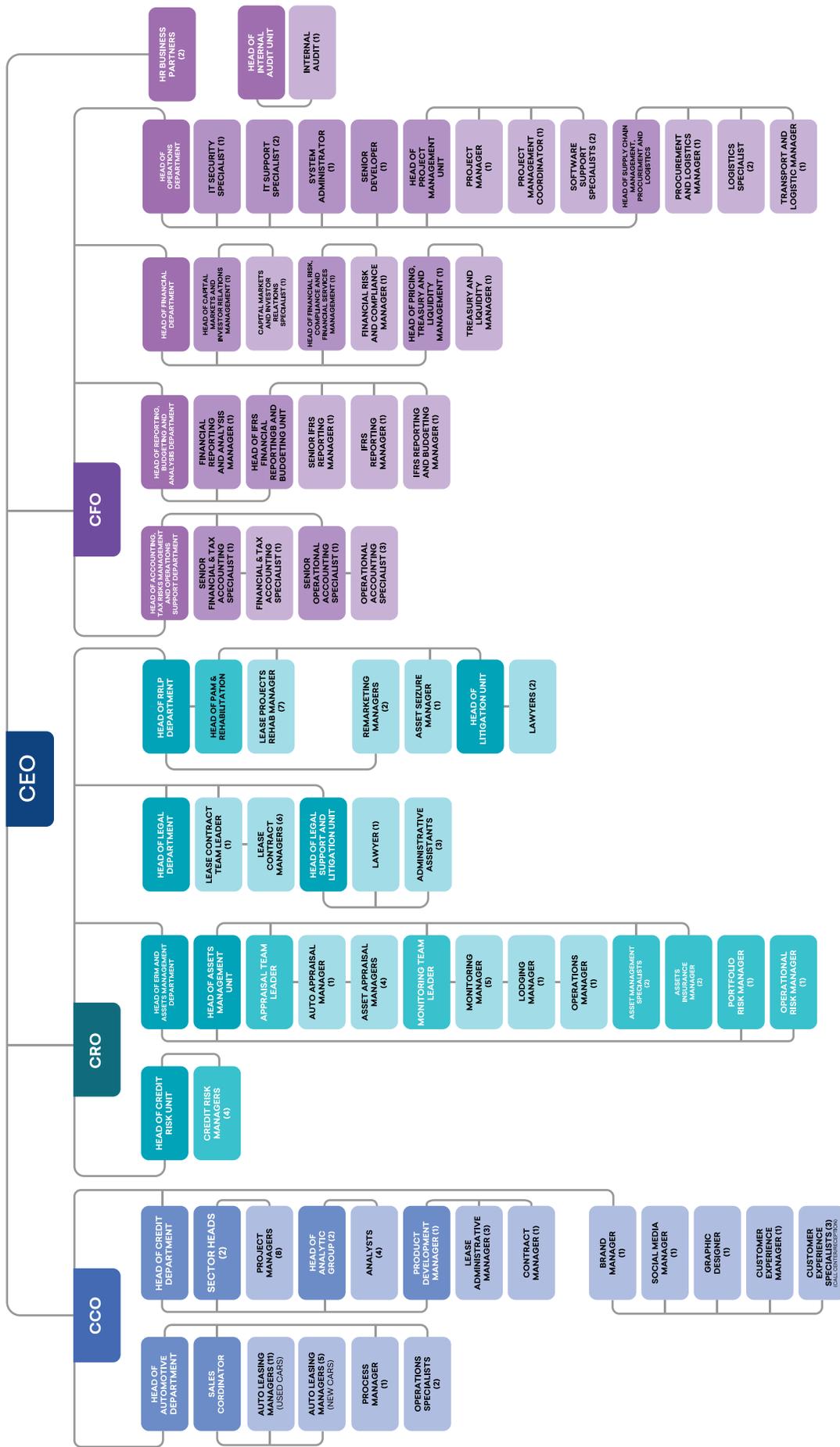
The Supervisory Board is in charge of supervision and control of the performance of the Management Body, cooperates with it within a limited scope in the preparation and resolution of issues important for the Company, and takes decisions on the basis of the legislation, Company's Charter and internal corporate acts; takes responsibility for the compliance with the requirements set under the Code;

The Audit Committee, which consists of three members, is set up by the Supervisory Board and presents reports to the Supervisory Board in line with the annual and semi-annual report approval periods. If necessary, the Audit Committee can request the attendance of the Management Body, internal and external auditors, and other hired persons at its meetings. The Audit Committee is chaired by a member of the Supervisory Board who is an independent person but cannot be the Chairman of the Supervisory Board and/or the Chair of another Committee.

The Management Body executes the Company's strategies, creates effective systems, processes, and controls for financial and non-financial risk management, and promotes the development and introduction of risk culture. Within the Company the management body provides effective fulfilment of various corporate governance procedures and policies approved by relevant bodies. The latter regularly provides information about important issues and problems of the Company to the Supervisory Board. The Management Body is also responsible for the correct distribution of functions and duties to the Company's employees and the creation of an efficient governance structure to ensure accountability and transparency within the Company.

The Company's Director executes the Company's management functions in an unlimited and sole manner. The Company Director's sole representational authority in relationship with third parties is not limited.

# Governance and company organisational structure



### The shareholders' general meeting

company registered in Georgia, which holds 100% of the Company's share capital. The rights of the shareholders are set out in the Charter of the Company and governed by the Law of Georgia on Entrepreneurs. The General Meeting can be either ordinary or extraordinary and is called and held in accordance with the procedures laid out in the Company's Charter under the legislation of Georgia.

The Company's Director is responsible for calling the General Meeting. If the Company's Director does not perform his duty and does not call the General Meeting, the Supervisory Board is obliged to call the General Meeting.

The information published for calling the General Meeting must include at least the data under the Georgian legislation and the materials of the General Meeting agenda – all necessary information for taking a decision. If the procedure under the Charter for calling the General Meeting is breached, a decision can be made if all the shareholders participate in the Meeting and agree that the Meeting is held and a decision is taken. The shareholder is deemed to agree if he/she does not request that the Meeting is held another time due to the breach of the calling procedure.

In accordance with the legislation of Georgia, the Company's management body and the Supervisory Board are obliged to participate in the work of the General Meeting.

The General Meeting of Shareholders is chaired by the Chairman of the Supervisory Board and, in his absence, by the Deputy Chairman of the Supervisory Board. In the absence of the Deputy Chairman, it is chaired by one of the members of the Supervisory Board as elected by the General Meeting or the Company's Director.

The General Meeting of Shareholders can take a decision if a majority of shareholders with voting rights is present, except for those issues that require the presence of a larger number of shareholders with voting rights under the Charter or the legislation of Georgia. If the General Meeting is not able to take a decision, the person who called the meeting can call a further meeting according to the same procedure and with the same agenda. Unless otherwise defined by the legislation of Georgia, this second meeting is able to take a decision regardless of the number of participating shareholders with voting rights. Any decision of the General Meeting of Shareholders must be supported by the majority of votes of shareholders participating in balloting. The resolution of issues that require a larger number of shareholders' votes under the legislation must be approved according to the quorum under the law.

The General Meeting takes decisions on issues within its competence of the General Meeting,

as defined by the legislation of Georgia and the Charter. The General Meeting is not entitled to take decisions regarding issues that fall under the competence of other governing authorities, except when those authorities request the General Meeting to resolve the issue within their competence.

If the Company has a sole shareholder, the latter exercises the authority of the General Meeting. The decision taken under that authority is executed in writing.

The Duties of the General Meeting:

- Appointment, dismissal and compensation of members of the Supervisory Board;
- Approval of reports of the management body and the Supervisory Board, including of financial reports;
- Profit (dividend) distribution or refusal of such distribution, in line with the proposal prepared by the Supervisory Board and the management body;
- Amending the Incorporation Agreement and the Charter, and adoption of a new version of the Charter;
- Selection, replacement or dismissal of a person in charge of the audit and approval of the audit report;
- Changing placed capital, defining the number of shares, their nominal value, classes and the related rights;
- Decreasing the Company's share capital or its shares or securities that enable the acquisition of the Company's share capital (including option, guarantee and other rights) through conversion, exchange or otherwise;
- The Company's re-organization;
- The Company's liquidation, insolvency, bankruptcy, or the transfer of property in favour of a creditor;
- Participating in a court trial against the Management Body/authorities and members of the Supervisory Board of a joint stock company, including the appointment of a representative for such a trial;
- Taking a decision on any other issue that requires the consent of the General Meeting, in accordance with the legislation of Georgia, and which is not delegated to other governance body.

### The ordinary general meeting 2023

The Company held its ordinary General Meeting on 18 December 2023, at which a resolution was passed to approve the Company's new Charter, which reflects the changes brought in by the new Law of Georgia on Entrepreneurs (the "Entrepreneurs' Law"), which came into force in January 2022, as well as the Code on Corporate Governance for issuers of publicly offered securities (the "Code"). Due to the requirements of the Entrepreneurs' Law, the Company's new Charter records separately the authorised, placed and cashed capital amounts, as well as the share class and nominal value and became part of the Company's founding agreement.

One of the important requirements of the new

Entrepreneurs' Law is to define the management system for joint-stock companies. As outlined in the Charter, the management system of the Company is dualistic, since the Company, in addition to the General Meeting and the Governing Body, has a Supervisory Board. The functions and roles of each governing authority were strictly separated in respective sections of the Charter. The Charter defines the usage of electronic means of communication within meetings and the decision making process. The Charter also adds a role of Corporate Secretary, as defined by the Code. The new Charter is publicly available in the "entrepreneurs' registry" section of the Public Registry website ([www.reestry.gov.ge](http://www.reestry.gov.ge)).

### Corporate Secretary

The Company has appointed the Corporate Secretary who facilitates the introduction of good governance practice. The main functions of the Corporate Secretary are:

- to assist the General Meeting, the Supervisory Board (including, the Committees) and the management body in the execution of their activities by providing the organizational and informational support;
- to give the Supervisory Board and the management body advice with regard to the corporate documents and procedural issues;
- to closely cooperate with the Supervisory Board and the management body in terms of drawing up and delivery of the agenda of the meetings, organizing and holding meetings, also, sending notifications;
- to plan necessary trainings and preparatory kick-off meetings with the existing or the newly appointed/elected members of the Supervisory Board and the management body;
- to perform the function of the Secretary of the Supervisory Board and the management body meetings, also of the General Meeting of Shareholders and draw up minutes and keep all corporate documents at least for 6 (six) years, as well as the minutes of the meetings of the Supervisory Board and the Committees set up at the Board and consequently, relevant decisions;
- play the role of an intermediary between the shareholders, the Supervisory Board and the management body;
- organize the holding of the General Meeting of Shareholders and the calling of an extraordinary Meeting; ensure the observance of all necessary terms and the fulfilment of the procedures for holding the Meeting; ensure that the person in charge of official calling of the Meeting is provided complete information with regard to the

issues requested to be put on the agenda by the shareholders, the members of the Supervisory Board or the management body by obeying the legislation and the Charter;

- ensure the compliance with the corporate governance-related legislative principles adopted by the regulatory bodies and also, with the principles under the Corporate Governance Code adopted by the Company;

### Deviations from the code

The main purpose of the Code is to promote increased responsibility for companies, active communication with stakeholders, transparency, and the protection of investors' rights. This is expected to help companies to achieve their long-term goals, and to increase investor confidence in companies. Subsequently, it will play an important role in attracting local and foreign investment.

The Corporate Governance Code governs issues related to the Supervisory Board and its committees, such as the gender balance of the Supervisory Board, the number of members, their independence, qualifications, responsibilities, and the delegation of authority, as well as the composition and competences of the Board of Directors, risk management and internal control functions.

The Corporate Governance Code for Issuers of Public Securities elaborates the requirements for companies and the reporting process. Based on the "Apply or Explain an Alternative" approach, the Code requires the disclosure of issuers' corporate governance approaches vis-à-vis the principles set out in the Code and aims to promote the widespread application of best practices in corporate governance.

## GOVERNANCE CONTINUED

Based on the Code approach above, TBC Leasing's Corporate Governance for the 2023 financial year deviates from the requirements stipulated in the Code on the following points:

Code requirement	Description	Chosen solution and justification
1. The number of independent members of the Supervisory Board	No fewer than two members of the Supervisory Board, meaning at least 1/3 of its total membership, should be independent	<p>There is one independent member in the Supervisory Board who at the same time appears as the Chairman of the Audit Committee, as required by the Code.</p> <p>The shareholder is of the opinion that the following, special reasons exist for deviating from the Code's requirements.</p> <p>Due to its ownership structure, TBC Bank is a 100% shareholder of TBC Leasing. The composition of the Supervisory Board essentially consists of members of TBC Bank top management, who have the greatest knowledge of business development and the strategic goals of TBC Group, are well aware of the specifications of leasing, have a range of professional experience in banking and debt financing, asset management, capital markets. As such, the shareholder sincerely believes they have greater motivation and abilities to achieve the Company's goals than an independent member would. Moreover, apart from the independent member of the Supervisory Board, as senior TBC Bank employees the other Board members do not receive additional compensation for performing their Supervisory Board functions, which is a significant cost saving.</p>
2. The independent status of the Supervisory Board Chairman	The Chairman of the Supervisory Board should be an independent member.	The justification above applies to the appointment of one of the members of TBC Bank top management team as the Supervisory Board Chairman.
3. Corporate Secretary	<p>The Corporate Secretary should report directly to the Supervisory Board, who define the employment provisions for the position.</p> <p>The Corporate Secretary should not be a member of management body or in any other way be related to the Company to avoid any kind of bias in decision making and perform functions independently.</p>	The Company is a small sized company, consisting of no more than 150 employees. Since there are various functions in the company that do not acquire to dedicated, full time personnel, these functions are successfully covered by the other positions. This includes the position of Corporate Secretary, which is filled by the head of the Budgeting and Reporting department, who reports to CFO.

