JOINT STOCK COMPANY TBC LEASING

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

31 December 2017

Independent Auditors' Report

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Independent Auditor's Report

To the Shareholders and Management of JSC TBC Leasing

Our opinion

In our opinion, JSC TBC Leasing's financial statements (the "financial statements") present fairly, in all material respects, the financial position of JSC TBC Leasing (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

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 Financial Statements* section of our report.

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

Independence

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

Other information

Management is responsible for the other information. Other information comprises Management Report prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we are required to express an opinion whether certain parts of Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

PricewaterhouseCoopers Georgia LLC; Address: #12 Aleksidze Street, Business Center King David, Tbilisi 0160, Georgia, T: +995 32 250 80 50, F: +995 32 250 80 60, www.pwc.com/ge

We will issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit. Our updated report will include also our opinion mentioned in the preceding paragraph.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the Law of Georgia on Accounting, Reporting and Auditing, 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 scepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

23 July 2018
Tbilisi, Georgia

JSC TBC Leasing
Statement of Financial Position
(Amounts expressed in Georgian Lari)

	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	7,865,169	5,277,270
Due From Banks	8	4,431,850	-
Prepayments	9	3,013,077	1,028,009
Tax assets, net		2,463,305	763,842
Advances towards leasing contracts	10	23,017,214	9,614,800
Net investment in finance lease	11	143,776,957	94,783,939
Property and Equipment	12	3,128,044	492,286
Intangible assets	13	717,237	507,530
Investment Property	14	2,299,128	1,976,128
Assets purchased for leasing purpose		2,740,407	285,982
Assets repossessed from terminated leases	15	3,328,098	2,573,242
Other financial assets	16	4,046,937	4,151,269
Other assets		1,676	91,050
TOTAL ASSETS		**200,829,099**	**121,545,347**
LIABILITIES			
Loans from banks and financial institutions	17	135,781,499	68,236,223
Advances received from customers	19	12,907,386	7,043,926
Debt Securities in issue	18	7,798,098	13,260,660
Subordinated loan	20	15,684,639	15,833,761
Other liabilities	21	9,256,894	1,854,829
TOTAL LIABILITIES		**181,428,516**	**106,229,399**
EQUITY			
Share capital	22	3,059,000	3,059,000
Additional paid-in capital		2,149,827	2,149,827
Retained earnings		14,191,756	10,107,121
TOTAL EQUITY		**19,400,583**	**15,315,948**
TOTAL LIABILITIES AND EQUITY		**200,829,099**	**121,545,347**

Chief Executive Officer
Galoz Gogua

Chief Financial Officer
Nugzar Loladze

23 July 2018

JSC TBC Leasing
Statement of Profit or Loss and other Comprehensive Income
(Amounts expressed in Georgian Lari)

	Note	2017	2016
Finance income from leasing		22,517,026	16,767,170
Income from operating lease		287,351	-
Interest expense		(9,344,863)	(7,357,366)
Net finance income		**13,459,514**	**9,409,804**
Provision for impairment of net investment in finance lease	11	(262,677)	(651,780)
Net finance income after provision for impairment of net investment in finance lease		**13,196,837**	**8,758,024**
Provision for impairment of other financial assets	16	(1,993,124)	(1,486,862)
Other income	23	819,979	848,706
Gain on initial recognition of repossessed assets		308,121	140,823
Write-down of repossessed assets to net realizable value	15	(448,810)	(516,930)
Loss from sale and release of repossessed assets	15	(111,057)	(229,747)
Losses net of gains from derivative financial instruments		-	(424,195)
Foreign exchange translation gains less losses		966,581	1,447,648
Administrative and other operating expenses	24	(8,976,892)	(6,180,367)
Gain on revaluation of investment property	14	323,000	1,085,615
Profit before income tax		**4,084,635**	**3,442,715**
Income tax expense	25	-	(166,172)
PROFIT FOR THE YEAR		**4,084,635**	**3,276,543**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,084,635**	**3,276,543**

	Share capital	Additional Paid in Capital	Retained earnings	Total equity
Balance at 31 December 2015	**2,792,000**	**1,301,034**	**6,830,578**	**10,923,612**
Total comprehensive income for the year	-	-	3,276,543	**3,276,543**
Shares issued	267,000	848,793	-	**1,115,793**
Balance at 31 December 2016	**3,059,000**	**2,149,827**	**10,107,121**	**15,315,948**
Total comprehensive income for the year	-	-	4,084,635	**4,084,635**
Balance at 31 December 2017	**3,059,000**	**2,149,827**	**14,191,756**	**19,400,583**

JSC TBC Leasing

Statement of Cash Flows

(Amounts expressed in Georgian Lari)

	Note	2017	2016
Cash flows from operating activities			
Cash receipts from lessees		92,654,568	66,445,744
Cash receipts from lessees as security deposit		15,404,242	9,438,154
Cash receipts from sale of repossessed assets		1,297,543	2,933,116
Cash receipts from terminated lease contracts		1,963,360	916,650
Cash paid for purchase of assets for leasing purposes		(145,217,348)	(73,687,885)
Cash paid to suppliers		(5,530,867)	(3,376,777)
Cash paid to employees		(1,935,530)	(1,218,950)
Cash (used in)/generated from operations		**(41,364,032)**	**1,450,052**
Interest paid on subordinated loans	26	(1,757,196)	(1,648,467)
Interest paid on loans from banks and financial institutions	26	(5,411,572)	(4,535,807)
Interest paid on debt securities issued	26	(585,408)	(540,179)
Taxes paid		(4,960,149)	(4,201,277)
Net cash used in operating activities		**(54,078,357)**	**(9,475,678)**
Cash flows from investing activities			
Interest received		235,887	12,636
Proceeds from sale of property and equipment		-	18,347
Purchase of property and equipment		(275,495)	(260,110)
Purchase of intangible assets		(161,893)	(197,681)
Net cash used in investing activities		**(201,501)**	**(426,808)**
Cash flows from financing activities			
Loans from banks and financial institutions received	26	119,604,203	13,346,561
Debt securities redemption	26	(4,877,400)	-
Debt securities issued		-	6,970,893
Cash Paid For Deposits (Due From Banks)		(4,431,850)	-
Proceeds from issuance of ordinary shares		-	1,115,793
Loans from banks and financial institutions repaid	26	(52,834,029)	(19,652,255)
Net cash from financing activities		**57,460,924**	**1,780,992**
Effect of exchange rate changes on cash and cash equivalents		(593,167)	2,558,665
Net increase/(decrease) in cash and cash equivalents		**2,587,899**	**(5,562,829)**
Cash and cash equivalents at the beginning of the year	7	5,277,270	10,840,099
Cash and cash equivalents at the end of the year		**7,865,169**	**5,277,270**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for JSC TBC Leasing (the "Company").

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

Principal activity. The Company's principal business activity is providing lease finance to companies and individuals within Georgia. The Company leases various types of industrial equipment and equipment used in information technology. The Company purchases leasing assets from suppliers in Georgia and abroad.

As at 31 December, the shareholders of the Company were as follows:

Shareholders	2017 Ownership interest, %	2016 Ownership interest, %
JSC TBC Bank (the "Parent")	99.61%	99.61%
Minority Shareholder – individual	0.39%	0.39%
Total	**100%**	**100%**

As at 31 December 2017 and 31 December 2016, the ultimate controlling party was TBC Bank Group PLC, registered in the United Kingdom.

Registered address and place of business. The Company's registered office is located at 80 Chavchavadze ave, Tbilisi 0160, Georgia.

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

2 Operating Environment of the Company

Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked in a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2018" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 9th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions.

The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate.

GDP growth stood at 4.8% YoY growth in 2017, per initial estimates of Geostat. Growth was broad based across different sectors of the economy and was mostly driven by Construction, Trade and Repairs, Real estate, transport and communications sectors.