Code requirement	Description	Chosen solution and justification
4. Risk Management Committee	There may be created a risk management committee composed by the supervisory board members	<p>Instead of the supervisory board members, the committee composition consists of the management body and members of the middle management. The committee reports to the supervisory board.</p> <p>The supervisory board is of the opinion that the following, special reasons exist for deviating from the Code's requirements:</p> <p>The committee with this composition effectively manages the risk related management process, though on the other side reports to the board and the latter possesses the relevant information in detail, overall the experience shows that this model of collaboration is effective to achieve the goal.</p>
5. Remuneration Committee	There may be created a remuneration committee composed by the supervisory board members	<p>Instead of remuneration committee there exists an internal group within the company. The group consists of the following members: Director, deputy directors, head of finance, head of human resource. The group is responsible for the remuneration committee functions.</p> <p>The supervisory board is of the opinion that the following, special reasons exist for deviating from the Code's requirements:</p> <p>The Company is a small sized company, consisting of approximately 150 employees and there is no necessity to create a special committee for staff remuneration, the group cooperating with the supervisory board effectively manages the related issues.</p> <p>The Remuneration Policy is not officially developed in the Company yet; however, the internal regulations and the Bonus Policy govern the process of remuneration and bonus awards. The remuneration range is established by the Management Body for each position. The amount of remuneration is determined by the employment contract. Remuneration is revised by the Management Body based on the employee's performance and competencies.</p> <p>As for the bonus scheme, such schemes are developed and approved for each position (performance evaluation criteria, bonus multiplier, accrual intervals) and remuneration is paid at certain intervals depending on the performance indicators. When it comes to nonmonetary rewards, the Company covers the health insurance cost – the employee's share, as well as the pension contribution.</p>
6. Corporate governance and Nomination Committee	There may be created a corporate governance and nomination committee composed by the supervisory board members	There does not exist such committee, corporate governance issues are covered by legal and compliance department, as for nomination issues, the related decisions take shareholder on Group level for subsidiaries.

## Supervisory Board

The Supervisory Board defines the Company's policy and supervises the Company's activity based on the Charter and the decisions of the Shareholders' General Meeting. The members of the Supervisory Board are elected by the Shareholders' General Meeting for a term of three years. The term of office of a Supervisory Board member is automatically renewed once it expires until the next General Meeting is held. Members of the Supervisory Board can be elected for a new term of office several times. Elected members of the Supervisory Board can be recalled at any time by the decision of the General Meeting;

The Chairman of the Supervisory Board coordinates the work of the Board, chairs Board meetings, represents the Board before other bodies, authorities and employees, and is responsible for the overall effective functioning of the Board, including building confidence and collegial relations among the Board Members and coordination and effective cooperation between the Management Body and the Supervisory Board. The Deputy Chairman of the Supervisory Board performs the duty of the Chairman of the Supervisory Board in case of his/her absence or where the latter cannot fulfil his/her duties.

The Chairman of the Supervisory Board, or in his absence his/her deputy, is authorized to convene and chair the Supervisory Board sessions. Unless otherwise defined by the legislation of Georgia or the Charter, the decisions of the Supervisory Board must be supported by the majority of votes, with each member having a single vote. If votes are evenly split, the Chairman of the Supervisory Board has a casting vote, which in his/her absence falls to the Chair of the meeting in question. Supervisory Board meetings must be held at least every quarter at the Company's address or online. Members of the Supervisory Board can be represented by other members, although a member can only represent one other member at a time.

The Supervisory Board ensures that the Company's management structure allows for adequate oversight and accountability, as well as a clear distribution of responsibilities. By involving all levels of government in risk management and ensuring the clear segregation of authority and effective communication between different areas, the management structure contributes to transparency and the achievement of set strategies and tasks related to the developed risk appetite, risk budget and risk management.

In addition, the Supervisory Board has full responsibility for creating an appropriate environment at the top of the Company's management and overseeing compliance with the Company's objectives, while the Board of Directors

is responsible for managing and overseeing the Company's day-to-day operations.

### Conflict of Interest

Where the Supervisory Board discusses or decides on the issue(s) to which a member of the Supervisory Board (including, the Chairman) is directly or indirectly related and it may give rise to a conflict of interest, the member shall declare about the conflict of interest and if there is such a conflict, he/she shall not participate in the discussion of the issue and the process of relevant decision-making.

Furthermore, if a member of the Supervisory Board (including, the Chairman) is indirectly related to the issue under discussion, the Company shall assess and consider the conflict of interests risks in the decision-making processes and the member shall abstain from participating in the discussion of the issue.

### The supervisory board's composition

The Company's charter stipulates that the Supervisory Board must be composed of a minimum of five and a maximum of twenty one members. The Supervisory Board elects the Chairman and the Deputy Chairman of the Supervisory Board from among its members by a majority of votes. If candidates obtain equal votes, the eldest candidate will be appointed the Chairman of the Supervisory Board.

The Supervisory Board for the year 2023 consists of five members, including two female members. Most of the members are elected on a TBC Bank Group level and are members of TBC Bank's Board of Directors. In line with the Code, a member of the Supervisory Board cannot simultaneously be a member of the Company's Management Body.

At the date of this report, in line with the "independence" criteria set by the Code, the Supervisory Board should include at least two independent members, although currently one member complies with this criterion (see the Code deviations above). Although the Supervisory Board Chairman should also be an independent member, the current Board Chairman is Deputy CEO of TBC Bank (see the Code deviations above).

The Independence criteria set by the Code mean that independent members of the Supervisory Board should be able to make objective and independent decisions, free from the impact or potential impact of any third parties, and should be able to discuss/avoid any conflict of interest. Such a conflict of interest may appear when a person:

- has a financial, legal, economic or other kind of dependence on a company, management body or a significant shareholders;
- has financial interest (for instance, investment,

property) in a company;

- has had professional and/or labor (including providing a service) relationship with the company within the previous years;
- has had business partnership (direct/indirect) or other kind of business relationship with the company, management body or significant shareholder within the previous two years;
- receives any additional compensations, which is related to the possession of a company shares or related to board membership compensation;
- is a family member of management body or significant shareholder;
- has any other kind of relationship, connection or position in a company that impacts on a company's interest, supervisory board/audit committee, including personal or business relationship with a family member of a significant shareholder.

The essential duties of the Supervisory Board are as follows:

- To appoint or dismiss the Company's Director;
- To set up the committees of the Supervisory Board;
- To approve the incorporation and liquidation of the Company's branches;
- To issue recommendations in regards to the selection, replacement or dismissal of the Company's external auditor;
- To approve the placement of the Company's shares, bonds and other securities on the Stock Exchange;
- To discuss and approve financial indicators for the following year, including a business plan or annual budget;
- To approve the regulations of the Company's Supervisory Board and Management Body;
- To approve a decision on the acquisition or alienation of the Company's assets (or such interrelated deals), if the price of a deal exceeds 3% of the Company's capital, except for deals representing ordinary business activity.
- To approve the Company's attraction of investments, including a deal or group of deals related to taking credits or loans;
- To approve the incorporation/foundation of other legal persons, investments therein or share/stock/equity participation in another company/legal person, and the encumbrance or disposal thereof;
- To review the Company's performance report, information on the Internal Audit Service and independent inspection;

- To take decisions with regard to the initiation of a new or suspension/termination of an existing type of activity by the Company.

### **Supervisory Board Committees**

The Supervisory Board is authorized to take a decision on setting up committees by a simple majority of votes. Composition and functions of the Committees are defined by the Supervisory Board. The Committees shall provide their conclusions and recommendations to the Supervisory Board.

The Company shall set up at least the Audit Committee from the members of the Supervisory Board. Apart from the mentioned Committee, the Board may also set up the Risk Management, Compensation, Corporate Governance and Nomination Committees.

Each Committee shall have relevant Regulations to set forth the Committee mandate, activity directions and procedures that inter alia covers the information about regular reporting of the Committee to the Board, cooperation between the Committees, restrictions with regard to the Committee membership, roles and functions of the Committee members. The Supervisory Board shall replace the Committee Chairman and the members at reasonable intervals to promote new visions and directions in the Committee activities.

Relevant records shall be maintained on the decisions taken by the Committees, furthermore, the Committees shall regularly present a report on the decisions and recommendations to the Supervisory Board.

The Committees shall be able to receive all the information of the Company in the format and with the frequency defined by each of them. Besides, they shall be able to independently meet with the control functions, external consultants or external auditors without the presence of the members of the management body. Objectivity and active participation of all members must also be promoted at the Committees to ensure the creation of an environment necessary for taking sound decisions.

Apart from the requirements otherwise envisaged by the legislation of Georgia, the Committees shall at least meet the following terms:

- a) they must consist of at least three members. A member of the Supervisory Board shall not be a member of more than two Committees at the same time;
- b) the Committee members shall individually and jointly possess knowledge, skills and experience adequate to the role, responsibility and activity of the Committee that will enable them to properly exercise the conferred rights and fulfill the assumed obligations.

Unless a Committee hereunder is set up at the Company, the Supervisory Board is responsible for the performance of activities of the Committees. The Committee meetings shall be held at least twice a year, also, at any time, if necessary.

### Risk Management Committee

Risk management committee implements risk management principles within the company and prevents from hazardous risks decisions related to the products and processes.

Within the effective risk management, the management body can improve the cost of company's assets, predict the expected future losses, improve the methods and processes of systematic decisions on the basis of information availability, use the precise database of company's work assessment, as well as assess the risks characteristic for business activity and complex financial instruments and create such a healthy risk management infrastructure, which strengthen competitiveness.

Instead of the supervisory board members, the committee composition consists of the management body and members of the middle management. The chairman of the committee is the director, the latter approves the committee members. The committee consists of the following members: deputy directors (CFO and CRO), head of operations, head of finance, head of corporate and asset management, head of legal and compliance. The operation risk manager acts as a committee secretary. Additionally, the representatives of various directions may be called on to attend a committee meeting.

The duties of the committee:

- review and approve risk management strategy, policies and action plan;
- review and supervise the company's important risks and measurements taken within the risk management frame;
- review risk mitigation measures and their effectiveness;
- set risk thresholds;
- supervising the compliance of the products and services offered by the company with the business model'
- monitoring the operational, legal, compliance, reputational and technologic risk management, including planning of business consistency, cyber security and data security;
- monitoring of the fulfillment of recommendations issued by internal and external auditors;
- inform supervisory board regarding the material

risks and submit action plan for their settlement;

The risk management committee reports to supervisory board and once in quarter sends report to the board. Also the committee is entitled upon the majority votes of the committee members make escalation of the issue before the supervisory board.

### Remuneration Committee

Instead of remuneration committee there exists an internal group within the company. The group consists of the following members: Director, deputy directors, head of finance, head of human recourse. The group is responsible for the remuneration committee functions:

- Regular review of remuneration policy and submit recommendations to the supervisory board;
- Assess the effectiveness of the company's remuneration policy and its compliance with requirements set under the relevant law;

### The Audit Committee

The Supervisory Board has established the Audit Committee as a sub-committee. The Audit Committee is comprised of three members of the Supervisory Board. In line with the Code, the independent member of the Supervisory Board is the Chairman of the Audit Committee.

Any former partner or director of the Company's current audit firm/auditor may not simultaneously be a member of the Company's Audit Committee: a) within twelve months of leaving the position of a partner or a director of an audit firm; and / or b) if he/she has some financial interest in the audit firm, regardless of leaving the position.

The Audit Committee meets four times a year and presents reports to the Supervisory Board in line with the annual and semi-annual report approval periods. If necessary, the Audit Committee can request the attendance of the management body, internal and external auditors and other hired persons at its meetings. Among other functions, the Audit Committee is responsible for:

- defining the internal audit and financial reporting policy;
- monitoring the processes of drawing financial statements and non-financial reports;
- monitoring and actively cooperating with the Company's internal and external auditors;
- evaluating the efficiency of the external auditor and the efficiency and independence of the activity of the Internal Audit Service;
- discussing the recommendation letter prepared by the external auditor and monitoring the execution of relevant measures by the

Management Body to improve any existing weaknesses;

- receiving the internal audit reports and ensuring that the Management Body takes proper measures in a timely manner in the audit process or to elimination of any control weaknesses, legislative non-compliance or other drawbacks identified by other control functions;
- monitoring the development of the Company's accounting policy and practice; and
- discussing the Company's entire Risk Management Framework and the effectiveness and efficiency of internal control systems.

### Management Body

The Management Body consists of a Director who is in charge of effective implementation of different policies of corporate governance approved by the Supervisory Board. The Director is also the main decision-making body of the Company and is responsible for the day-to-day administration of the company in accordance with the Supervisory Board's guidelines and instructions, as well as promoting the Company's goals, culture, values, and long-term success strategy and setting sustainable values.

The Supervisory Board appoints the Director to the position for a maximum term of three years and can dismiss him/her in line with the procedures defined by the legislation of Georgia. The Director is a legal and fully-fledged representative of the Company in relation to third parties. If, once the Director's term expires, there is a failure to register a new term of office for the Director or the change of a person with management and representational authority in line with the appropriate legal procedure, the law deems the authority of the registered manager to be extended for an unlimited term.

The regulations of the Management Body are approved by the Supervisory Board. The contents of relations with the Director and the salary for his/her work are defined by the legislation of Georgia and the job contract. The Supervisory Board is authorized to dismiss the Director from the position at any time, without providing relevant grounds therefor.

The Director ensures the execution of the decisions taken by the Supervisory Board and the General Meeting of Shareholders. Along with other functions, the Director executes the Company's business strategies, develops effective systems for financial and non-financial risk management, promotes the development and introduction of risk culture, processes and controls. The Director is also responsible for the effective functioning of the compensation system. Moreover, the Director provides the Supervisory Board with the necessary

information for the execution of its functions in a format and with a frequency established by the Supervisory Board and the Committees, with any additional information that the Director finds necessary for the Supervisory Board to take a decision.

The Director is responsible for the distribution of functions and duties of the Company's employees and the development of an efficient governance structure that ensures accountability and transparency within the Company. The Company has Deputy Directors, who are appointed by the Director.

According to the procedure hereunder, the Director takes decisions on all issues that do not fall under the competence of the General Meeting of Shareholders and/or the Company's Supervisory Board under the Charter.

The functions of the Director cannot be transferred to the Supervisory Board. Furthermore, the Director may not be a member of the Supervisory Board.

The essential duties of the Director are to:

- Ensure daily management of the Company, including supervision of the Company and its representation before third parties;
- Develop and present for approval to the Supervisory Board the current year's business plan by the end of the financial year, covering the annual budget, the Profit and Loss Account, and the Company's investment plan;
- Prepare other annual reports (if any), including the proposal on profit distribution;
- Discuss Internal Audit decisions;
- Execute decisions of the General Meeting of Shareholders and the Supervisory Board;
- Develop the Company's internal regulatory acts and procedures and ensure the smooth functioning of the Company, with responsibility for the Company's internal operations, compliance and performance;
- Serve as the main liaison between the Company and the Supervisory Board;
- Take decisions concerning the Company's personnel selection, dismissal, training and compensation, and appoint and dismiss employees according to the payroll plan (if any);
- Take decisions concerning the selection, appointment and dismissal of Deputy Directors, who manage relevant lines of the Company within their areas of competence;
- Sign contracts related to the Company's ordinary business activity;
- Represent the Company before the court and/

or in relations with any third party in an unlimited manner;

- Take decisions with regard to the acquisition and alienation of the Company's property (or such interrelated deals) and sign deals not within the ordinary business activity whose value is less than 3% of the Company's capital; and
- Perform functions under the Charter, regulations of the Management Body, and other internal corporate acts.

#### Responsibility of Management Bodies of the Company

Responsibility of the management bodies of the Company, for the non-fulfilment or improper fulfilment of their duties, is stipulated in the effective legislation, agreements signed with them and in the internal corporate acts of the Company;

The Company's shareholders, the Supervisory Board, the management body and their members are responsible to act in the best interests of the Company and in consideration thereof.

#### Rule of Information Transparency

The management Bodies of the Company provide equal treatment to all owners of public securities who are in equal conditions, equal treatment means:

- promptly disclose any change in the rights of the various classes of equity securities.
- publish information on the distribution and payment of dividends on equity securities, as well as the issuance of new equity securities, including information on the placement, acquisition, conversion, or cancellation of shares.
- Information about the interest rate, periodic payments, conversion/exchange, right to buy or cancel, or repayment of the debt security.

#### Governing Internal Rules and Regulations

TBC Leasing's internal governance strategy is well aligned with TBC Group's goals, enabling TBC Leasing to make an important contribution to the Georgia's development agenda.

TBC Leasing has in place an effective management policy system in order to ensure accurate and reliable governance. Internal policies are created considering the activity, size and complexity of the Company. Key documents and provisions include the following

- The Charter of the Company defines and diversifies the functions and responsibilities of the Supervisory Board and Management Body to ensure their effective performance and decision making;
- The Code of Ethics defines the highest ethical standards for employees and the Management

Body and regulates the prevention of conflicts of interest, the misuse of authority, corrupt practices, money laundering and other illegal activity;

- The Company's strategy covers the human resource policy based on Georgian legislation as well as international best employment practices and principles for defending the human rights, providing a safe and healthy work environment for all employees;
- Supervisory Board Committee provisions describe the mandate, directions and procedures of the respective Committee's activities;
- TBC Leasing has a strictly defined organizational and management structure, which ensures that no one is empowered with unlimited authority, provides effective identification of risks, and defines responsibilities, management, monitoring and accountability processes and relevant internal control mechanisms;
- The Code of Conduct stipulates that all employees must adhere to and work in accordance with TBC Leasing's core values, policies and instructions and norms for its employees.;
- Internal control policy
- Diversity, Equality and Inclusion Policy;
- Incident Response Policy aims to ensure effective corporate governance, maintain an ethical environment, ensure the timely detection and prevention of suspicious breaches, effective risk management throughout the Company, as well as welfare and better working conditions for our employees. the policy establishes special procedures to assist employees in disclosing information about any suspicious violations and problems.
- Anti-Money Laundering Policy.

In 2023, TBC Leasing introduced a whistleblowing function with internally defined personnel to whom employees, customers and vendors can turn to report suspected, serious improprieties that the "whistle-blower", for whatever reason, does not want to report internally via the normal reporting channels.

#### Internal Control Over Financial Reporting

This section describes the most important elements in the Company's system of internal control and risk management regarding financial reporting. Internal control of financial reporting within TBC Leasing can be defined as a process, effected by the Company's Management Body and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. The Company's overall risks and risk management are described in the relevant sections of this Report.

The control environment is based on the delegation of authority between the Supervisory Board and the Management Body, which is set forth in the reporting requirements set by the latter's governing bodies.

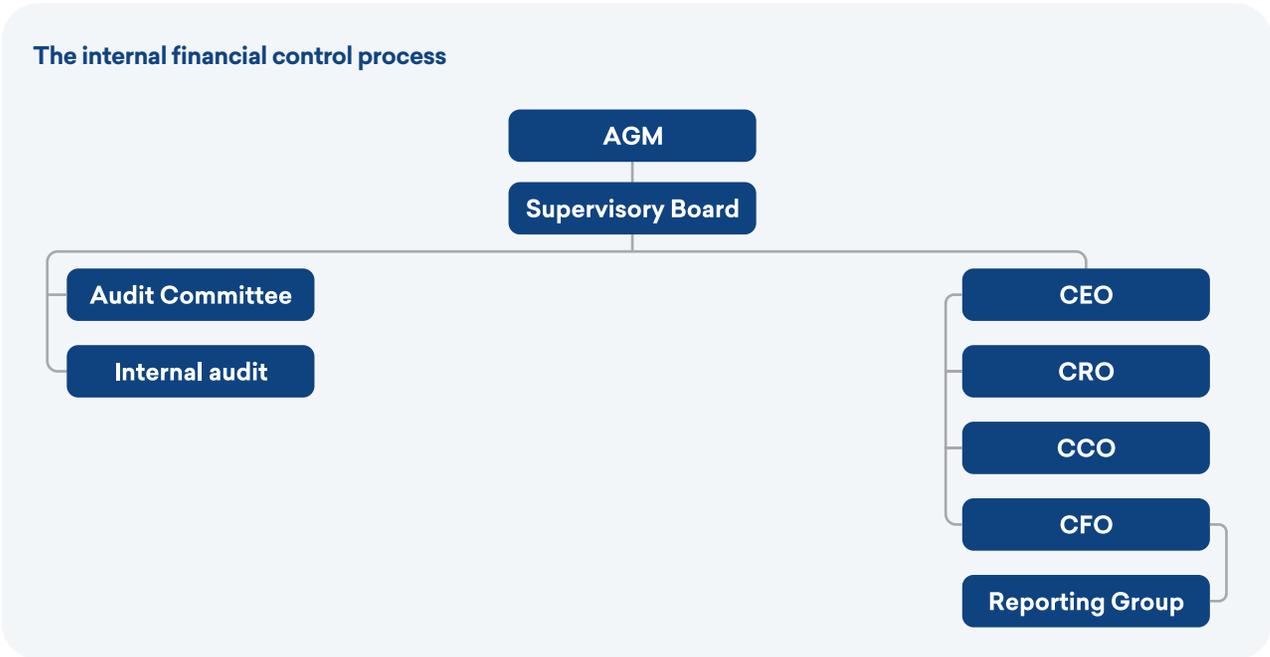
The Supervisory Board addresses the Company's risk assessment and risk management process for financial reporting at an overarching level. The Board's Audit Committee conducts monitoring and evaluation of the risks and quality in financial reporting and other enterprise risks. The Audit Committee maintains continuous, regular contact with the Company's internal and external audit functions in order to evaluate risk in financial reporting. The Company includes a framework for internal control that identifies and defines material risks related to financial reporting. The finance compliance unit performs annual analyses of risks related to financial reporting and is responsible for updating this framework.

In order to appropriately disclose all relevant developments in the year and to meet the requirements of a true and fair presentation, the Company has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that cover the following: financial planning and reporting; the preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads.

The Financial department reports the findings in the financial reporting process to the Management Body, the Audit Committee and the Supervisory Board. The internal financial control process serves as the framework for internal control that identifies and defines risks for material misstatements in financial reporting. This is overseen by the Chief Financial Officer (CFO) function through an assessment of the effectiveness of the process, based on a materiality and risk analysis. The CFO function is also responsible for performing regular analyses of risks related to financial reporting and for updating this framework. Financial reports, including reports on accounting and sustainability issues, are presented to meetings of the Audit Committee, where tax issues are reported on and followed up on a regular basis. The Audit Committee, in turn, reports to the Board on its most important observations and recommendations. The timing and forms of this reporting are set in the Board's and Audit Committee's respective procedures. The Management Body holds regular follow-up meetings with financial staff regarding the financial outcome.

Internally, the Company applies the "three lines model" for internal control over financial reporting. In this context, the second line includes the CFO, who is responsible for monitoring and control of risks in financial reporting. The CFO is responsible for the internal financial control process, which aims to strengthen the governance structure and the effectiveness of controls. Continuous improvements to the internal financial control process are ensured through an evaluation and updating process. Information about ineffective controls is provided to the internal and external audits.

Financial reporting includes interim reports, the year-end report and the annual report. The internal framework for internal control includes processes for self-assessment, monitoring, reporting and improvement of control activities in order to prevent, discover and correct errors in financial reporting. Written confirmation of adherence to internal and external stipulations is part of these processes.



## Supervisory Board Biographies and Main Responsibilities



### **George Tkheilidze**

Chair Of The Supervisory Board

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

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

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



### **Nino Masurashvili**

Deputy Chair Of The Supervisory Board

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

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



### **Tornike Gogichaishvili**

Member Of The Supervisory Board

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

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



### **Meri Chachanidze**

Member Of The Supervisory Board

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



### **Zurab Pichkhaia**

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

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

Zurab holds a bachelor's degree in economics and a master's degree in business administration (MBA) from Georgian Technical University. In addition, he holds an MBA degree with a major in Finance from the University of Pennsylvania's Wharton Business School.

## Division Of Responsibilities

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

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

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

## Company Management Biographies and Main Responsibilities



### Gaioz Gogua

Chief Executive Officer

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

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



### Nugzar Loladze

Chief Financial Officer

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

Nugzar serves as Chief Financial Officer (CFO) and is in charge of the Financial and Operational Departments of the Company. He oversees the daily operations of the treasury, funding, budgeting, reporting, IT, PMO and procurement teams. The CFO is responsible for, and directly engaged in, implementing and introducing internal control systems, ensuring the transparent disclosure of processes and transactions, and reaching the strategic and financial goals of the Company.



## Zurab Gugushvili

Chief Commercial Officer

Zurab Gugushvili was appointed as Chief Commercial Officer of JSC TBC Leasing in March 2021. Prior to joining TBC Leasing, in 2018, Zurab held the position of Commercial Director of the insurance company, Unison. Prior to joining the insurance industry, Zurab was a member of the TBC Group team for 12 years, holding various positions from 2006. From 2008, he focused on providing attractions and services to legal entities instead of expert supervision. During the last nine years of his stay at TBC, he managed the major directions of the corporate sector, focusing principally on retail and the auto industry, although periodically overseeing education, hospitality, commercial real estate and other sectors. With the growth of the group since 2016, Zurab was appointed head of the sector, responsible for about 20% of the corporate business.

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



## Giorgi Maisuradze

Chief Risk Officer

Giorgi Maisuradze joined TBC Leasing team in 2018 as Chief Risk Officer. Giorgi has 23 years of experience in the financial sector, almost half of which has been in the field of risk management. He began his career at Baker Tilly as an Audit Manager. He then gained experience in various banks operating in Georgia: TBC Bank, Bank of Georgia, Bank Republic Societe Generale, ProCredit Bank, Privat Bank and Basis Bank. In 2010-2014, Giorgi worked as a Credit Risk Manager at the National Bank of Georgia. In 2015-2018, he held leading managerial positions at Basis Bank. He gained his education at the Faculty of Economics of Tbilisi State University, holding a bachelor's and master's degree in macroeconomics. He also possesses several designations from Corporate Finance Institute: Capital Markets & Securities Analyst (CMSA), Financial Modeling & Valuation Analyst (FMVA), Financial Planning & Wealth Management (FPWM).

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

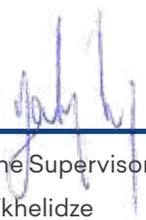
# Responsibility Statement

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

We confirm that:

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

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



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Chair of the Supervisory Board  
George Tkhelidze

13 May 2024



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Chief Executive Officer  
Gaioz Gogua

13 May 2024



Chapter

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# **Joint Stock Company Tbc Leasing**

Independent Auditor's Report and Financial Statements  
31 December 2023



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC TBC Leasing

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of JSC TBC Leasing (the "Company") which comprise:

- the statement of financial position as at 31 December 2023;
- 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
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

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

#### Other Matter

The financial statements of JSC TBC Leasing for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those statements on 15 May 2023.

## 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	How our audit addressed it
<b>Expected credit loss allowance on Finance lease receivables</b>	
<p>We focused on this area as the management’s estimates regarding the expected credit loss (‘ECL’) allowance for Finance lease receivables are complex, require a significant degree of judgement and are subject to high degree of estimation uncertainty.</p> <p>Under IFRS 9, Financial Instruments (‘IFRS 9’), management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the stage allocation of the individual asset. This staging is determined by assessing whether or not there has been a significant increase in credit risk (‘SICR’) or default of the lessee since lease contract origination.</p> <p>It is also necessary to consider the impact of future macroeconomic conditions in the determination of ECL. The economic outlook is stable despite the inflationary pressures. Management has designed and implemented an expected credit loss provisioning model to achieve compliance with the requirements of IFRS 9. Among others, management applies judgement to the model in situations where past experience is not considered to be reflective of future outcomes due to limited or insufficient data.</p> <p>We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant:</p> <ul style="list-style-type: none"> <li>- Critical assumptions applied in the determination of loss given default (‘LGD’) and probability of default (‘PD’);</li> <li>- Assessment of the key assumptions related to forward-looking information (‘FLI’) including the appropriateness of scenario weightings and macroeconomic variables.</li> </ul>	<p>We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, by engaging our credit risk modelling specialists and by applying our knowledge of the industry and the specifics of the business. This included an evaluation of the criteria set by management for determining whether there had been a SICR or default, and the models and approach applied in determination of ECL parameters.</p> <p>We assessed appropriateness of areas of major judgement and key assumptions involved in estimation of LGDs, PDs, FLI and ECL.</p> <p>We independently verified the accuracy of the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies.</p> <p>We evaluated key aspects of model monitoring and validation performed by management relating to model performance and stability and critically assessed the monitoring results. The test results of statistical models were interpreted in the context of relevant circumstances and explanations were obtained for deviations from the expectation.</p> <p>We challenged management in respect of the appropriateness of the macroeconomic models as well as weightings applied to each macroeconomic scenario.</p> <p>We also considered whether Post Model Adjustments (‘PMAs’) were required to address relevant risks that were not captured in the modelled provision.</p> <p>We verified adequacy and completeness of disclosures on ECL.</p>

## 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 skepticism 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.