Economic recovery in almost all trading partner countries of Georgia continues to underpin growth in export, tourism and remittances inflows. Exports of goods went up by 29.1% YoY in 2017, growth was diversified across different regions. Exports increased most to CIS countries (+60.0% YoY), exports continued to grow to EU (+13.0% YoY) as well as to other countries (+12.2% YoY). Imports of goods also went up by 9.4%, making the balance of trade in goods to worsen slightly by 1.4% YoY in 2017.

2 Operating Environment of the Company (Continued)

Tourism inflows went up by an estimated 28.0% YoY with the total number of visitors exceeding 7.5 mln. Sharp growth in tourism revenues have sizeable positive impact on Georgia's Current Account balance.

Remittance inflows increased by 19.8% YoY in 2017, with remittances up by 15.1% YoY from EU and 15.6% YoY from CIS countries. Growth of remittances from other countries stood at 31.3% YoY. In the latter group of countries Israel and Turkey had highest contribution to growth as remittances from these countries went up by 96.1% YoY and 25.6% YoY, respectively.

Given the positive trend in external inflows, CA balance improved markedly, in the first 9 months of 2017 CA deficit as a % of GDP stood at 7.1% compared to the 11.2% over the same period last year.

Annual CPI inflation peaked in June, 2017 at 7.1% and declined slightly to 6.7% by the end of 2017. Increased excise taxes in the beginning of 2017, higher oil prices and depreciation of the nominal effective exchange rate of GEL were among the factors that kept inflation close to 7% by the end of the year. To address above target inflation, NBG increased policy rate by 0.25 PP from 7% to 7.25% in December, 2017. Overall, in 2017 NBG raised policy rate by 0.75 PP, from 6.5% in the beginning of 2017 to 7.25% by the end of 2017.

Fiscal deficit narrowed from 3.9% in 2016 to an estimated 3.8% in 2017, in line with the government's strategy to gradually bring down budget deficit below 3% over the medium term. Reduction in budget deficit mostly reflected better than expected growth of tax revenues as well as more prudent approach towards the current spending. Budget project for 2018 envisages further reduction of budget deficit to c. 3% of GDP, which should further strengthen the fiscal position of the country.

3 Significant Accounting Policies

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

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

3 Significant Accounting Policies (Continued)

Finance leases. Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and/or
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Finance income is determined on the basis of the principal amount and interest rate implicit in the lease and is recognized on a systematic basis over the period of the lease agreement.

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 receivable 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.

Net investment in finance lease / Finance income recognition. The Company records net investments in finance lease in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

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

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

Advances towards leasing contracts. Advances towards leasing contracts comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards leasing contracts are transferred into net investment in finance lease.

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

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 impairment and subsequently at amortised cost less impairment.

3 Significant Accounting Policies (Continued)

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 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.

Provision for impairment of financial assets accounted for at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company classifies its lessees as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively.

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed lessees in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Company assesses the lessees on an individual basis and measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the exposure's original effective interest rate. The Company uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

If the Company determines that there is no objective evidence that an individually assessed financial asset incurred an impairment whether significant or not, it assesses such asset for impairment collectively.

In order to calculate impairment allowance for collectively assessed loans pools, the Company estimates the following risk parameters: probability of default and loss given default, based on historical experience. In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Company adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

The Company reverses previously recognised impairment loss if, once identified, the amount of the impairment loss decreases and the decrease is related to an objective event. The previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. In order to reverse provisions for individually significant lessees there should be objective evidence that the lessees' financial standing has improved or there is improvement in collateral coverage.

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

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

Assets purchased for leasing purpose. Assets purchased for leasing purposes represent equipment purchased to be subsequently transferred into leases, stated at cost less impairment, if ...

3 Significant Accounting Policies (Continued)

Assets Repossessed from Terminated Leases. Assets returned as a result of termination of lease contracts are considered as assets, which can be sold or leased again. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight line basis over the lease term. Assets received through terminated contracts are initially recognised at the fair value on the date of the termination of lease contracts and are subsequently re-measured at the lower of cost and net realisable value.

Recognition and measurement of financial instruments. The Company recognizes financial assets and liabilities on its Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out in this note.

Derecognition of financial assets. 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 the 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 additional restrictions on the sale.

Offset of financial assets and liabilities. Financial assets and liabilities are offset and reported net on the Statement of Financial Position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated, using the straight-line method to allocate their cost to their residual values over their estimated useful life, as follows:

	Years
Computers and office equipment	5
Vehicles and vehicles lease out under operating lease	5
Furniture and fixtures	5
Leasehold improvements	6.5

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.

3 Significant Accounting Policies (Continued)

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

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

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

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

	Years
Leasing ERP Software	10
Other intangible assets	5-7

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

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents include cash on hand and balance with banks. 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 are carried at amortised cost. Cash and cash equivalents include all bank placements with original maturities of less than three months.

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

Share capital. Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

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. The Company does not apply hedge accounting.

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.

Before 1 January 2017, the income tax charge/(credit) comprised current tax and deferred tax and was recognised in profit or loss for the year, except if it was recognised in other comprehensive income or directly in equity because it related to transactions that were also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax was the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses were based on estimates if financial statements were authorised prior to filing relevant tax returns.

Deferred income tax was provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes were not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances were measured at tax rates enacted or substantively enacted at the end of the reporting period, which were expected to apply to the period when the temporary differences reverse or the tax loss carry forwards be utilised.

3 Significant Accounting Policies (Continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards were recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions could be utilised.

Deferred income tax assets and liabilities were offset when there was a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there was an intention to settle the balances on a net basis.

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.

15 % income tax 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. As a results, the Company derecognised all deferred tax assets and liabilities as of 31 December 2016 and accounted the respective impact in the profit and loss in 2016. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position.

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

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

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

3 Significant Accounting Policies (Continued)

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

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

At 31 December 2017 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.5922 (2016: USD 1 = GEL 2.6468); EUR 1 = GEL 3.1044 (2016: EUR 1 = GEL 2.7940).

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Company.

Changes in presentation. Where necessary corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on net investments in finance lease. The Company regularly reviews its net investments in finance lease to assess impairment. In determining whether an impairment loss should be recorded, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of every individual lease in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of lessee, national or local economic conditions that correlate with defaults of individual lessee. Management uses estimates based on historical loss experience for asset with credit risk characteristics and objective evidence of impairment similar to individual lessee when estimating its future cash flow. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loss impairment 72,935 GEL (2016: 64,607 GEL), respectively. Impairment provisions are based on the estimate of discounted future cash flows taking into account repayments and realisation of any assets held as collateral.

Impairment losses on other financial assets. The Company regularly reviews its other financial assets to assess impairment. In determining whether an impairment loss should be recorded, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of every individual item comprising receivables from terminated leases, other receivables and loans issued to lessees. Management uses estimates based on status of legal cases against the debtors, their financial condition and other supporting documents and sources.

Valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an international valuation company at the end of the reporting period.

Due to the current economic environment, the frequency of property transactions is low in the Company's principal market. Nevertheless, in management's assessment there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Company's investment properties. Further details are disclosed in Note 14.

Assets Repossessed from Terminated Leases. 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 external 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 the market comparison approach. For tax reporting purposes the assets are qualified as fixed assets and the initial value is determined per provisions of Georgian Tax Code, depreciated tax value calculated from the purchase date of the asset to be leased by the Company.

5 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

6 New Accounting Pronouncements

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Company has not early adopted any of the amendments effective after 31 December 2017 and it expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortised cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL).
- The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the TBC Leasing estimated the impact of GEL 778,348 on financial statements from the adoption of the new standard on 1 January 2018. The Company plans to use modified retrospective approach and anticipated impact of adoption will result in the decrease to shareholders' equity.