## Report on Other Legal and Regulatory Requirements

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

- The information given in the Company's 2023 Management Report is consistent in all material respect with the 2023 financial statements; and
- The 2023 Management Report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing in all material respect.

## Responsibilities of Management and Those Charged with Governance for the Management report

Management is responsible for the preparation of the management report in accordance with the Georgian Law on Accounting, Reporting and Auditing.

Those charged with governance are responsible for overseeing the preparation process of management report.

## Auditor's responsibilities for the Management report

Our responsibility is to express opinion on the management report provided by the Company as of whether it is consistent with the financial statements as well as whether it includes information required by Law on accounting, reporting and auditing, Article 7.

The engagement partner responsible for the audit resulting in this independent auditor's report is:



Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

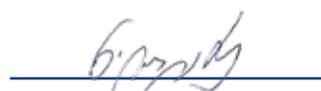
13 May 2024

## STATEMENT OF FINANCIAL POSITION

<i>In thousands of Georgian Lari</i>	Note	31 December 2023	31 December 2022
<b>ASSETS</b>			
Cash and cash equivalents	6	57,326	45,846
Due from banks	7	10,000	-
Prepayments	8	3,086	4,750
Tax assets, net	9	5,654	6,468
Advances towards leasing contracts	10	27,191	29,530
Finance lease receivables	11	368,287	282,464
Property and equipment	12	3,292	3,403
Intangible assets	13	3,552	2,829
Investment property	14	-	2,837
Assets purchased for leasing purpose		3,410	1,010
Assets repossessed from terminated leases	15	2,935	17,766
Derivative financial Instruments	31	91	81
Other financial assets	16	29,624	10,276
Other assets		4	10
<b>TOTAL ASSETS</b>		<b>514,452</b>	<b>407,270</b>
<b>LIABILITIES</b>			
Loans from banks and financial institutions	17	255,898	211,481
Advances received from customers	18	23,450	17,933
Debt securities in issue	19	103,127	58,580
Subordinated loans	20	42,184	32,357
Other liabilities	21	11,091	23,854
<b>TOTAL LIABILITIES</b>		<b>435,750</b>	<b>344,205</b>
<b>EQUITY</b>			
Share capital	22	3,659	3,659
Additional paid-in capital	22	7,550	7,550
Retained earnings		67,493	50,765
Cash flow hedge reserve	28	-	1,091
<b>TOTAL EQUITY</b>		<b>78,702</b>	<b>63,065</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>514,452</b>	<b>407,270</b>



Chief Executive Officer  
Galoz Gogua



Chief Financial Officer  
Nugzar Loladze

13 May 2024

The notes set out on pages 104 to 156 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>In thousands of Georgian Lari</i>	<b>Note</b>	<b>2023</b>	<b>2022</b>
Finance income from lease receivables		71,837	57,795
Revenue from operating leasing		960	1,489
Interest expense		(30,485)	(23,288)
Direct leasing costs	25	(11,075)	(9,336)
<b>Net lease income</b>		<b>31,237</b>	<b>26,660</b>
Credit loss allowance for finance lease receivables	11	(2,000)	(576)
<b>Net lease income after expected credit loss</b>		<b>29,237</b>	<b>26,084</b>
Credit loss allowance for other financial assets	16	(4,570)	(4,590)
Gain from revaluation of investment property	14	-	452
Revenue from sales of repossessed assets	15	12,678	10,753
Cost of sales of repossessed assets	15	(12,322)	(10,829)
Gain / (Loss) from release of repossessed assets	15	34	(133)
Gain on initial recognition of repossessed assets		1,141	607
Write-down of repossessed assets to net realizable value	15	(799)	(1,504)
Losses net of gain from derivative financial instruments	31	(1,191)	(1,398)
Foreign exchange translation gains less losses / (losses less gains)		957	(599)
Administrative and other operating expenses	26	(13,092)	(9,426)
Other income	23	4,655	4,692
<b>PROFIT FOR THE YEAR</b>		<b>16,728</b>	<b>14,109</b>
<b>Other comprehensive income / (loss):</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gains / (Loss) on cash flow hedges	28	(1,091)	1,059
<b>TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR</b>		<b>15,637</b>	<b>15,168</b>

The notes set out on pages 104 to 156 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Georgian Lari</i>	Share capital	Additional Paid in Capital	Cash flow hedge reserve	Retained earnings	Total equity
<b>Balance at 1 January 2022</b>	<b>3,659</b>	<b>7,550</b>	<b>32</b>	<b>36,656</b>	<b>47,897</b>
Profit for the year	-	-	-	14,109	14,109
Other comprehensive income	-	-	1,059	-	1,059
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>1,059</b>	<b>14,109</b>	<b>15,168</b>
<b>Balance at 31 December 2022</b>	<b>3,659</b>	<b>7,550</b>	<b>1,091</b>	<b>50,765</b>	<b>63,065</b>
Profit for the year	-	-	-	16,728	16,728
Other comprehensive income	-	-	(1,091)	-	(1,091)
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>(1,091)</b>	<b>16,728</b>	<b>15,637</b>
<b>Balance at 31 December 2023</b>	<b>3,659</b>	<b>7,550</b>	<b>-</b>	<b>67,493</b>	<b>78,702</b>

The notes set out on pages 104 to 156 form an integral part of these financial statements

## STATEMENT OF CASH FLOWS

<i>In thousands of Georgian Lari</i>	Note	2023	2022
<b>Cash flows from operating activities</b>			
Cash receipts from lessees		195,984	175,108
Cash received from deposits (Due from banks)	3	33,110	58,190
Cash receipts from lessees before commencement		20,367	15,137
Cash receipts from sale of repossessed assets		14,668	12,789
Cash receipts from terminated lease contracts		1,876	6,089
Cash inflow / (outflow) from derivative financial instruments		2,527	(397)
Interest received from current account		4,095	1,468
Interest received from deposit		59	80
Cash paid for purchase of assets for financial leasing purposes		(241,537)	(173,796)
Cash paid for deposits (Due from banks)	3	(44,859)	(32,812)
Cash paid for direct leasing costs		(10,574)	(11,257)
Cash paid to employees		(6,010)	(4,898)
Cash paid for administrative and other operating expenses		(6,553)	(4,599)
<b>Cash (used in) / from operations</b>		<b>(36,847)</b>	<b>41,102</b>
Interest paid on loans from banks and financial institutions	27	(14,135)	(10,969)
Interest paid on debt securities issued	27	(17,092)	(8,172)
Interest paid on subordinated loans	27	(3,351)	(2,821)
Taxes paid other than income tax		(15,263)	(18,666)
<b>Net cash (used in) / from operating activities</b>		<b>(86,688)</b>	<b>474</b>
<b>Cash flows from investing activities</b>			
Cash received from sale of investment securities		-	1,334
Cash paid for investment securities		-	(1,390)
Purchase of property and equipment	12	(45)	(29)
Purchase of intangible assets	13	(908)	(333)
<b>Net cash used in Investing activities</b>		<b>(953)</b>	<b>(418)</b>
<b>Cash flows from financing activities</b>			
Loans from banks and financial institutions received	27	197,387	121,149
Subordinated loans received	27	11,805	16,186
Loans from banks and financial institutions repaid	27	(155,894)	(92,433)
Subordinated loans repaid		(2,447)	(13,577)
Repayment of lease liabilities		(559)	(370)
Proceeds from debt securities in issue		50,282	-
<b>Net cash from financing activities</b>		<b>100,574</b>	<b>30,955</b>
Effect of exchange rate changes on cash and cash equivalents		(1,453)	(1,930)
<b>Net increase in cash and cash equivalents</b>		<b>11,480</b>	<b>29,081</b>
Cash and cash equivalents at the beginning of the year	6	45,846	16,765
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>57,326</b>	<b>45,846</b>

The notes set out on pages 104 to 156 form an integral part of these financial statements

## 1. INTRODUCTION

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

**Principal activity.** The Company’s principal business activity is providing finance and operating leases to companies and individuals within Georgia. The company is the largest provider of a wide spectre of leasing products to more than 2,000 large, corporate, MSME and individual clients all across Georgia. The company’s products include financial and operating leases in agro, medical, construction, service, manufacturing and retail business sectors. The Company offers its products through various type of sales channels including parent bank, official representative dealerships, vendors and direct sales channels. The Company leases various types of assets, from industrial equipment and equipment used in information technology to vehicles, which are purchased from suppliers in Georgia and abroad. The company is a partner of governmental agencies like Enterprise Georgia and Agricultural Projects’ Management Agency (APMA), which provide subsidies to companies to assist the growth of their businesses. The company employs over 150 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 2023 and 2022. In turn TBC Bank Group PLC is a public limited by shares company, incorporated in the United Kingdom. TBC Bank Group PLC held 99.88% of the share capital of JSC TBC Bank (hereafter the “Bank”) as at 31 December 2023 (2022: 99.88%), thus representing the TBC Leasing’s ultimate parent company. TBC Bank Group PLC and its subsidiaries is referred as “TBCG” or “Group”.

As at 31 December 2023 and 31 December 2022 the TBC Bank Group PLC’s shares were listed on London Stock Exchange and has no ultimate beneficial owner.

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

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

## 2. OPERATING ENVIRONMENT OF THE COMPANY

Georgia, where the Company conducts its operations, exhibits certain attributes typical of an emerging market. The legal, tax, and regulatory frameworks are continuously evolving and subject to frequent revisions and diverse interpretations. Despite the adverse repercussions of Russia’s invasion of Ukraine in 2022, Georgia’s economic growth surpassed initial forecasts, with real GDP expanding by 11.0%, primarily driven by the resurgence of inflows and heightened domestic demand. In 2023, growth began to stabilize, albeit remaining robust, averaging 7.5% by year-end. This stabilization was influenced by decreased international commodity prices adversely impacting both exports and imports, while Foreign Direct Investments (FDIs) sustained resilience, and sectors like tourism and remittances maintained vigorous growth when adjusted for Russia-related one-offs and migration effects.

While the sources of economic inflows into Georgia are diversified, the nation remains susceptible to geopolitical and economic shifts within its region and globally. Particularly, uncertainties stemming from the Russian-Ukrainian conflict and subsequent developments may exert adverse effects on Georgia’s economy. Additionally, the country faces a discernible risk of resurgent military conflicts in its regions under Russian occupation, while distant conflicts, such as escalations in the Middle East, might affect Georgia’s economy through factors like a stronger USD, elevated oil prices, and migration patterns.

Furthermore, while the migration effect continued to significantly contribute to economic growth in 2023, a substantial outflow could potentially deteriorate the business climate. Conversely, a swift resolution to conflicts could yield positive economic spillover effects, such as a probable uptick in growth in Russia and Ukraine. However, these prospects are contingent upon global developments. Although Georgia’s economy has thus far demonstrated resilience against heightened risks of global slowdown and adverse impacts from Russia’s invasion of Ukraine, there exists a likelihood of more pronounced spill-over effects and other global disruptions instigated by regional conflicts, supply chain disruptions, potential pandemics, among others. The realization of these risks could severely impede economic activity in Georgia, adversely affecting both the business environment and the clientele of the Company.

For the purpose of calculating expected credit losses (“ECL”), the Company relies on credible forward-looking

information, incorporating forecasts of macroeconomic variables. Nevertheless, similar to any economic forecast, these projections and the likelihood of their occurrence are inherently uncertain, and thus actual outcomes may significantly deviate from those projected.

### Climate Impact

The company has conducted a thorough assessment of its exposure to climate-related risks and has determined that, as of 31 December 2023, no risks have been identified that could exert a significant impact on the financial performance or position of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by fair valuation of certain instruments as set out in policies below and in accordance with Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these financial statements are set out below.

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

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

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

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

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

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in

### 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

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

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

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

ECL model is applied not only to investment in leases, but for other financial assets as well. 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 (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a lease when the borrower is not in financial difficulties.

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

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. 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

### 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

The hedging relationship meets all hedge effectiveness requirements if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship, and
- the hedge ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the Company actually hedges and the amount of the hedging instrument that the Company actually uses to hedge that amount of hedged item.

Following a comprehensive review of our risk management strategies and the risks applicable to our financial instruments, the Company has updated its hedge accounting practices effective from the 2023 financial year. This update ensures better alignment with our current risk management objectives and financial reporting standards.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balance with banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

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

**Inception of the lease.** The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties

**3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

involved in the transaction, and shall specifically set forth the principal terms of the transaction.

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

**Finance lease receivables.** Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

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

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

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

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

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

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

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

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

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

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

**Other receivables.** Other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method less the loss allowance determined applying the expected credit losses model.

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

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

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

Accounting for vehicles leased out under operating lease at the time of termination is described in Note 3, Assets repossessed from terminated lease paragraph. The gain or loss arising from the derecognition of an item of property, plant and equipment are included in profit or loss.

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

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

**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:

	<b>Years</b>
Leasing ERP software	10
Other intangible assets	5-7

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

**Investment property.** Investment property is property held by the Company to earn rental income or for capital appreciation and which is not occupied by the Company. Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value.

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

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

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

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

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

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

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

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

**Subordinated loans.** Subordinated loans include long-term loans from banks and are carried at amortized cost

**3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

using the effective interest rate method. The repayment of subordinated loans ranks after all other creditors in case of liquidation.

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

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

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

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

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

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.

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

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

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

At 31 December 2023 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6894 (2022: USD 1 = GEL 2.7020); EUR 1 = GEL 2.9753 (2022: EUR 1 = GEL 2.8844).