6 New Accounting Pronouncements (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

In thousands of GEL	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL*	Other	Mandatory	Voluntary	
Investment in Finance Lease	FLR	AC	143,776,957	778,348	-	-	-	**142,998,609**
Total Investment in Finance Lease			**143,776,957**	**778,348**	-	-	-	142,998,609

Impairment of financial assets

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage I – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage II – assets for which significant increase in credit risk since initial recognition is identified;
- Stage III – credit-impaired exposures.

For stage I exposures the Company creates 12 months expected credit losses, whereas for stage II and stage III lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage II classification and incorporation of forward looking information in allowance calculation. For stage I no increase was identified considering that the Company has already been applying 12 months loss identification period (LIP) under IAS 39 methodology.

For the Stage II classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 DPD overdue;
- Downgrade of the risk category of the borrower since initial recognition;
- Deterioration of the probability of default parameter above the predefined threshold.

Under IFRS 9 methodology the Company updated its default definition criteria as well in order to make it consistent with the Copany's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- baseline (most likely)
- upside (better than most likely)
- downside (worse than most likely)

6 New Accounting Pronouncements (Continued)

The Company derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to 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 figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. No material effect is expected on the Company due to introduction of the new standard.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also to access financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company does not expects any impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company does not expects any impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company does not expects any impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

7 Cash and Cash Equivalents

	31 December 2017	31 December 2016
Current accounts with banks	7,865,169	5,277,270
Cash and cash equivalents	**7,865,169**	**5,277,270**

At 31 December 2017, cash and cash equivalents of GEL 6,919,880 (2016: GEL 4,161,582) are held on the Company's current accounts with JSC TBC Bank and show no indication of impairment.

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

	31 December 2017	31 December 2016
Current accounts with banks with "BB-" to "BB+" rating	7,369,930	4,613,887
Current accounts with banks with "B-" to "B+" rating	185,182	459,452
Current accounts with banks unrated	310,057	203,931
Cash and cash equivalents	**7,865,169**	**5,277,270**

Certain balances with banks were pledged as collateral for a loan obtained from banks, these amounts are subject to use only in issuance of finance lease and are disclosed in Note 17.

The information on related party balances and transactions is disclosed in Note 31.

8 Due From Banks

	31 December 2017	31 December 2016
Placements with banks with original maturities of more than three months	4,431,850	-
Less: Provision for impairment	-	-
Total due from banks	**4,431,850**	**-**

Amounts due from banks include placements with original maturities of more than three months that are collateralised and represent neither past due nor impaired amounts at the end of 2017.

As of 31 December 2017 GEL 4,432 thousand, (2016: nil) were kept on deposits as collateral under loan arrangement with TBC Bank disclosed in Note 17. Interest rates of due from banks are disclosed in Note 31.

9 Prepayments

	31 December 2017	31 December 2016
Prepaid insurance for leasing assets	1,966,021	939,290
Prepayments for assets to be leased under operating lease	968,314	-
Other prepayments	78,742	88,719
Total prepayments	**3,013,077**	**1,028,009**

10 Advances towards Leasing Contracts

Advances towards leasing contracts at the year-end comprised GEL 23,017,214 as at 31 December 2017 (2016: GEL 9,614,800). The advances towards leasing contracts are all current, subsequently reclassified to net investment in finance lease usually within two months period after the reporting date.

11 Net Investments in Finance Lease

Net and gross investments in finance lease are as follows:

	31 December 2017	31 December 2016
Gross investment in finance lease	191,706,675	121,819,711
Unearned finance income	(46,471,022)	(25,743,641)
Investment in finance lease	**145,235,653**	**96,076,070**
Allowance for impairment	(1,458,696)	(1,292,131)
Total net investments in finance lease	**143,776,957**	**94,783,939**

Gross investments in finance lease are as follows:

	31 December 2017	31 December 2016
Due in less than 1 year	85,818,422	65,169,734
Due in between 1 and 5 years	105,888,253	56,649,977
Total gross investments in finance lease	**191,706,675**	**121,819,711**

The movements in the provision for impairment of net investments in finance lease are as follows:

	31 December 2017	31 December 2016
Provision for impairment at the beginning of the year	**1,292,131**	**799,923**
Provision of impairment during the year	262,677	651,780
Amounts written off during the year as uncollectible	(96,112)	(159,572)
Provision for impairment at the end of the year	**1,458,696**	**1,292,131**

Analysis by credit quality of net investment in finance leases are as follows:

	31 December 2017	31 December 2016
Neither past due not impaired		
Customers with more than two years of experience	38,071,170	28,083,983
New Customers	78,408,358	45,359,279
Total current and not impaired	**116,479,528**	**73,443,262**
Past due but not impaired		
- Less than 30 days overdue	16,652,682	15,336,972
- 30 to 90 days overdue	8,480,073	5,069,021
Total past due but not impaired	**25,132,755**	**20,405,993**
Impaired contracts – gross		
- 30 to 90 days overdue	343,286	-
- 90 to 180 days overdue	2,223,179	1,079,403
- 180 days to 360 days overdue	339,210	965,768
- More than 360 days overdue	717,695	181,644
Total impaired(*)	**3,623,370**	**2,226,815**
Total investment in finance lease – gross	**145,235,653**	**96,076,070**
Provision for impairment losses	(1,458,696)	(1,292,131)
Total Net investment in finance lease	**143,776,957**	**94,783,939**

(*)Total impaired leases include both collectively and individually impaired leases

11 Net Investments in Finance Lease (Continued)

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

The Company normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contractual term subject to full payment of lease obligations. Generally the lease terms are up to five years.
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

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

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

The effect of collateral at 31 December 2017:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	126,186,357	194,470,806	19,049,296	14,389,566

The effect of collateral at 31 December 2016:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	72,477,598	108,860,654	23,598,472	17,018,200

Certain leases receivable and advances towards leasing contracts as at 31 December 2017 were pledged as collateral for loans obtained from banks and other financial institutions (Note 17).

Fair value of collateral in respect of past due but not impaired leases receivable and in respect of impaired leases receivable assessed by internal appraisers within the credit department on annual basis was as follows at 31 December:

	31 December 2017	**31 December 2016**
Fair value of collateral - past due but not impaired	37,891,185	26,869,154
Fair value of collateral - impaired	5,117,102	1,905,273

12 Property and Equipment

	Land	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles leased out under operating lease	Leasehold improvement	Total
Cost at 1 January 2016	9,934	64,023	37,764	103,256	-	17,027	232,004
Accumulated Depreciation	-	(32,684)	(29,850)	(12,791)	-	(17,027)	(92,352)
Carrying amount at 1 January 2016	**9,934**	**31,339**	**7,914**	**90,465**	**-**	**-**	**139,652**
Additions	-	61,510	206,660	42,777	-	159,569	470,516
Disposals	-	(119)	(35,731)	(22,569)	-	(17,027)	(75,446)
Depreciation Charge	-	(18,025)	(29,742)	(18,894)	-	(25,056)	(91,717)
Elimination of accumulated depreciation on disposals	-	77	29,443	2,734	-	17,027	49,281
Carrying amount at 31 December 2016	**9,934**	**74,782**	**178,544**	**94,513**	**-**	**134,513**	**492,286**
Cost at 31 December 2016	9,934	125,414	208,693	123,464	-	159,569	627,074
Accumulated Depreciation	-	(50,632)	(30,149)	(28,951)	-	(25,056)	(134,788)
Carrying amount at 31 December 2016	**9,934**	**74,782**	**178,544**	**94,513**	**-**	**134,513**	**492,286**
Additions	-	108,372	42,353	188,035	2,436,298	90,905	2,865,963
Disposals	-	(2,554)	-	(19,330)		-	(21,884)
Depreciation Charge	-	(27,219)	(44,474)	(20,908)	(88,356)	(34,062)	(215,019)
Elimination of accumulated depreciation on disposals	-	1,510	17	5,171	-	-	6,698
Carrying amount at 31 December 2017	**9,934**	**154,891**	**176,440**	**247,481**	**2,347,942**	**191,356**	**3,128,044**
Cost at 31 December 2017	9,934	231,232	251,046	292,169	2,436,298	250,474	3,471,153
Accumulated Depreciation	-	(76,341)	(74,606)	(44,688)	(88,356)	(59,118)	(343,109)
Carrying amount at 31 December 2017	**9,934**	**154,891**	**176,440**	**247,481**	**2,347,942**	**191,356**	**3,128,044**

13 Intangible Assets

	Leasing ERP software	Other intangible assets	Total
Cost at January 1 2016	60,729	32,708	93,437
Accumulated Depreciation	-	(6,195)	(6,195)
Carrying amount at 1 January 2016	**60,729**	**26,513**	**87,242**
Additions	425,089	3,160	428,249
Amortization Charge	-	(7,961)	(7,961)
Carrying amount at 31 December 2016	**485,818**	**21,712**	**507,530**
Cost at 31 December 2016	485,818	35,868	521,686
Accumulated Depreciation	-	(14,156)	(14,156)
Carrying amount at 31 December 2016	**485,818**	**21,712**	**507,530**
Additions	227,378	-	227,378
Amortization Charge	-	(17,671)	(17,671)
Carrying amount at 31 December 2017	**713,196**	**4,041**	**717,237**
Cost at 31 December 2017	713,196	35,868	749,064
Accumulated Depreciation	-	(31,827)	(31,827)
Carrying amount at 31 December 2017	**713,196**	**4,041**	**717,237**

As at 31 December 2017 and 2016 leasing ERP software was in testing phase and respectively no amortization expense was charged.

14 Investment Property

As of 31 December 2017 investment property comprised of a land plot (10,839 sq/m) with buildings (2,847 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 assets repossessed from terminated leases with the purpose to use in settlement of outstanding balance of net investment in finance lease from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to the Court in order to cancel the auction results. In 2016 the 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. An entity related to the previous lessee has the right to appeal the above decision of the Court. Considering the previous Court decisions on this case the management has assumed that the risk of negative outcome of further litigation, if any, is remote. As of 31 December 2017 the Company had not started any 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 2017 the fair value of investment property was estimated at GEL 2,299,128. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), for which certain adjustments were applied to prices based on the differences between the Company's assets and the comparative analogues. The fair value belongs to level 3 measurements in the fair value hierarchy. The gain of GEL 323,000 from revaluation of investment property at fair value was recognised in profit and loss in 2017 year.

14 Investment Property (Continued)

	Transferred from repossessed assets at cost	Fair value as of 31 December 2017	Valuation technique	Other key informa-tion	Unobserv able inputs	Range of unobservable inputs (weighted average)
Investment property	890,513	2,299,128	Sales comparison approach	Land and building	Price per square meter	130 - 180

15 Assets Repossessed from Terminated Leases

	31 December 2017	31 December 2016
Carrying value at the beginning of the year	2,573,242	4,462,680
Assets repossessed from terminated leases during the year at fair value	4,917,334	6,142,846
Disposal through sales	(1,595,532)	(2,897,455)
Disposal through transfer to new leases	(2,118,136)	(3,727,386)
Write down to net realizable value	(448,810)	(516,930)
Transfer to investment property	-	(890,513)
Carrying amount at the end of the year	**3,328,098**	**2,573,242**

Write down to net realisable value of GEL 448,810 (2016: GEL 516,930) is the effect of reassessment of net realisable value on the repossessed assets from terminated leases as of the balance sheet date, which are accounted as inventory defined by accounting policy. Loss from sale and release of repossessed assets comprised GEL 111,057 and GEL 229,747 for 2017 and 2016 years respectively.

16 Other Financial Assets

At 31 December analysis of other financial assets are as follows:

	31 December 2017	31 December 2016
Restricted cash	-	**138,689**
Gross receivables from terminated lease	4,741,987	4,248,362
Provision for impairment of receivables from terminated leases	(3,402,591)	(3,058,797)
Net receivable from terminated leases	**1,339,396**	**1,189,565**
Gross other receivables	3,379,787	1,916,083
Provision for other receivables	(1,721,786)	(1,296,849)
Net other receivables	**1,658,001**	**619,234**
Gross loans issued to lessees	3,881,082	3,810,930
Provision for loans issued to lessees	(2,831,542)	(1,607,149)
Net loans issued to lessees	**1,049,540**	**2,203,781**
Total other financial assets	**4,046,937**	**4,151,269**

16 Other Financial Assets (continued)

Other receivables represent financial assets arisen from terminated contracts with suppliers of assets to be leased for which amount was prepaid by the Company.

	Receivables from terminated leases	Other receivables	Loans issued to Lessees	Total
Provision for impairment as at 1 January 2016	**2,833,600**	**1,035,384**	**606,949**	**4,475,933**
Provision charge for impairment during 2016	225,197	261,465	1,000,200	1,486,862
Provision for impairment as at 31 December 2016	**3,058,797**	**1,296,849**	**1,607,149**	**5,962,795**
Provision charge for impairment during 2017	343,794	424,937	1,224,393	1,993,124
Provision for impairment as at 31 December 2017	**3,402,591**	**1,721,786**	**2,831,542**	**7,955,919**

Analysis by credit quality of other financial assets are as follows:

	31 December 2017	31 December 2016
Neither past due nor impairment		
Restricted cash	-	138,689
Total neither past due nor impaired	**-**	**138,689**
Past due but not impaired		
Other receivables	1,240,226	554,565
- less than 90 days overdue	1,240,226	554,565
Total past due but not impaired (gross)	**1,240,226**	**554,565**
Receivables individually determined to be impaired		
Receivables from terminated leases	4,741,987	4,248,362
- more than 90 days overdue	4,741,987	4,248,362
Other receivables	2,139,561	1,361,518
- more than 90 days overdue	2,139,561	1,361,518
Loans issued to lessees	3,881,082	3,810,930
- more than 90 days overdue	3,881,082	3,810,930
Total individually impaired (gross)	**10,762,630**	**9,420,810**
Less impairment provision	**(7,955,919)**	**(5,962,795)**
Total other financial assets	**4,046,937**	**4,151,269**

17 Loans from Banks and Financial Institutions

	Maturities	31 December 2017	31 December 2016
Loans from TBC Bank	04.12.2020	21,541,810	2,197,898
TBC Bank - Letter of Credit	30.08.2017	-	711,318
Loans from IFAD	01.02.2021	4,236,706	4,314,223
Loans from BSTDB	08.05.2018	-	4,364,703
Loans from ResponsAbility	16.05.2018	25,721,432	26,930,897
Loans from MicroVest	15.12.2017	-	5,009,935
Loans from Symbiotics	31.12.2018	30,409,593	10,058,037
Loans from Triple Jump	15.12.2020	22,103,771	14,649,212
Loans from Pasha Bank	31.05.2018	3,896,753	-
Loans from BlueOrchard	04.12.2020	12,983,884	-
Loans from VTB Bank	31.12.2018	3,198,737	-
Loans from TBC Kredit	10.08.2018	5,197,792	-
Loans from Green for Growth Fund	15.09.2020	6,491,021	-
Total loans from banks and financial institutions		**135,781,499**	**68,236,223**

Loans from banks and financial institutions are secured by certain cash and cash equivalents, certain leases receivable and advances towards leasing contracts as detailed in Note 7 and 11. As of 31 December 2017 amount of cash and cash equivalents pledged as collateral comprised 35,598 GEL (2016: GEL 2,640,857), the amount of due from banks pledged as collateral comprised 4,431,850 GEL (2016: GEL 0), the amount of gross investment in leases pledged as collateral comprised 145,248,843 GEL (2016: GEL 78,772,872) and the amount of advances towards leasing contracts pledged as collateral comprised 6,284,418 GEL, no advances towards leasing contracts were pledged as collateral for the year ended 31 December 2016.

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. At 31 December 2017 and 2016, management of the Company believes that the Company was in compliance with those covenants.

As at 31 December 2017 accrued interest payable included in loans from banks and financial institutions amounted to GEL 936,485 (2016: GEL 789,266).