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

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

**ECL measurement.** Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 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 macro-economic scenarios. The Company regularly reviews and validates these scenarios to reduce any differences between Probability of default (PD) and Loss given default (LGD) parameters, which are one of the key drivers of expected credit losses.

**Judgements used to define criteria used in definition of default.** The Company defines default using both quantitative and qualitative criteria. Client is classified as defaulted if: any amount of contractual repayments is past due more than 90 days, if exposure had been classified as distressed restructuring, or in case of individually assessed clients, there are other factors indicating unlikelihood-to-pay. For more details on the methodology please see Note 29.

**Judgements used to define SICR.** Criteria for assessing if there has been a significant increase in credit risk (SICR) represent: exposure past due of more than 30 days, restructured exposures other than distressed, and probation period of previously defaulted exposures. For more details on the methodology please see Note 29.

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

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
10% increase (decrease) in PD estimates	PD Increase (decrease) credit loss allowance on leases by GEL 470 thousand (GEL 481 thousand)	Increase (decrease) credit loss allowance on leases by GEL 510 thousand (GEL 515 thousand)
10% increase (decrease) in LGD estimates	LGD Increase (decrease) credit loss allowance on leases by GEL 776 thousand (GEL 776 thousand)	Increase (decrease) credit loss allowance on leases by GEL 728 thousand (GEL 728 thousand)
10% deterioration (improvement) in FLI estimates	Increase (decrease) credit loss allowance on leases by GEL 443 thousand (GEL 450 thousand)	Increase (decrease) credit loss allowance on leases by GEL 482 thousand (GEL 486 thousand)

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

As at 31 December 2023, The Company uses same approaches as in 31 December 2022. The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2023:

	Baseline			Upside			Downside		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Growth rates YoY, %									
GDP	4.8%	5.4%	5.2%	6.5%	7.9%	8.3%	3.0%	2.7%	1.9%
USD/GEL rate (EOP)	2.80	2.70	2.70	2.50	2.39	2.36	3.01	2.95	2.97
RE Price (in USD)	-2.4%	0.8%	0.9%	9.0%	11.0%	10.4%	-14.5%	-9.2%	-6.3%
Employment (EOP)	0.3%	0.4%	0.3%	0.8%	1.0%	1.1%	-0.2%	-0.2%	-0.4%
Monetary policy rate (EOP, Level)	8.5%	7.8%	7.5%	7.8%	6.7%	6.3%	9.6%	9.2%	9.3%

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

	Baseline			Upside			Downside		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Growth rates YoY, %									
GDP	3.5%	5.4%	5.2%	5.2%	7.9%	8.4%	1.7%	2.7%	1.9%
USD/GEL rate (EOP)	2.80	2.65	2.60	2.47	2.31	2.24	3.06	2.92	2.90
RE Price (in USD)	19.8%	-2.0%	-1.3%	24.2%	4.1%	4.8%	11.6%	-13.1%	-12.5%
Employment (EOP)	1.9%	-0.8%	-0.2%	2.5%	-0.1%	0.6%	1.5%	-1.3%	-0.9%
Monetary policy rate (EOP, Level)	9.0%	7.8%	7.8%	8.4%	7.0%	6.8%	10.1%	9.3%	9.6%

## 5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2023:

**IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

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

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

**Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).** The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current

## 5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

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

**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 amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's 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 amendments had no impact on the Company's financial statements.

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

The amendments had no impact on the Company's financial statements.

**Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023).** In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The Company has not early adopted any of the amendments effective after 31 December 2023. The Company expects the amendments will have an insignificant effect, when adopted, or is in the process of assessment of the scale of any potential impact on the standalone financial statements of the Company.

## 5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

**Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).** These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

**Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).** In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

**Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023).** In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

**6. CASH AND CASH EQUIVALENTS**

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Current accounts with banks	57,326	45,846
<b>Cash and cash equivalents</b>	<b>57,326</b>	<b>45,846</b>

At 31 December 2023, cash and cash equivalents of GEL 29,116 thousand (2022: GEL 36,705 thousand) are held on the Company's current accounts with JSC TBC Bank, included in cash balance GEL 15,064 thousand (2022: GEL 13,510 thousand), which is blocked for short-term loan.

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

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Current accounts with banks with "BB-" to "BB+" rating	42,538	37,111
Current accounts with banks with "B-" to "B+" rating	14,786	3,318
Current accounts with banks unrated	2	5,417
<b>Cash and cash equivalents</b>	<b>57,326</b>	<b>45,846</b>

As of 31 December 2023, GEL 14,975 thousand cash balances (2022: GEL 22,234 thousand) were pledged as collateral for loans obtained from banks and financial institutions.

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

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

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Recognition of right of use assets against lease liabilities	899	440
<b>Non-cash investing activities</b>	<b>899</b>	<b>440</b>

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Initial recognition of lease liabilities	899	440
<b>Non-cash financing activities</b>	<b>899</b>	<b>440</b>

**7. DUE FROM BANKS**

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Placements with banks with original maturities of more than three months	10,000	-
<b>Due from banks</b>	<b>10,000</b>	<b>-</b>

As of 31 December 2023, GEL 10,000 thousand (2022: nil) Due from Banks were pledged as collateral for loans obtained from banks and financial institutions.

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

**8. PREPAYMENTS**

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Prepaid insurance for leasing assets	3,008	2,964
Prepayments for assets to be leased under finance lease	-	1,706
Other prepayments	78	80
<b>Total prepayments</b>	<b>3,086</b>	<b>4,750</b>

**9. TAX ASSETS**

As of December 2023 tax assets amounted GEL 5,654 thousand (2022: GEL 6,468 thousand), mainly comprised from VAT assets. In general company accounts for VAT, property and Personal income tax, last two are mainly accrued and repaid in such way that no significant balance is accumulated. In general VAT are payable to tax authorities on the earlier of (a) collection of receivables or advances from customers or (b) delivery of goods and services, and as a rule December is the relatively active month in terms of new lease generation, so company has to pay VAT on advances received from leases, which creates material balance of VAT assets at year end. It should be mentioned that material balance of VAT assets mainly arises at the end of high lease disbursement periods and are on the balance sheet only up to commencement of the respective lease.

**10. ADVANCES TOWARDS LEASING CONTRACTS**

Advances towards leasing contracts comprised GEL 27,191 thousand as at 31 December 2023 (2022: GEL 29,530 thousand). The advances towards leasing contracts are all current, give rise finance lease receivable usually within one to three months' period after the reporting date.

**11. FINANCE LEASE RECEIVABLES**

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

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Gross investment in finance lease	515,747	389,649
Unearned finance income	(139,692)	(99,504)
<b>Finance lease receivables, Gross</b>	<b>376,055</b>	<b>290,145</b>
Credit loss allowance	(7,768)	(7,681)
<b>Finance lease receivables</b>	<b>368,287</b>	<b>282,464</b>

**11. FINANCE LEASE RECEIVABLES CONTINUED**

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

<i>In thousands of Georgian Lari</i>	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 2023	168,823	119,340	70,111	47,313	32,911	77,249	<b>515,747</b>
Unearned finance income	(45,432)	(31,380)	(19,548)	(12,940)	(8,333)	(22,059)	<b>(139,692)</b>
Credit loss allowance	(2,489)	(1,791)	(1,071)	(728)	(520)	(1,169)	<b>(7,768)</b>
<b>Finance lease receivables as at December 2023</b>	<b>120,902</b>	<b>86,169</b>	<b>49,492</b>	<b>33,645</b>	<b>24,058</b>	<b>54,021</b>	<b>368,287</b>
Gross investment in finance lease as at 2022	143,901	89,358	59,846	33,393	20,458	42,693	<b>389,649</b>
Unearned finance income	(36,810)	(23,301)	(13,857)	(7,707)	(4,356)	(13,475)	<b>(99,504)</b>
Credit loss allowance	(2,835)	(1,749)	(1,217)	(680)	(426)	(773)	<b>(7,681)</b>
<b>Finance lease receivables as at December 2022</b>	<b>104,256</b>	<b>64,308</b>	<b>44,772</b>	<b>25,006</b>	<b>15,676</b>	<b>28,445</b>	<b>282,464</b>

The Company has no contractual amount outstanding on finance lease receivables, which was written off during the 2023 and 2022 reporting period and is still subject to enforcement activity.

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

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

**11. FINANCE LEASE RECEIVABLES CONTINUED**

	Credit loss allowance				Gross carrying amount			
	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
<i>In thousands of Georgian Lari</i>								
<b>At 31 December 2022</b>	<b>3,655</b>	<b>1,462</b>	<b>2,564</b>	<b>7,681</b>	<b>237,281</b>	<b>34,689</b>	<b>18,175</b>	<b>290,145</b>
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	255	(157)	(98)	-	4,109	(3,459)	(650)	-
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(420)	460	(40)	-	(28,268)	30,825	(2,557)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(262)	(337)	599	-	(12,428)	(4,989)	17,417	-
New originated or purchased	1,655	505	387	<b>2,547</b>	210,676	-	-	<b>210,676</b>
Derecognised during the period	(1,169)	(653)	(1,515)	<b>(3,337)</b>	(60,815)	(12,995)	(9,869)	<b>(83,679)</b>
Partial repayment	-	-	-	-	(26,654)	(11,758)	(8,503)	<b>(46,915)</b>
Movements without impact on credit loss allowance charge for the period:								
Foreign currency effect	13	14	10	<b>37</b>	1,015	338	36	<b>1,389</b>
Write-off	(811)	760	891	<b>840</b>	-	-	-	-
Other movements	-	-	-	-	(5,167)	6,019	3,587	<b>4,439</b>
<b>At 31 December 2023</b>	<b>2,916</b>	<b>2,054</b>	<b>2,798</b>	<b>7,768</b>	<b>319,749</b>	<b>38,670</b>	<b>17,636</b>	<b>376,055</b>

## 11. FINANCE LEASE RECEIVABLES CONTINUED

	Credit loss allowance				Gross carrying amount			
	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
<i>In thousands of Georgian Lari</i>								
<b>At 31 December 2021</b>	<b>2,408</b>	<b>1,297</b>	<b>3,604</b>	<b>7,309</b>	<b>187,445</b>	<b>38,713</b>	<b>27,594</b>	<b>253,752</b>
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	204	(193)	(11)	-	7,767	(7,654)	(113)	-
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(983)	1,397	(414)	-	(21,329)	28,081	(6,752)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(752)	(134)	886	-	(14,401)	(4,662)	19,063	-
New originated or purchased	3,610	-	-	<b>3,610</b>	173,350	-	-	<b>173,350</b>
Derecognised during the period	(712)	(623)	(2,632)	<b>(3,967)</b>	(50,262)	(13,689)	(17,224)	<b>(81,175)</b>
Partial repayment	-	-	-	-	(36,184)	(5,121)	(3,863)	<b>(45,168)</b>
Changes to ECL measurement model assumptions	(38)	(258)	1,471	<b>1,175</b>	-	-	-	-
Movements without impact on credit loss allowance charge for the period:								
Foreign currency effect	(82)	(24)	(136)	<b>(242)</b>	(8,228)	(955)	(1,217)	<b>(10,400)</b>
Write-offs	-	-	(204)	<b>(204)</b>	-	-	(204)	<b>(204)</b>
Other movements	-	-	-	-	(877)	(24)	891	<b>(10)</b>
<b>At 31 December 2022</b>	<b>3,655</b>	<b>1,462</b>	<b>2,564</b>	<b>7,681</b>	<b>237,281</b>	<b>34,689</b>	<b>18,175</b>	<b>290,145</b>

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. FINANCE LEASE RECEIVABLES** CONTINUED

The effect of collateral at 31 December 2023:

<i>In thousands of Georgian Lari</i>	Over-Collateralised assets		Under-Collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Finance lease receivables	281,478	419,188	94,577	78,262

The effect of collateral at 31 December 2022:

<i>In thousands of Georgian Lari</i>	Over-Collateralised assets		Under-Collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Finance lease receivables	244,814	425,458	45,331	33,421

As at 31 December 2023, credit quality of finance lease receivables is analysed below:

<i>In thousands of Georgian Lari</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<b>Finance lease receivables risk category</b>				
- Very Low	255,318	-	-	<b>255,318</b>
- Low	64,431	9,637	-	<b>74,068</b>
- Moderate	-	17,525	-	<b>17,525</b>
- High	-	11,508	-	<b>11,508</b>
- Default	-	-	17,636	<b>17,636</b>
<b>Gross carrying amount</b>	<b>319,749</b>	<b>38,670</b>	<b>17,636</b>	<b>376,055</b>
Credit loss allowance	(2,916)	(2,054)	(2,798)	<b>(7,768)</b>
<b>Carrying amount</b>	<b>316,833</b>	<b>36,616</b>	<b>14,838</b>	<b>368,287</b>

**11. FINANCE LEASE RECEIVABLES** CONTINUED

As at 31 December 2022, credit quality of finance lease receivables is analysed below:

<i>In thousands of Georgian Lari</i>	<b>Stage 1</b> <b>(12-months ECL)</b>	<b>Stage 2</b> <b>(lifetime ECL for SICR)</b>	<b>Stage 3</b> <b>(lifetime ECL for credit impaired)</b>	<b>Total</b>
Finance lease receivables risk category				
- Very Low	211,433	-	-	<b>211,433</b>
- Low	25,848	6,982	-	<b>32,830</b>
- Moderate	-	7,781	-	<b>7,781</b>
- High	-	19,926	-	<b>19,926</b>
- Default	-	-	18,175	<b>18,175</b>
<b>Gross carrying amount</b>	<b>237,281</b>	<b>34,689</b>	<b>18,175</b>	<b>290,145</b>
Credit loss allowance	(3,655)	(1,462)	(2,564)	<b>(7,681)</b>
<b>Carrying amount</b>	<b>233,626</b>	<b>33,227</b>	<b>15,611</b>	<b>282,464</b>