Refer to Note 28 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 31.

18 Debt Securities in Issue

	Currency	Maturity date	31 December 2017	31 December 2016
Bonds issued on domestic market	USD	22.07.2019	7,798,098	13,260,660
Total debt securities in issue			**7,798,098**	**13,260,660**

Refer to Note 28 for the disclosure of the fair value of debt securities in issue.

19 Advances Received from Customers

Advances from customers that were outstanding at the year-end comprised GEL 12,907,386 as at 31 December 2017 (2016: GEL 7,043,926). 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 placed on the Company's account as a security deposit against the customer's liabilities 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 10,293,519 as at 31 December 2017 (2016: GEL 6,008,992) represents security deposit received from customers in advance, while the remaining part of balance is lease payments received in advance and advances received for sale of repossessed assets.

20 Subordinated Loans

	Maturities	31 December 2017	31 December 2016
Subordinated loans from TBC	05.12.2018	13,072,128	15,833,761
Subordinated Loans From Opportunity	05.12.2018	2,612,511	-
Total Subordinated Loan		**15,684,639**	**15,833,761**

As at 31 December 2017, accrued interest payable included in subordinated loans amounted to GEL 108,039 (2016: GEL 93,361).

Refer to Note 28 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 31.

21 Other Liabilities

	31 December 2017	31 December 2016
Liabilities to asset providers	8,180,733	1,271,115
Accrued expenses	171,579	107,204
Liabilities to service providers	418,769	36,504
Total financial liabilities	**8,771,081**	**1,414,823**
Bonuses payable	485,813	440,006
Other liabilities	**9,256,894**	**1,854,829**

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

22 Share Capital

The share capital of the Company as at 31 December 2017 was GEL 3,059,000 (2016: GEL 3,059,000). In 2016 company issued new 267 ordinary shares with par GEL 1,000 at GEL 4,179 each. The Shareholders of the Company also authorized issue of additional 267 shares in 2016 with the same terms, which were not issued as at 31 December 2016. Total number of authorised, issued and paid shares comprised 3,059 common shares with par value of GEL 1,000 each. Each share carried one vote. There was no movement on share capital during 2017.

23 Other Income

	2017	2016
Reimbursement & bonus income from insurance companies	624,490	240,410
Interest income on deposit	165,604	-
Income from penalties	20,133	182,667
Income from settlements related to loans issued to leases	-	355,853
Other income	9,752	69,776
Total other income	**819,979**	**848,706**

24 Administrative and Other Operating Expenses

	2017	2016
Staff costs	2,640,878	1,662,619
Insurance expenses	1,874,781	1,614,944
Taxes other than income tax	1,410,362	945,718
Professional services	665,683	359,496
Leased assets registration fee	318,850	98,517
Advertising costs	304,576	104,983
Occupancy and rent	286,217	266,325
Depreciation of property and equipment	232,690	99,678
Bank charges	127,232	78,706
Expenses on Assets maintenance	109,044	137,104
Withholding tax on non-residents	63,106	269,306
Land and Buildings maintenance	20,048	20,137
Other expenses	923,425	522,834
Total administrative and other operating expenses	**8,976,892**	**6,180,367**

Professional service fee includes GEL 101,912 (2016: GEL 132,314) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

25 Income Taxes

	2017	2016
Current tax	-	594,046
Re-measurement of deferred tax due to changes in tax law	-	(427,874)
Income tax expense for the year	**-**	**166,172**

25 Income Taxes (Continued)

Until the changes in the Tax Code of Georgia, as explained in Note 3, differences between the amounts recognised for the Company's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and carry forward of currently unused tax losses and tax credits gave rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The effect of the re-measurement due changes in tax law is detailed below:

	31 December 2017	Re-measurement of deferred tax due to changes in tax law	31 December 2016
Net investment in finance lease	-	392,045	(392,045)
Advances towards leasing contracts	-	86,938	(86,938)
Other financial assets	-	(5,795)	5,795
Property and equipment	-	4,436	(4,436)
Loans from banks and financial institutions	-	(71,606)	71,606
Other liabilities, including accruals	-	(136,242)	136,242
Assets repossessed from terminated leases	-	158,098	(158,098)
Net deferred tax liability	-	**427,874**	**(427,874)**

26 Net Debt Reconciliation

	Liabilities from financing activities			
	Loans from banks and financial institutions	**Debt Securities in Issue**	**Subordinated Loan**	**Total**
Net debt at 31 December 2016	**68,236,223**	**13,260,660**	**15,833,761**	**97,330,644**
Cash flows	61,358,602	(5,462,808)	(1,757,196)	54,138,598
Foreign exchange adjustments	(347,819)	(868,209)	(168,240)	(1,384,268)
Other non-cash movements	6,534,493	868,455	1,776,314	9,179,262
Net debt at 31 December 2017	**135,781,499**	**7,798,098**	**15,684,639**	**159,264,236**

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.

27 Financial Risk Management

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

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 300,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

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

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

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

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

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

27 Financial Risk Management (Continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	2,712,350	5,103,740	14,867	34,212	7,865,169
Due from banks	4,431,850	-	-	-	4,431,850
Net investment in finance lease	34,854,220	108,354,092	568,645	-	143,776,957
Advances towards leasing contracts	3,729,772	19,287,442	-	-	23,017,214
Other financial assets	492,562	3,554,375	-	-	4,046,937
Total financial assets	**46,220,754**	**136,299,649**	**583,512**	**34,212**	**183,138,127**
Loans from banks and financial Institutions	30,721,737	105,059,762	-	-	135,781,499
Debt Securities in issue	-	7,798,098	-	-	7,798,098
Advances received from customers	6,752,807	6,154,579	-	-	12,907,386
Subordinated loan	7,857,946	7,826,693	-	-	15,684,639
Other financial liabilities	2,538,886	6,718,008	-	-	9,256,894
Total financial liabilities	**47,871,376**	**133,557,140**	**-**	**-**	**181,428,516**
Net open currency position	**(1,650,622)**	**2,742,509**	**583,512**	**34,212**	**1,709,611**

The Company's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	2,246,160	2,985,705	11,581	33,824	5,277,270
Due from banks	-	-	-	-	-
Net investment in finance lease	9,334,964	85,448,975	-	-	94,783,939
Advances towards leasing contracts	765,228	8,849,572	-	-	9,614,800
Other financial assets	830,985	3,181,595	138,689	-	4,151,269
Total financial assets	**13,177,337**	**100,465,847**	**150,270**	**33,824**	**113,827,278**
Loans from banks and financial Institutions	4,827,052	63,408,740	431	-	68,236,223
Debt Securities in issue	-	13,260,660	-	-	13,260,660
Advances received from customers	1,441,941	5,601,985	-	-	7,043,926
Subordinated loan	7,847,641	7,986,120	-	-	15,833,761
Other financial liabilities	583,714	1,271,115	-	-	1,854,829
Total financial liabilities	**14,700,348**	**91,528,620**	**431**	**-**	**106,229,399**
Net open currency position	**(1,523,011)**	**8,937,227**	**149,839**	**33,824**	**7,597,879**

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% (2016: 10%) increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	31 December 2017		31 December 2016	
	Impact on profit or loss before tax	Impact on equity	Impact on profit or loss before tax	Impact on equity
US Dollar strengthening by 10% (2016: 10%)	274,251	274,251	893,723	759,664
US Dollar weakening by 10% (2016: 10%)	(274,251)	(274,251)	(893,723)	(759,664)

27 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.

As at 31 December 2017 or 2016 the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortised cost. The exposure to the cash flow interest risk as at 31 December 2017 and 2016 arises from one borrowing at variable interest rate, all other financial assets and liabilities bear fixed interest or are interest free. The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2017, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	7,865,169	-	-	-	7,865,169
Due from banks	-	-	4,431,850	-	4,431,850
Net investment in finance lease	13,485,225	9,007,623	38,968,159	82,315,950	143,776,957
Advances towards leasing contracts	4,603,443	8,056,025	10,357,746	-	23,017,214
Other financial assets	607,041	809,387	1,011,734	1,618,775	4,046,937
Total financial assets	**26,560,878**	**17,873,035**	**54,769,489**	**83,934,725**	**183,138,127**
Financial Liabilities					
Loans from banks and financial institutions	1,217,272	1,713,870	48,766,840	84,083,517	135,781,499
Debt Securities in issue	50,540	-	-	7,747,558	7,798,098
Advances received from customers	2,581,477	4,517,585	5,808,324	-	12,907,386
Subordinated loan	117,413	-	14,867,226	700,000	15,684,639
Other financial liabilities	5,452,312	2,693,756	1,110,826	-	9,256,894
Total financial liabilities	**9,419,014**	**8,925,211**	**70,553,216**	**92,531,075**	**181,428,516**
Net interest rate sensitivity gap	**17,141,864**	**8,947,824**	**(15,783,727)**	**(8,596,350)**	**1,709,611**

27 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 2016, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	5,277,270	-	-	-	5,277,270
Due from banks	-	-	-	-	-
Net investment in finance lease	11,460,463	7,203,368	30,549,004	45,571,104	94,783,939
Advances towards leasing contracts	1,922,960	3,365,180	4,326,660	-	9,614,800
Other financial assets	740,576	802,516	1,003,145	1,605,032	4,151,269
Total financial assets	**19,401,269**	**11,371,064**	**35,878,809**	**47,176,136**	**113,827,278**
Financial Liabilities					
Loans from banks and financial institutions	611,733	861,296	24,507,499	42,255,695	68,236,223
Debt Securities in issue	85,943	-	-	13,174,717	13,260,660
Advances received from customers	1,408,785	2,465,374	3,169,767	-	7,043,926
Subordinated loan	118,530	-	-	15,715,231	15,833,761
Other financial liabilities	1,092,494	539,756	222,579	-	1,854,829
Total financial liabilities	**3,317,485**	**3,866,426**	**27,899,845**	**71,145,643**	**106,229,399**
Net interest rate sensitivity gap	**16,083,784**	**7,504,638**	**7,978,964**	**(23,969,507)**	**7,597,879**

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

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2017 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	2,075,349	2,819,372	62,534,628	82,853,491	150,282,840
Debt securities in issue	248,904	-	422,972	8,199,572	8,871,448
Advances received from customers	2,635,258	4,646,659	6,227,814	-	13,509,731
Subordinated loan	280,828	281,193	16,163,808	707,134	17,432,963
Other financial liabilities	5,724,841	2,828,402	1,166,351	-	9,719,594
Total potential future payments for financial obligations	**10,965,180**	**10,575,626**	**86,515,573**	**91,760,197**	**199,816,576**

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2016 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	1,192,515	4,675,215	38,020,736	29,898,286	73,786,752
Debt securities in issue	298,079	61,712	5,816,279	8,783,649	14,959,719
Advances received from customers	1,438,135	2,535,813	3,398,694	-	7,372,642
Subordinated loan	265,338	279,650	1,303,455	17,477,574	19,326,017
Other financial liabilities	4,186,584	2,687,868	1,782,928	-	8,657,380
Total potential future payments for financial obligations	**7,380,651**	**10,240,258**	**50,322,092**	**56,159,509**	**124,102,510**

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 2017 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	7,865,169	-	-	-	7,865,169
Due from banks	-	-	4,431,850	-	4,431,850
Net investment in finance lease	13,485,224	9,007,623	38,968,159	82,315,951	143,776,957
Advances towards leasing contracts	4,603,443	8,056,025	10,357,746	-	23,017,214
Other financial assets	607,041	809,387	1,011,734	1,618,775	4,046,937
Total financial assets	**26,560,877**	**17,873,035**	**54,769,489**	**83,934,726**	**183,138,127**
Financial Liabilities					
Loans from banks and financial institutions	1,217,272	1,713,870	48,766,840	84,083,517	135,781,499
Debt Securities in issue	50,540	-	-	7,747,558	7,798,098
Advances received from customers	2,581,477	4,517,585	5,808,324	-	12,907,386
Subordinated loan	117,413	-	14,867,226	700,000	15,684,639
Other financial liabilities	5,452,311	2,693,756	1,110,827	-	9,256,894
Total financial liabilities	**9,419,013**	**8,925,211**	**70,553,217**	**92,531,075**	**181,428,516**
Liquidity gap	**17,141,864**	**8,947,824**	**(15,783,728)**	**(8,596,349)**	**1,709,611**
Cumulative liquidity gap	**17,141,864**	**26,089,688**	**10,305,960**	**1,709,611**	

27 Financial Risk Management (Continued)

The expected liquidity gap as at 31 December 2016 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	5,277,270	-	-	-	5,277,270
Net investment in finance lease	11,460,463	7,203,368	30,549,004	45,571,104	94,783,939
Advances towards leasing contracts	1,922,960	3,365,180	4,326,660	-	9,614,800
Other financial assets	740,576	802,516	1,003,145	1,605,032	4,151,269
Total financial assets	**19,401,269**	**11,371,064**	**35,878,809**	**47,176,136**	**113,827,278**
Financial Liabilities					
Loans from banks and financial institutions	611,733	861,296	24,507,499	42,255,695	68,236,223
Debt Securities in issue	85,943	-	-	13,174,717	13,260,660
Advances received from customers	1,408,785	2,465,374	3,169,767	-	7,043,926
Subordinated loan	118,530	-	-	15,715,231	15,833,761
Other financial liabilities	1,092,494	539,756	222,579	-	1,854,829
Total financial liabilities	**3,317,485**	**3,866,426**	**27,899,845**	**71,145,643**	**106,229,399**
Liquidity gap	**16,083,784**	**7,504,638**	**7,978,964**	**(23,969,507)**	**7,597,879**
Cumulative liquidity gap	**16,083,784**	**23,588,422**	**31,567,386**	**7,597,879**	

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

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

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 from its Parent. The amount of capital that the Company managed as of 31 December 2017 was GEL 35,085,222 (2016: 31,575,754).

28 Fair Value of Financial Instruments

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 estimated fair values of financial instruments have been determined by the Company, using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information on interest rates in estimating the fair value of financial instruments.

All Company's financial assets and liabilities are carried at amortised cost. Cash and cash equivalents are carried at amortised cost, which equals current fair value. Net investment in finance lease, advances towards leasing contracts and other financial assets are stated net of provisions for impairment. 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.

28 Fair Value of Financial Instruments (Continued)

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments is normally their carrying amount. 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.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2017 are as follows:

	31 December 2017			
	Level 1	Level 2	Level 3	Carrying value
Financial assets				
Cash and cash equivalents	7,865,170	-	-	7,865,170
Due from banks	4,431,850	-	-	4,431,850
Advances towards leasing contracts	-	-	22,342,534	23,017,213
Net investments in finance lease	-	-	145,791,824	143,776,957
Other financial assets	-	-	3,136,372	4,046,937
Total assets	**12,297,020**	**-**	**171,270,730**	**183,138,127**
Financial liabilities				
Loans from banks and financial institutions	-	134,845,113	-	135,781,498
Debt securities in issue	-	7,776,600	-	7,798,098
Advances received from customers (Security Deposit)	-	10,293,519	-	10,293,519
Subordinated loan	-	15,576,600	-	15,684,639
Other liabilities	-	9,256,894	-	9,256,894
Total liabilities	**-**	**177,748,726**	**-**	**178,814,648**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2016 are as follows:

	31 December 2016			
	Level 1	Level 2	Level 3	Carrying value
Financial assets				
Cash and cash equivalents	5,277,270	-	-	5,277,270
Due from banks	-	-	-	-
Advances towards leasing contracts	-	-	9,332,971	9,614,800
Net investments in finance lease	-	-	95,887,507	94,783,939
Other financial assets	-	-	3,838,187	4,151,269
Total assets	**5,277,270**	**-**	**109,058,665**	**113,827,278**
Financial liabilities				
Loans from banks and financial institutions	-	71,308,489	-	68,236,223
Debt securities in issue	-	14,035,640	-	13,260,660
Advances received from customers (Security Deposit)	-	6,008,992	-	6,008,992
Subordinated loan	-	17,808,563	-	15,833,761
Other liabilities	-	(1,854,829)	-	(1,854,829)
Total liabilities	**-**	**107,306,855**	**-**	**101,484,807**

29 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purpose of measurement, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Company classifies all its financial assets into the category of loans and receivables. At 31 December 2016, 2015 all the Company's financial liabilities are carried at amortised cost.