**12. PROPERTY AND EQUIPMENT**

<i>In thousands of Georgian Lari</i>	Land	Premises	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles for Fleet*	Leasehold improvement	Right of use Assets	Total
Cost at 1 January 2022	23	7	482	477	376	4,818	171	1,497	<b>7,851</b>
Accumulated depreciation	-	(3)	(237)	(265)	(182)	(2,113)	(45)	(812)	<b>(3,657)</b>
<b>Carrying amount at 1 January 2022</b>	<b>23</b>	<b>4</b>	<b>245</b>	<b>212</b>	<b>194</b>	<b>2,705</b>	<b>126</b>	<b>685</b>	<b>4,194</b>
Additions	-	-	50	67	-	-	30	440	<b>587</b>
Disposals	-	-	(23)	(27)	(25)	-	-	(179)	<b>(254)</b>
Transfer to financial lease and repossessed assets	-	-	-	-	-	(689)	-	-	<b>(689)</b>
Depreciation charge	-	(1)	(50)	(43)	(34)	(578)	(20)	(315)	<b>(1,041)</b>
Elimination of accumulated depreciation on disposals and transfers	-	-	15	17	18	377	-	179	<b>606</b>
<b>Carrying amount at 31 December 2022</b>	<b>23</b>	<b>3</b>	<b>237</b>	<b>226</b>	<b>153</b>	<b>1,815</b>	<b>136</b>	<b>810</b>	<b>3,403</b>
Cost at 31 December 2022	23	7	509	517	351	4,129	201	1,758	<b>7,495</b>
Accumulated depreciation	-	(4)	(272)	(291)	(198)	(2,314)	(65)	(948)	<b>(4,092)</b>
<b>Carrying amount at 31 December 2022</b>	<b>23</b>	<b>3</b>	<b>237</b>	<b>226</b>	<b>153</b>	<b>1,815</b>	<b>136</b>	<b>810</b>	<b>3,403</b>
Additions	-	-	107	94	-	-	242	899	<b>1,342</b>
Disposals	-	-	-	-	(35)	(3,679)	-	-	<b>(3,714)</b>
Depreciation charge	-	-	(67)	(53)	(48)	(424)	(38)	(308)	<b>(938)</b>
Elimination of accumulated depreciation on disposals and transfers	-	-	21	-	26	2,375	5	772	<b>3,199</b>
<b>Carrying amount at 31 December 2023</b>	<b>23</b>	<b>3</b>	<b>298</b>	<b>267</b>	<b>96</b>	<b>87</b>	<b>345</b>	<b>2,173</b>	<b>3,292</b>
Cost at 31 December 2023	23	7	616	611	316	450	443	2,657	<b>5,123</b>
Accumulated depreciation	-	(4)	(318)	(344)	(220)	(363)	(98)	(484)	<b>(1,831)</b>
<b>Carrying amount at 31 December 2023</b>	<b>23</b>	<b>3</b>	<b>298</b>	<b>267</b>	<b>96</b>	<b>87</b>	<b>345</b>	<b>2,173</b>	<b>3,292</b>

\* Vehicles for operating leasing

**12. PROPERTY AND EQUIPMENT CONTINUED**

The right of use assets includes offices of the Company.

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

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
Due in 1 year	-	2,254
Due between 1 and 2 year	-	119
Due between 2 and 3 year	-	22
<b>Total undiscontinued future operating lease payments receivable</b>	<b>-</b>	<b>2,395</b>

**13. INTANGIBLE ASSET**

<i>In thousands of Georgian Lari</i>	<b>Leasing ERP Software</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Carrying amount at 1 January 2022</b>	<b>2,502</b>	<b>8</b>	<b>2,510</b>
Additions	607	9	<b>616</b>
Amortization charge	(286)	(11)	<b>(297)</b>
<b>Carrying amount at 31 December 2022</b>	<b>2,823</b>	<b>6</b>	<b>2,829</b>
Cost at 31 December 2022	3,355	30	<b>3,385</b>
Accumulated amortisation	(532)	(24)	<b>(556)</b>
<b>Carrying amount at 31 December 2022</b>	<b>2,823</b>	<b>6</b>	<b>2,829</b>
Additions	991	79	<b>1,070</b>
Amortization charge	(310)	(37)	<b>(347)</b>
<b>Carrying amount at 31 December 2023</b>	<b>3,504</b>	<b>48</b>	<b>3,552</b>
Cost at 31 December 2023	4,346	109	<b>4,455</b>
Accumulated amortisation	(842)	(61)	<b>(903)</b>
<b>Carrying amount at 31 December 2023</b>	<b>3,504</b>	<b>48</b>	<b>3,552</b>

**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 finance lease receivable from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to court in order to cancel the auction results. In 2016 court decided in favour of the Company, therefore the Company's Management reassessed the purpose of holding the property and concluded to keep it in ownership for capital appreciation purposes, therefore the property was reclassified to investment property. During the year 2019 water drain works has been performed and the associated costs GEL 19 thousand has been capitalized. As of 31 December 2023 and 2022, 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 2023, the Company disposed investment property respectively the fair value of investment property was nil. As in 2022 the fair value of investment property was estimated as GEL 2,837 thousand as determined based on the valuation performed by Baker Tilly Georgia LLC, an accredited independent appraiser in Georgia, in accordance with International Valuation Standards and the Code of Conduct issued by International Valuation Standards Committee. The appraiser used market approach based on the highest and best use analysis of the property. The gain from revaluation of investment property measured at fair value GEL 452 thousand for year 2022 was recognised in profit and loss.

Investment property as at 31 December 2022:

<i>In thousands of Georgian Lari</i>	<b>Transferred from re-possessed assets at cost</b>	<b>Fair value as of 31 December 2022</b>	<b>Valuation technique</b>	<b>Other key information</b>	<b>Unobservable inputs</b>	<b>Range of unobservable inputs (weighted average)</b>	<b>Sensitivity of the input to fair value</b>
Investment property	891	2,837	Sales comparison approach	Land and building	Price per square meter	160 - 180	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

**15. ASSETS REPOSSESSED FROM TERMINATED LEASES**

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Carrying value at the beginning of the year	17,766	9,924
Assets repossessed from terminated leases	12,816	28,716
Disposal through sales from Financial leases	(15,701)	(10,614)
Disposal through sales from Operating leases	-	(215)
Disposal through transfer to new Financial leases	(11,134)	(8,437)
Write down to net realizable value	(799)	(1,504)
Other movement	(13)	(104)
<b>Carrying amount at the end of the year</b>	<b>2,935</b>	<b>17,766</b>

Gain / (Loss) from sale or release of repossessed assets comprised GEL 390 thousand and GEL (209) thousand for 2023 and 2022 years respectively.

**16. OTHER FINANCIAL ASSETS**

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

In 2023, based on Business model and accumulated data the Company made a slight change to the financial asset provisioning methodology, from using individual LGDs calculated per contract according to specific asset valuation amounts, it was decided to use portfolio based statistical LGDs. In case of termination, LGD increases to 100% after recovery horizon is past and asset is not repossessed in both approaches:

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Gross receivables from terminated lease	58,945	30,198
Less: Credit loss allowance for receivables from terminated leases	(34,297)	(24,137)
<b>Total carrying amount of receivable from terminated leases at AC</b>	<b>24,648</b>	<b>6,061</b>
Gross other receivables	5,624	4,745
Less: Credit loss allowance for other receivables	(1,966)	(2,106)
<b>Total carrying amount of other receivables at AC</b>	<b>3,658</b>	<b>2,639</b>
Gross loans issued to lessees	2,684	3,348
Less: Credit loss allowance for loans issued to lessees	(1,366)	(1,772)
<b>Total carrying amount of loans issued to lessees at AC</b>	<b>1,318</b>	<b>1,576</b>
<b>Total other financial assets</b>	<b>29,624</b>	<b>10,276</b>

**16. OTHER FINANCIAL ASSETS CONTINUED**

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

	Credit loss allowance				Gross carrying amount			
	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
<i>In thousands of Georgian Lari</i>								
<b>At 31 December 2022</b>	-	-	<b>28,015</b>	<b>28,015</b>	-	-	<b>38,291</b>	<b>38,291</b>
Movements with impact on credit loss allowance charge for the period:								
Transferred from finance lease receivables	-	-	8,250	<b>8,250</b>	-	-	30,708	<b>30,708</b>
Derecognised during the period	-	-	(1,712)	<b>(1,712)</b>	-	-	(1,712)	<b>(1,712)</b>
Changes due to change in credit quality	-	-	4,104	<b>4,104</b>	-	-	5,845	<b>5,845</b>
Partial repayment	-	-	(1,028)	<b>(1,028)</b>	-	-	(5,879)	<b>(5,879)</b>
<b>At 31 December 2023</b>	-	-	<b>37,629</b>	<b>37,629</b>	-	-	<b>67,253</b>	<b>67,253</b>

	Credit loss allowance				Gross carrying amount			
	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
<i>In thousands of Georgian Lari</i>								
<b>At 31 December 2021</b>	-	-	<b>28,257</b>	<b>28,257</b>	-	-	<b>49,346</b>	<b>49,346</b>
Transferred from finance lease receivables	-	-	11,244	<b>11,244</b>	-	-	12,842	<b>12,842</b>
Derecognised during the period	-	-	(7,218)	<b>(7,218)</b>	-	-	(15,297)	<b>(15,297)</b>
Changes due to change in credit quality	-	-	564	<b>564</b>	-	-	-	-
Other movements	-	-	(4,832)	<b>(4,832)</b>	-	-	(8,600)	<b>(8,600)</b>
<b>At 31 December 2022</b>	-	-	<b>28,015</b>	<b>28,015</b>	-	-	<b>38,291</b>	<b>38,291</b>

**17. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS**

The table below represents loans from banks and financial institutions:

<i>In thousands of Georgian Lari</i>	<b>31 Dec 2023</b>	<b>31 Dec 2022</b>
<b>Loans from foreign banks and financial institutions</b>	<b>201,809</b>	<b>179,585</b>
Georgian Lari	21,375	37,330
US Dollars	59,860	91,011
Euros	120,574	51,244
<b>Loans from local banks and financial institutions</b>	<b>54,089</b>	<b>31,896</b>
Georgian Lari	30,053	22,443
US Dollars	24,036	9,453
<b>Total loans from banks and financial institutions</b>	<b>255,898</b>	<b>211,481</b>

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 6, 10 and 11. The amount of net investment in leases pledged as collateral comprised GEL 222,060 thousand (2022: GEL 212,440 thousand), the amount of advances towards leasing contracts pledged as collateral comprised GEL 51,861 thousand (2022: GEL 38,074 thousand), as well as the amount of cash and cash equivalents pledged as collateral comprised GEL 14,975 thousand (2022: GEL 22,234 thousand).

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. All covenants were in compliance as of December 2023 and 2022.

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

**18. ADVANCES RECEIVED FROM CUSTOMERS**

Advances from customers that were outstanding at the year-end comprised GEL 23,450 thousand as at 31 December 2023 (2022: GEL 17,933 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 21,484 thousand as at 31 December 2023 (2022: GEL 15,902 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**

<i>In thousands of Georgian Lari</i>	<b>Currency</b>	<b>Maturity date</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
Bonds issued on domestic market	GEL	27.06.2026	103,127	-
Bonds issued on domestic market	GEL	20.03.2023	-	58,580
<b>Total debt securities in issue</b>			<b>103,127</b>	<b>58,580</b>

As of 31 December 2023, the debt securities in issue have a coupon rate of 13.71% (2022: 14.40%) and an effective interest rate of 14.91% based on their issue price, net of transaction costs.

As at 31 December 2023 accrued interest payable included in debt security in issue amounted to GEL 350 thousand (2022: GEL 234 thousand).

Debt security in Issue are secured by certain leases receivable and advances towards leasing contracts as detailed in Note 10 and 11. The amount of gross investment in leases pledged as collateral comprised GEL 114,415 thousand (2022: GEL 64,614 thousand), the amount of advances towards leasing contracts pledged as collateral comprised GEL 1,024 thousand (2022: GEL 628 thousand).

Refer to Note 32 for the estimated fair value of debt security in issue. The information on related party balances and transactions is disclosed in Note 35. Additionally, information on events after reporting period is disclosed in Note 36.

**20. SUBORDINATED LOANS**

<i>In thousands of Georgian Lari</i>	<b>Currency</b>	<b>Interest rates</b>	<b>Maturities</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
Subordinated bonds	USD	9.5%	31.03.2028	33,854	-
Subordinated loans from financial institutions	USD	9.0%	15.04.2028	8,330	-
Subordinated loans from TBC	GEL	18.0%	31.07.2023	-	2,486
Subordinated bonds	USD	8.5%	25.01.2023	-	29,871
<b>Total Subordinated Loans</b>				<b>42,184</b>	<b>32,357</b>

As at 31 December 2023, accrued interest payable included in subordinated loans amounted to GEL 741 thousand (2022: GEL 358 thousand).

Refer to Note 32 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 35. Additionally, information on events after reporting period is disclosed in Note 36.

**21. OTHER LIABILITIES**

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
Liabilities to asset providers	5,348	20,904
Lease liabilities	2,270	892
Liabilities to service providers	1,627	581
Accrued expenses	227	316
Other liabilities	105	120
<b>Total other financial liabilities</b>	<b>9,577</b>	<b>22,813</b>
Bonuses payable	1,514	1,041
<b>Total other non-financial liabilities</b>	<b>1,514</b>	<b>1,041</b>
<b>Total other liabilities</b>	<b>11,091</b>	<b>23,854</b>

**21. OTHER LIABILITIES CONTINUED**

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

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

The table below represents the maturity of lease liabilities as of 31 December 2023 and 2022 respectively:

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
Up to 1 month	42	31
1 month to 3 months	85	62
3 months to 1 year	129	278
1 year to 5 years	278	586
<b>Total Lease Liabilities</b>	<b>534</b>	<b>957</b>

**22. SHARE CAPITAL**

The share capital of the Company as at 31 December 2023 was GEL 3,659 thousand (2022: GEL 3,659 thousand). In December 2019 the company issued GEL 600 thousand ordinary shares with the face value of 1,000 GEL each and issue price of 10,000 GEL per share. As at 31 December 2023 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 2023 and 2022 years. Additional paid-in capital amounted to GEL 7,550 thousand as at 31 December 2023 and 2022 and is an excess of the fair value of the consideration received over the par value of shares issued.