30 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 material 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 2017 and 2016 no provision for potential tax liabilities has been recorded.

On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by new the Tax Code of Georgia effective from 1 January 2011.

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

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

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from banks and international financial institutions. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believe that as at 31 December 2017 and 2016 and during the respective years the Company has complied with the covenants that were in force.

31 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:

	2017		2016	
	Parent company	Other related entities	Parent company	Other related entities
Cash and cash equivalents	6,919,880	-	4,161,582	-
Due from banks	4,431,850	-	-	-
Net investment in finance leases (effective interest rate: 15.0%-40.0%)	-	721,120	-	819,055
Loans from banks and financial institutions (contractual interest rate: 7.5%-13.5%)	21,541,810	5,197,792	2,197,898	-
Subordinated loans (contractual interest rate: 12.0%-14.0%)	13,072,128	-	15,833,761	-

31 Related Party Transactions (Continued)

The income and expense items with related parties for the year ended 31 December 2017 and 2016 were as follows:

	2017		2016	
	Parent company	Other related entities	Parent company	Other related entities
Interest income	165,604	-	63,116	-
Finance income	-	206,076	-	254,174
Interest expense	2,601,191	72,163	1,940,982	-
Bank and other service charge	138,436	-	90,307	-

Key management compensation is presented below:

	2017		2016	
	Expenses	Accrued Liability	Expenses	Accrued Liability
Short-term benefits	1,133,337	305,950	789,275	197,340

During the year ended 31 December 2017 and 2016 the remuneration of members of the key management, being the members of the Management Board, comprised salaries, bonuses and compensation of insurance and business trip expenses.

TBC Leasing

JSC "TBC Leasing" was founded in 2003 by "TBC Bank" and from the very origination, company thrives towards becoming leading company of leasing market and sets high standards of customer service. TBC Leasing serves corporate and retail clients through different sales channels and constantly introduces innovative and new products to Georgian leasing market.

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Financial Indicators

Net Income (In Georgian Lari)

Change	+24.7%
2017	4,084,635
2016	3,276,543

Return on Average Equity

Change	-1.5 pp
2017	23.5%
2016	25.0%

Return on Average Assets

Change	-0.4 pp
2017	2.5%
2016	2.9%

Cost to Income Ratio

Change	2.0 pp
2017	44.1%
2016	42.1%

Cost of Risk

Change	-1.5 pp
2017	2.1%
2016	3.6%

Total Assets (In Georgian Lari)

Change	+65.2%
2017	200,829,099
2016	121,545,347

Non-Performing Leases

Change	-0.2 pp
2017	3.0%
2016	3.2%

Operating Indicators

Number of Employees

2017	79
2016	46

Number of Branches

2017	4
2016	1

Number of active Clients

2017	2,144
2016	598

Number of active Contracts

2017	3,440
2016	1,513

Company Overview

The Company's key business objective is provision of asset financing for Small and Medium Enterprises in Georgia as well as retail leasing - from June 2017 the Company is actively engaged in retail market and as of 1H 2018 leases to retail clients comprised 12% of total leasing portfolio. The Company offers following types of lease products to its customers:

- Financial Lease –the lessee usually purchases the leased asset by the end of term;
- Operational Lease – the lessee returns the leased asset to the Company at the end of lease term;

Financial lease is the most popular product with the largest (approximately 95%) share in Company's portfolio. It is closely followed by operational lease.

Each lease is disbursed based on documents (including application) duly presented by potential customer. Prior to issuing a product, the Company requests objective appraisal of the asset to be leased.

Because leased assets serve as collateral for the products, the Company's credit policy requires them to be insured either by customers or the Company itself. Only top rates insurance companies are accepted as eligible providers.

Once the lease is effected, the Company conducts regular annual monitoring thereof, either through financial documentation or asset monitoring/revaluation.

The Company's broadly diversified liability structure is supported by a range of high profile lenders including Symbiotics, ResponsAbility, Triple Jump, BlueOrchard, Green for Growth Fund and IFAD as well as local banks. In 2014 TBC Leasing successfully raised USD 2 mln through local inaugural private bond placement and in 2016 it placed additional USD 3 mln bonds.

Currently company operates with head office and 5 retail branches out of which two is located outside Tbilisi. Retail branches serve individual clients with monthly income in 700-2,000 GEL range and offer financial lease for used and imported cars. Besides branches, company is presented with sale's points at 3 official car dealer outlets. Corporate clients are served at head office of the company.

Future Development Plans and Recently Performed R&D

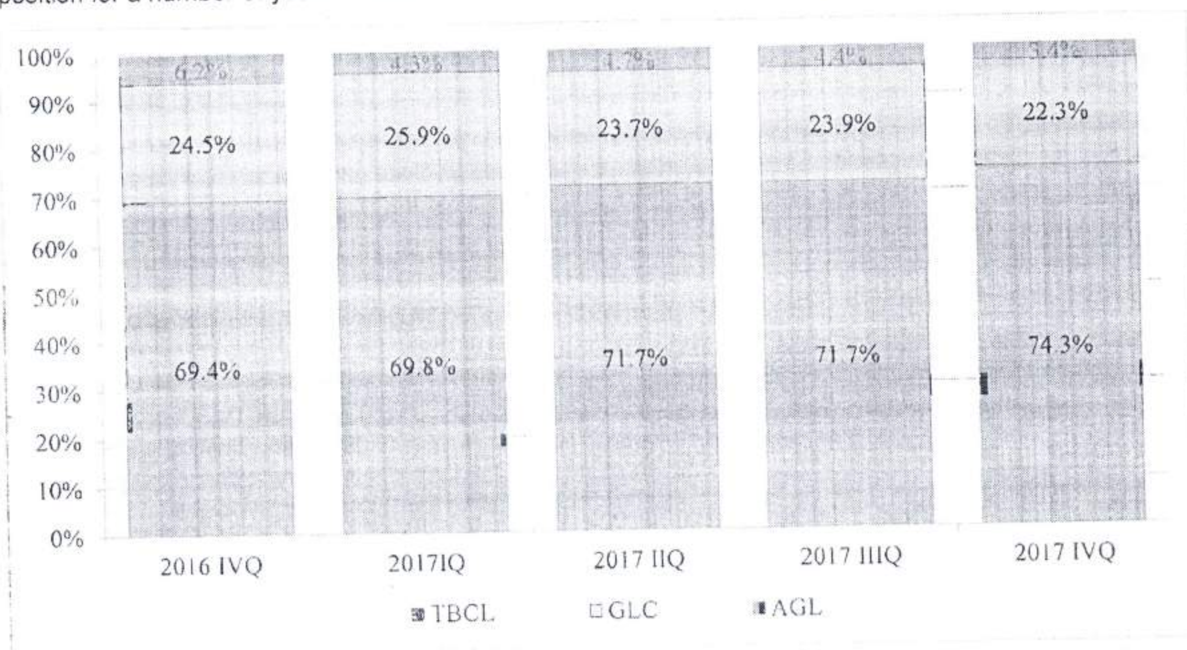
Company plans to emphasize on digital services in future, which at initial stage will include an online platform for clients to access their outstanding accounts with the company as well as to form new ones. In addition, company plans to increase its presence across Georgia with adding new branches in several major cities of the country.