**23. OTHER INCOME**

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
Interest income on bank deposits	3,577	2,160
Reimbursement from insurer	700	1,010
Income from conciliations	160	-
Sundry income	140	1,522
Income from discounts	78	-
<b>Other income</b>	<b>4,655</b>	<b>4,692</b>

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

**24. SEGMENT ANALYSIS**

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

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

**24. SEGMENT ANALYSIS CONTINUED**

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

The reportable segments are the same as the operating segments.

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

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

A summary of the reportable segments for the years ended 31 December 2023 and 2022 provided below:

<i>In thousands of Georgian Lari</i>	<b>Business</b>	<b>Auto- motive</b>	<b>Retail</b>	<b>Corporate center and other operations</b>	<b>Total</b>
Finance income from lease receivables	54,567	8,609	8,661	-	<b>71,837</b>
Revenue from operating leasing	-	960	-	-	<b>960</b>
Interest expense	(22,950)	(3,475)	(4,060)	-	<b>(30,485)</b>
Direct leasing costs	(7,189)	(2,205)	(1,681)	-	<b>(11,075)</b>
<b>Net lease income</b>	<b>24,428</b>	<b>3,889</b>	<b>2,920</b>	-	<b>31,237</b>
Credit loss (allowance)/recovery for finance lease receivable	(1,729)	(494)	223	-	<b>(2,000)</b>
<b>Net lease income after expected credit loss</b>	<b>22,699</b>	<b>3,395</b>	<b>3,143</b>	-	<b>29,237</b>
Credit loss allowance for other financial assets	(3,338)	(251)	(981)	-	<b>(4,570)</b>
Revenue from sales of repossessed assets	11,874	634	170	-	<b>12,678</b>
Cost of sales of repossessed assets	(11,518)	(634)	(170)	-	<b>(12,322)</b>
Loss from release of repossessed assets	34	-	-	-	<b>34</b>
Gain on initial recognition of repossessed assets	1,141	-	-	-	<b>1,141</b>
Write-down of repossessed assets to net realizable value	(799)	-	-	-	<b>(799)</b>
Losses net of gain from derivative financial instruments	-	-	-	(1,191)	<b>(1,191)</b>
Foreign exchange translation gains less losses / (losses less gains)	-	-	-	957	<b>957</b>
Administrative and other operating expenses	(9,777)	(1,835)	(1,082)	(398)	<b>(13,092)</b>
Other income	-	-	-	4,655	<b>4,655</b>
<b>PROFIT FOR THE YEAR</b>	<b>10,316</b>	<b>1,309</b>	<b>1,080</b>	<b>4,023</b>	<b>16,728</b>
<b>Other comprehensive income:</b>					
<b>Items that may be reclassified subsequently to profit or loss:</b>					
Gains on cash flow hedges	-	-	-	(1,091)	<b>(1,091)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>10,316</b>	<b>1,309</b>	<b>1,080</b>	<b>2,932</b>	<b>15,637</b>
<b>Cash and cash equivalents</b>	-	-	-	<b>57,326</b>	<b>57,326</b>
<b>Due from banks</b>	-	-	-	<b>10,000</b>	<b>10,000</b>
<b>Advances towards leasing contracts</b>	<b>25,773</b>	<b>663</b>	<b>755</b>	-	<b>27,191</b>
<b>Finance lease receivable, Gross</b>	<b>304,841</b>	<b>39,538</b>	<b>31,676</b>	-	<b>376,055</b>
<b>Credit loss allowance</b>	<b>(6,944)</b>	<b>(500)</b>	<b>(324)</b>	-	<b>(7,768)</b>
<b>Advances received from customers</b>	<b>23,094</b>	<b>186</b>	<b>170</b>	-	<b>23,450</b>

## 24. SEGMENT ANALYSIS CONTINUED

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

**24. SEGMENT ANALYSIS CONTINUED**

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

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>ASSETS</b>		
Total Segment Assets (Gross)	470,572	365,521
Credit loss allowance allocated to segments	(7,768)	(7,681)
Prepayments	3,086	4,750
Tax assets, net	5,654	6,468
Property and equipment	3,292	3,403
Intangible assets	3,552	2,829
Assets purchased for leasing purpose	3,410	1,010
Investment property	-	2,837
Assets repossessed from terminated leases	2,935	17,766
Derivative financial Instruments	91	81
Other financial assets	29,624	10,276
Other assets	4	10
<b>TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION</b>	<b>514,452</b>	<b>407,270</b>
<b>LIABILITIES</b>		
Total Segment Liabilities	23,450	17,933
Loans from banks and financial institutions	255,898	211,481
Debt securities in issue	103,127	58,580
Subordinated loans	42,184	32,357
Other liabilities	11,091	23,854
<b>TOTAL LIABILITIES PER STATEMENT OF FINANCIAL POSITION</b>	<b>435,750</b>	<b>344,205</b>

**25. DIRECT LEASING COSTS**

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

The table below represents direct leasing costs for the 2023 and 2022 years respectively.

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
Insurance expenses	5,714	4,859
Property tax on leasing assets	5,221	4,393
Other leasing costs	140	84
<b>Total direct leasing costs</b>	<b>11,075</b>	<b>9,336</b>

**26. ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

<i>In thousands of Georgian Lari</i>	<b>2023</b>	<b>2022</b>
Staff costs	8,568	5,502
Depreciation and amortization charge	1,222	1,338
Professional services	674	625
Bank charges	398	221
Occupancy and rent	310	83
License and subscription cost	272	175
Advertising costs	263	234
Taxes other than income tax	250	450
Expenses on Assets maintenance	234	115
Other property insurance expenses	105	136
Land and Buildings maintenance	75	126
Other expenses	721	421
<b>Total administrative and other operating expenses</b>	<b>13,092</b>	<b>9,426</b>

Occupancy and rent include the leases of low-value assets and short-term leases amount of GEL 161 thousand (2022: GEL 76 thousand).

As of 31 December 2023, professional services included GEL 94 thousand related to financial audit (2022: GEL 139 thousand) and GEL 15 thousand related to TAX Audit (2022: GEL 20 thousand). Presented expenses are exclusive of taxes.

**27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

<i>In thousands of Georgian Lari</i>	<b>Liabilities from financing activities</b>				
	<b>Loans from banks and financial institutions</b>	<b>Debt Securities in Issue</b>	<b>Subordinated Loans</b>	<b>Lease Liability</b>	<b>Total</b>
<b>Net debt at 31 December 2021</b>	<b>207,635</b>	<b>58,342</b>	<b>33,691</b>	<b>685</b>	<b>300,353</b>
Cash flows	17,747	(8,172)	(212)	(370)	<b>8,993</b>
Foreign exchange adjustments	(25,373)	-	(3,896)	167	<b>(29,102)</b>
Interest accrual	11,770	8,410	3,041	67	<b>23,288</b>
Other non-cash movements	(298)	-	(267)	261	<b>(304)</b>
<b>Net debt at 31 December 2022</b>	<b>211,481</b>	<b>58,580</b>	<b>32,357</b>	<b>810</b>	<b>303,228</b>
Cash flows	27,358	33,190	6,007	(559)	<b>65,996</b>
Foreign exchange adjustments	2,788	-	235	59	<b>3,082</b>
Interest accrual	13,955	12,481	3,938	111	<b>30,485</b>
Modification of contractual cash flows	-	-	-	1,849	<b>1,849</b>
Other non-cash movements	316	(1,124)	(353)	-	<b>(1,161)</b>
<b>Net debt at 31 December 2023</b>	<b>255,898</b>	<b>103,127</b>	<b>42,184</b>	<b>2,270</b>	<b>403,479</b>

**27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES CONTINUED**

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

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

**28. HEDGING**

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

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

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

**Hedging instruments and Hedged items**

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

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

*Amounts expressed in thousands of nominal currency*

	Type	Currency	Amount in nominal	Rate	Line item reporting in the Statement of Financial Position
Hedged item	Firm commitment to enter into finance lease	USD	4,929		Advances towards leasing contracts
Hedging Instrument	Senior Loan	USD	4,929	4.5%-7.5%	Loans from banks and financial institutions
Hedged item	Firm commitment to enter into finance lease	EUR	2,341		Advances towards leasing contracts
Hedging Instrument	Senior Loan	EUR	2,341	3%-3.15%	Loans from banks and financial institutions

**28. HEDGING CONTINUED**

To ensure the economic relationship between hedged items and hedging instruments the Company takes into consideration their nominal amounts, currency and maturity. On the basis of a qualitative assessment of those critical terms the Company concludes that, the value of hedging instrument and the hedged item move in the opposite directions and hence an economic relationship exists between the hedged item and the hedging instrument.

The hedge ratio reflects the relationship between the amount of the hedged item and the amount of the hedging instrument that the Company actually uses. As it is shown in tables above, the ratio between hedging instruments and hedged items is 1:1. Hedge ineffectiveness is recognised in profit or loss.

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

<b>Hedge Item Type</b>	<b>The amount recognised in Other Comprehensive Income(2022)</b>
<i>In thousands of Georgian Lari</i>	
Hedge of Firm commitment to purchase asset for lease	182
Hedge of Firm commitment to enter into finance lease	877
<b>Gains on cash flow hedges</b>	<b>1,059</b>

## 29. FINANCIAL RISK MANAGEMENT

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

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

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

The Company normally structures its finance lease contracts so that the lessee makes a prepayment of 20% of the asset purchase price at the inception of the lease contract. The Company holds title to the leased assets during the lease term. The title to assets under finance lease contracts passes to the lessees at the end of those contracts when liability is fully repaid.

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

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

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

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

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

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

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

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

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

**Significant increase in credit risk (“SICR”):** For each financial instrument and on each reporting date, the Leasing Company evaluates whether there has been a significant increase of credit risk since initial recognition (SICR feature). The Company monitors three factors when assessing increase in credit risk: days past due, restructuring and probation period for defaulted lessees.

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

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

**29. FINANCIAL RISK MANAGEMENT CONTINUED****Default criteria**

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

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

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

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

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

Leasing company defines the risk groups based on days past due status of the lessee.) The model assumes that the PD for the next 12 month period after the reporting date is equal to the short-term PD estimate and depends on the risk group assignment. Long-term PD estimate is used for yearly periods starting from the 4th year after the reporting date, while linear interpolation of PDs is assumed in-between.

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

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

**Forward-looking information.** The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Company defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely), and downside (worse than most likely) 50%, 25%, and 25% respectively. To derive the baseline macro-economic scenario, the Company takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF"), TBC Capital, as well as other

## 29. FINANCIAL RISK MANAGEMENT CONTINUED

International Financial Institutions (“IFI”s) – in order to ensure the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank’s macroeconomic unit. The Company calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figure, probability weighted average approach is applied, where probabilities of each scenario are used as weights. FLI adjustment is applied to PD for the three-year period, given the uncertainty involved in the macroeconomic forecasts for the longer time horizon.

**Provisioning of other financial assets.** The most material balance of financial assets subject to provisioning the company has, after lease portfolio, is outstanding terminated leases. Before year ended 31 December 2023, expected losses on these exposures were calculated using individual LGDs – based on latest appraisal value of corresponding lease assets. Although, after the expected recovery horizon, LGD would increase to 100%. Starting from YE 2023, we made some changes to this approach and hence methodology, namely: we started to treat terminated leases the same way as stage 3 exposures in active portfolio and now use statistical LGD (calculated specifically on terminated leases) to determine ECL. When lease asset is repossessed, ECL is recalculated using asset appraisal. If lease asset is not repossessed, LGD gradually increases to reach 100% after the expected recovery horizon is past since termination date.

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

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

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

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

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

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

The Company's exposure to foreign currency exchange rate risk as at 31 December 2023 is presented in the table below:

<i>In thousands of Georgian Lari</i>	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>TOTAL</b>
Cash and cash equivalents	36,932	10,806	9,584	4	<b>57,326</b>
Due From Banks	-	10,000	-	-	<b>10,000</b>
Finance lease receivables	94,852	217,075	56,360	-	<b>368,287</b>
Derivative financial Instruments	75,919	(45,182)	(30,646)	-	<b>91</b>
Other financial assets	13,702	9,550	6,372	-	<b>29,624</b>
<b>Total financial assets</b>	<b>221,405</b>	<b>202,249</b>	<b>41,670</b>	<b>4</b>	<b>465,328</b>
Loans from banks and financial institutions	51,428	83,896	120,574	-	<b>255,898</b>
Debt Securities in issue	103,127	-	-	-	<b>103,127</b>
Advances received from customers	3,196	16,703	3,551	-	<b>23,450</b>
Subordinated loans	-	42,184	-	-	<b>42,184</b>
Other financial liabilities	1,877	6,597	1,103	-	<b>9,577</b>
<b>Total financial liabilities</b>	<b>159,628</b>	<b>149,380</b>	<b>125,228</b>	<b>-</b>	<b>434,236</b>
<b>Net balance sheet position</b>	<b>61,777</b>	<b>52,869</b>	<b>(83,558)</b>	<b>4</b>	<b>31,092</b>

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

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

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>More than 1 year</b>	<b>TOTAL</b>
<b>Financial Assets</b>					
Cash and cash equivalents	21,533	21,365	2,943	5	<b>45,846</b>
Finance lease receivables	103,330	100,190	78,944	-	<b>282,464</b>
Derivative financial Instruments	13,630	21,641	(35,190)	-	<b>81</b>
Other financial assets	(3,154)	11,395	2,035	-	<b>10,276</b>
<b>Total financial assets</b>	<b>135,339</b>	<b>154,591</b>	<b>48,732</b>	<b>5</b>	<b>338,667</b>
<b>Financial Liabilities</b>					
Loans from banks and financial institutions	59,773	100,464	51,244	-	<b>211,481</b>
Debt securities in issue	58,580	-	-	-	<b>58,580</b>
Advances received from customers	4,848	9,088	3,997	-	<b>17,933</b>
Subordinated loans	2,486	29,871	-	-	<b>32,357</b>
Other financial liabilities	947	14,547	7,319	-	<b>22,813</b>
<b>Total financial liabilities</b>	<b>126,634</b>	<b>153,970</b>	<b>62,560</b>	<b>-</b>	<b>343,164</b>
<b>Net interest rate sensitivity gap before the effect of non-monetary advances</b>	<b>8,705</b>	<b>621</b>	<b>(13,828)</b>	<b>5</b>	<b>(4,497)</b>
Effect of economic hedges*	9,563	6,457	13,621	-	<b>29,641</b>
<b>Net interest rate sensitivity gap</b>	<b>18,268</b>	<b>7,078</b>	<b>(207)</b>	<b>5</b>	<b>25,144</b>

\* 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% (2022: 10%) increase and decrease in the USD/EUR against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

<i>In thousands of Georgian Lari</i>	<b>31 December 2023</b>		<b>31 December 2022</b>	
	<b>Impact on profit or loss before tax</b>	<b>Impact on equity</b>	<b>Impact on profit or loss before tax</b>	<b>Impact on equity</b>
US Dollar strengthening by 10% (2022: 10%)	5,287	5,287	708	708
EUR Dollar strengthening by 10% (2022: 10%)	(8,356)	(8,356)	(21)	(21)
US Dollar weakening by 10% (2022: 10%)	(5,287)	(5,287)	(708)	(708)
Euros weakening by 10% (2022: 10%)	8,356	8,356	21	21

**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 2023, categorised by the earlier of contractual interest re-pricing or maturity dates.

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>More than 1 year</b>	<b>TOTAL</b>
<b>Financial Assets</b>					
Cash and cash equivalents	57,326	-	-	-	<b>57,326</b>
Due From Banks	-	-	10,000	-	<b>10,000</b>
Finance lease receivables	91	-	-	-	<b>91</b>
Derivative financial Instruments	30,867	16,702	73,533	247,185	<b>368,287</b>
Other financial assets	28,463	133	308	720	<b>29,624</b>
<b>Total financial assets</b>	<b>116,747</b>	<b>16,835</b>	<b>83,841</b>	<b>247,905</b>	<b>465,328</b>
<b>Financial Liabilities</b>					
Loans from banks and financial institutions	30,700	3,179	66,058	155,961	<b>255,898</b>
Debt securities in issue	317	-	-	102,810	<b>103,127</b>
Advances received from customers	18,766	369	4,315	-	<b>23,450</b>
Subordinated loans	718	-	-	41,466	<b>42,184</b>
Other financial liabilities	7,349	85	407	1,736	<b>9,577</b>
<b>Total financial liabilities</b>	<b>57,850</b>	<b>3,633</b>	<b>70,780</b>	<b>301,973</b>	<b>434,236</b>
<b>Net interest rate sensitivity gap</b>	<b>58,897</b>	<b>13,202</b>	<b>13,061</b>	<b>(54,068)</b>	<b>31,092</b>

**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 2022, categorised by the earlier of contractual interest re-pricing or maturity dates.

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>More than 1 year</b>	<b>TOTAL</b>
<b>Financial Assets</b>					
Cash and cash equivalents	45,846	-	-	-	<b>45,846</b>
Finance lease receivables	16,735	14,560	72,962	178,207	<b>282,464</b>
Derivative financial Instruments	81	-	-	-	<b>81</b>
Other financial assets	9,095	189	397	595	<b>10,276</b>
<b>Total financial assets</b>	<b>71,757</b>	<b>14,749</b>	<b>73,359</b>	<b>178,802</b>	<b>338,667</b>
<b>Financial Liabilities</b>					
Loans from banks and financial institutions	7,247	23,155	81,767	99,312	<b>211,481</b>
Debt securities in issue	213	58,367	-	-	<b>58,580</b>
Advances received from customers	12,832	3,616	1,485	-	<b>17,933</b>
Subordinated loans	13,727	(5)	2,424	16,211	<b>32,357</b>
Other financial liabilities	21,952	62	213	586	<b>22,813</b>
<b>Total financial liabilities</b>	<b>55,971</b>	<b>85,195</b>	<b>85,889</b>	<b>116,109</b>	<b>343,164</b>
<b>Net interest rate sensitivity gap before the effect of non-monetary advances</b>	<b>15,786</b>	<b>(70,446)</b>	<b>(12,530)</b>	<b>62,693</b>	<b>(4,497)</b>
Effect of economic hedges	21,718	5,187	2,735	-	<b>29,640</b>
<b>Net interest rate sensitivity gap</b>	<b>37,504</b>	<b>(65,259)</b>	<b>(9,795)</b>	<b>62,693</b>	<b>25,143</b>

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

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

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2023 is as follows:

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>TOTAL</b>
<b>Financial Liabilities</b>					
Loans from banks and financial institutions	31,271	5,766	78,469	173,179	<b>288,685</b>
Debt securities in issue	317	3,270	9,708	120,356	<b>133,651</b>
Advances received from customers	18,766	369	4,315	-	<b>23,450</b>
Subordinated loans	1,882	-	2,669	54,943	<b>59,494</b>
Other financial liabilities	7,349	85	407	1,736	<b>9,577</b>
<b>Total potential future payments for financial liabilities</b>	<b>59,585</b>	<b>9,490</b>	<b>95,568</b>	<b>350,214</b>	<b>514,857</b>

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2022 is as follows:

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>TOTAL</b>
<b>Financial Liabilities</b>						
Loans from banks and financial institutions	7,911	25,883	91,302	112,619	-	<b>237,715</b>
Debt securities in issue	213	60,469	-	-	-	<b>60,682</b>
Advances received from customers	12,832	3,616	1,485	-	-	<b>17,933</b>
Subordinated loans	14,056	453	3,753	6,167	16,852	<b>41,281</b>
Other financial liabilities	21,952	62	213	586	-	<b>22,813</b>
<b>Total potential future payments for financial liabilities</b>	<b>56,964</b>	<b>90,483</b>	<b>96,753</b>	<b>119,372</b>	<b>16,852</b>	<b>380,424</b>

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

The Company does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Company monitors liquidity gap analysis based on the expected maturities of discounted financial assets and liabilities. The expected liquidity gap as at 31 December 2023 is presented in the following table:

<i>In thousands of Georgian Lari</i>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>TOTAL</b>
<b>Financial Assets</b>					
Cash and cash equivalents	57,326	-	-	-	<b>57,326</b>
Due From Banks	-	-	10,000	-	<b>10,000</b>
Finance lease receivables	91	-	-	-	<b>91</b>
Derivative financial Instruments	30,867	16,702	73,533	247,185	<b>368,287</b>
Other financial assets	28,463	133	308	720	<b>29,624</b>
<b>Total financial assets</b>	<b>116,747</b>	<b>16,835</b>	<b>83,841</b>	<b>247,905</b>	<b>465,328</b>
<b>Financial Liabilities</b>					
Loans from banks and financial institutions	30,700	3,179	66,058	155,961	<b>255,898</b>
Debt securities in issue	317	-	-	102,810	<b>103,127</b>
Advances received from customers	18,766	369	4,315	-	<b>23,450</b>
Subordinated loans	718	-	-	41,466	<b>42,184</b>
Other financial liabilities	7,349	85	407	1,736	<b>9,577</b>
<b>Total financial liabilities</b>	<b>57,850</b>	<b>3,633</b>	<b>70,780</b>	<b>301,973</b>	<b>434,236</b>
<b>Cumulative liquidity gap</b>	<b>58,897</b>	<b>13,202</b>	<b>13,061</b>	<b>(54,068)</b>	<b>31,092</b>

**29. FINANCIAL RISK MANAGEMENT CONTINUED**

The expected liquidity gap as at 31 December 2022 as reclassified, is presented in the following table:

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

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

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

**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 2023 was GEL 120,886 thousand (2022: GEL 95,422 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.

Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of	2023		2022	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
- <b>USD</b> payable on settlement (-)	(37,691)	(7,530)	-	(6,205)
- <b>USD</b> receivable on settlement (+)	-	-	16,131	9,694
- <b>GEL</b> payable on settlement (-)	-	(6,026)	(6,533)	-
- <b>GEL</b> receivable on settlement (+)	38,631	34,428	4,048	16,115
- <b>EUR</b> payable on settlement (-)	(3,571)	(27,075)	(13,265)	(23,942)
- <b>EUR</b> receivable on settlement (+)	2,975	5,951	-	4,038
<b>Fair value of foreign exchange forwards and swaps</b>	<b>344</b>	<b>(253)</b>	<b>381</b>	<b>(300)</b>
<b>Net fair value of foreign exchange forwards and swaps</b>	<b>91</b>		<b>81</b>	

The losses net of gain from derivative financial instruments for year 2023 amounted to GEL (1,191) thousand. (2022 GEL (1,398) 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:

<i>In thousands of Georgian Lari</i>	31 December 2023				31 December 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at Fair Value</b>								
<b>Financial Assets</b>								
Derivative financial instruments	-	91	-	91	-	81	-	81
<b>Non-Financial Assets</b>								
Investment property	-	-	-	-	-	-	2,837	2,837
<b>Total Assets Recurring Fair Value Measurements</b>	<b>-</b>	<b>91</b>	<b>-</b>	<b>91</b>	<b>-</b>	<b>81</b>	<b>2,837</b>	<b>2,918</b>

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

<i>In thousands of Georgian Lari</i>	2023	2022	Valuation technique	Inputs used
<b>Assets at Fair Value</b>				
<b>Financial Assets</b>				
Derivative financial instruments	91	81	Forward pricing using present value calculations	Market interest rates, official exchange rate
<b>Non-Financial Assets</b>				
Investment property	-	2,837	Market approach based on the highest and best use analysis of the property	Price per square meter
<b>Total Assets Recurring Fair Value Measurements</b>	<b>91</b>	<b>2,918</b>		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2023 (2022: 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:

<i>In thousands of Georgian Lari</i>	31 December 2023				31 December 2022			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial assets								
Cash and cash equivalents	-	57,326	-	57,326	-	45,846	-	45,846
Due from banks	-	10,000	-	10,000	-	-	-	-
Finance lease receivables	-	-	347,392	368,287	-	-	280,348	282,464
Other financial assets	-	-	29,624	29,624	-	-	10,125	10,276
<b>Total assets</b>	<b>-</b>	<b>67,326</b>	<b>377,016</b>	<b>465,237</b>	<b>-</b>	<b>45,846</b>	<b>290,473</b>	<b>338,586</b>
Financial liabilities								
Loans from banks and financial institutions	-	257,723	-	255,898	-	212,490	-	211,481
Debt securities in issue	-	-	103,710	103,127	-	-	58,400	58,580
Advances received from customers	-	21,484	-	21,484	-	15,902	-	15,902
Subordinated loans	-	-	41,834	42,184	-	-	32,169	32,357
Other financial liabilities	-	9,577	-	9,577	-	22,813	-	22,813
<b>Total liabilities</b>	<b>-</b>	<b>288,784</b>	<b>145,544</b>	<b>432,270</b>	<b>-</b>	<b>251,205</b>	<b>90,569</b>	<b>341,133</b>

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

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

**33. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2023:

<i>In Georgian Lari</i>	Amortized cost	Fair value through profit or loss	Finance Lease Receivables	Total
<b>Assets</b>				
Cash and cash equivalents	57,326	-	-	<b>57,326</b>
Due from banks	10,000	-	-	<b>10,000</b>
Finance lease receivables	-	-	368,287	<b>368,287</b>
Derivative Financial Instruments	-	91	-	<b>91</b>
Other financial assets	29,624	-	-	<b>29,624</b>
<b>TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES</b>	<b>96,950</b>	<b>91</b>	<b>368,287</b>	<b>465,328</b>

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

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

**34. CONTINGENCIES AND COMMITMENTS**

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

**Tax legislation.** Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. Accordingly, at 31 December 2023 and 2022 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.

**34. CONTINGENCIES AND COMMITMENTS CONTINUED**

**Compliance with covenants.** The Company is subject to certain covenants related primarily to its borrowings from banks and international financial institutions. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment. The Company was in compliance with the covenants as of 31 December 2023 and as of 31 December 2022.

**Compliance with lease liabilities.** In case of early termination of the lease agreement, the company will be obliged to pay nil (2022: USD 540 thousand), however, termination of lease agreement is not considered by the Company.

**35. RELATED PARTY TRANSACTIONS**

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

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

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

<i>In thousands of Georgian Lari</i>	2023			2022		
	Parent company	Entities under common control	Other related entities	Parent company	Entities under common control	Other related entities
Cash and cash equivalents	29,116	-	-	36,705	-	-
Finance lease receivables (effective interest rate: 16%-29%)	5,730	-	525	-	-	1,126
Loans from banks and financial institutions (contractual interest rate: 12.2 %-13.0%)	20,079	-	-	17,006	-	-
Subordinated loans	-	-	-	2,486	4	-
Debt securities in issue	24,917	-	-	20,080	-	-
Other financial assets	24	909	-	-	727	-
Prepayments	-	2,179	-	-	2,519	-
Derivative financial Instruments	142	-	-	(16)	-	-
Other liabilities	-	-	-	1	1	-

**35. RELATED PARTY TRANSACTIONS CONTINUED**

The income and expense items with related parties for the year ended 31 December 2023 and 2022 were as follows:

<i>In Georgian Lari</i>	2023			2022		
	Parent company	Entities under common control	Other related entities	Parent company	Entities under common control	Other related entities
Revenue from operating leasing	939	-	-	1,256	-	-
Finance income	82	-	68	-	-	121
Other income	1,542	632	-	1,600	596	-
Interest expense	4,702	-	-	3,355	67	-
Direct leasing costs	-	4,623	-	-	-	-
Bank and other service charge	86	28	-	-	-	-
Loss from derivative financial instruments	1,783	-	-	540	-	-
Administrative and other operating expenses	191	805	-	-	-	-
Foreign exchange translation gains less losses / (losses less gains)	884	-	-	-	-	-
Other expenses	-	-	-	104	93	-

Key management compensation is presented below:

<i>In thousands of Georgian Lari</i>	2023		2022	
	Expenses	Accrued Liability	Expenses	Accrued Liability
Salaries and short-term bonuses	1,300	667	1,223	626

During the year ended 31 December 2023 and 2022 the remuneration of members of the key management, being the members of the Management Board (2023: 4 persons, 2022: 4 persons), comprised salaries and bonuses.

**36. EVENTS AFTER REPORTING PERIOD**

In the year 2024, the company obtained loans totalling GEL 24,381 thousand from both domestic and foreign financial institutions.

In March 2024, the company issued bonds amounting to GEL 11,290 thousand through a private bond offering.

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