Recently company has invested heavily in development of new operational and accounting software, which will support and enable future growth of the company

Leasing Market Overview

The major players in the market are TBC Leasing, Georgian Leasing Company ("**GLC**") and Alliance Group Leasing ("**AGL**"). Other institutions active in the leasing market in Georgia are Liberty Bank, MFO Swiss Capital, MOGO LLC and various other microfinance and non-banking lending institutions. The three main companies (the Company, GLC and AGL) dominate the leasing industry in Georgia; however they are focused on large/SME institutions while retail leasing market is largely untapped. The majority (around 95%) of leases are financial leases.

In terms of market share TBC Leasing held 74.3% of the market in Q4 2017 and has maintained a leading position for a number of years. Market shares data for main three players is given in the table below:



In 2011, the Georgian parliament approved a new legislation in accordance with the principles of the International Institute for the Unification of Private Law (UNIDROIT), an independent intergovernmental organization based in Rome focused on aligning private and commercial law across states. As the result, a number of amendments were made to Georgia's Tax and Civil Codes. The new legislation created stronger incentives for companies to lease by allowing them some tax flexibility as well as easier tax procedures for lessees, and reduced effective tax rates for lessors and lessees due to changes in lease accounting treatments.

From 2011 till the beginning of 2017 (enactment of the so-called "Estonian Model" of profit tax) leasing companies were allowed to fully deduct the fixed asset with the value of GEL 1,000. The deduction was done in proportion to depreciation costs calculated in accordance with applicable provisions of the Tax Code. Periodic lease payments (interest and principal) are treated as an expense for tax accounting purposes, thus allowing companies to reduce the burden of tax on profit. The code also allows effective property tax calculation on leased assets for lessors. The annual tax rate on leased taxable property for a leasing company shall be determined, during the entire period of lease agreement, as the maximum amount of 0.6% of the initial book value of the taxable property at the moment of its first transfer. VAT is paid in proportion to lease payments.

From January 1, 2017, the new amendments to the Tax Code enable the leasing companies to be relieved from profit tax exposure on their proceeds, unless profit is distributed to the partners (shareholders) in the form of dividends.

Overview of Financial Results of 2017

TBC Leasing's financial statements are prepared in accordance with IFRS (International Financial Reporting Standards).

Main Financial Indicators:

	2017	2016	Change
Return on Average Equity	23.53%	24.97%	-1.44, pp
Return of Average Assets	2.53%	2.88%	-0.35, pp
Cost to Income	44.09%	42.14%	1.95, pp
Cost of Risk	2.08%	3.60%	-1.52, pp
NPL	2.97%	3.18%	-0.21, pp

Increasing Profitability

Company's net income is rising year by year and 2017 was not the exception. Net income for the last year amounted to 4,084,635 GEL, which is 25% more than in 2016. Increased profitability is mainly driven by significant growth in lease portfolio and effective asset and liability management.

One of the most important financial ratio for the company is ROAE (Return on average equity), which is 23.53% for the last year. There is a slight deterioration compared to 2016, but if we make further analysis and look at the table below, we can see that return on average equity from continuing operations has significantly improved:

	2017	2016	Change
Net Income	4,084,635	3,276,543	25%
Net Income from Continuing Operations	3,761,635	2,190,928	72%
Return on Average Equity	23.53%	24.97%	-1.44, pp
Return on Average Equity (Continuing Operations)	21.67%	16.70%	4.97, pp

Net Lease Income

Net lease income for the period amounted to GEL 9,524,364, 41% more than previous year. As it was mentioned earlier, there was a significant growth in Lease portfolio, which was one of the drivers for increased profitability. Secondly, it should be mentioned that company has worked hard towards reducing cost of funds and if we look at the table below, we will see that Lease income increased by 31% compared to 2016, while interest expense rose only by 22% in the same period:

	2017	2016	Change
Lease Income	18,918,922	14,430,394	31%
Interest Expense	9,394,558	7,684,065	22%
Net Lease Income	9,524,364	6,746,328	41%
Net Lease Income Margin	50.34%	46.75%	3.59, pp

Provision for Impairment

Cost of risk of the company is comprised of two main elements: provision for impairment of net investment in finance lease and Non-operation costs, which in turn represents sum of provision of impairment of other financial assets and other non-operation costs.

Total provision expense has decreased by 14% compared to previous year, mainly because of lower level of provision on lease receivables. Non-operational costs are approximately on the same level, taking into account above mentioned information and significantly increased lease portfolio, cost of risk during the period has declined by 1.52% and amounted to 2.1% by the end of 2017 financial year.

	2017	2016	Change
Provision on lease receivables	262,677	651,780	-60%
Non-operational costs	2,387,900	2,437,930	-2%
Provision for impairment of other financial assets	1,993,125	1,486,862	34%
Other Non-operational costs	394,775	951,068	-58%
Total Provision	2,650,577	3,089,710	-14%
Cost of Risk	2.1%	3.6%	-1.52, pp

Administrative and Other Operating Expenses

Administrative and other operating expenses have increased and amounted to GEL 4,199,519, which is 48% more than previous year. Main determinant of such an increase is staff expenses, which rose in line with lease portfolio. Despite of increased expenses cost to income ratio have slightly deteriorated and by the end of 2017 equals 44.1%.

	2017	2016	Change
Staff Expenses	2,640,878	1,662,619	59%
Depreciation and Amortization	144,585	99,678	45%
Other Administrative and Operating Expenses	1,414,055	1,080,652	31%
Total Administrative and Other Operating Expenses	4,199,519	2,842,949	48%
Cost to Income	44.1%	42.1%	1.95, pp

Risk Factors and Uncertainties

Macro economy, policies and market conditions

Alike to the other countries in the world, in Georgia too companies' business, financial condition and results of operations are largely affected by the macroeconomic and market conditions. Company generates most of its revenue from leasing services, growth of which is dependent on the demand for leasing services on Georgian market. A downturn in the Georgian economy may adversely affect the overall demand for leasing services, which could, in turn, harm Company's business and growth prospects.

Company's business, financial condition and results of operations are also subject to evolving macroeconomic conditions and local policies in Georgia, including inflation or deflation, fluctuations in currency, accessibility to financing and levels of interest rates. Changes in macroeconomic conditions and local policies may materially and adversely affect Company and its businesses, financial condition and results of operations. If Company fails to promptly adjust its business structure and proactively mitigate risks in response to such policy changes, its business operations and prospects may be adversely affected.

Funding

Company's business is balance sheet-driven, which requires a substantial amount of funding to support the growth of the leased asset portfolio, to fund its operations and to repay the debts. Company has to make significant principal and interest payments on its outstanding indebtedness. Although the Company generally generates considerable funds from leasing operations, meeting its cash requirements for business needs in the long term requires substantial liquidity and stable access to multiple sources of funding. Company funds its operations and expansion primarily through bank and other partner financial institution borrowings, bond issuances and cash injections in equity capital, in addition to the cash generated from its business operations. If Company fails to maintain its existing and future funding arrangements on commercially acceptable terms, it may not be able to continue obtaining sufficient funding from the current sources. Company's current sources of funding are adequate to support projected growth, but as a result of external and internal factors may not be sufficient to meet its liquidity needs in the future, and it may not be able to timely explore new sources to raise financing for the business.

Market Interest Rate

Since both the lease income the Company receives from leases and the interest the Company pays on its indebtedness are affected by market interest rates. High volatility in market interest rates will directly affect its financing costs, lease income, net interest margin, and, the Company's profit margin and financial condition. Although the Company thoroughly tries to mitigate risk related to interest rate fluctuation by aligning floating and fixed interest rates on its funding and lease financing side, fluctuations in market interest rates are subject to various factors beyond Company's control, such as the regulatory framework of the Georgian banking and financial sectors and the economic and political environment in Georgia.

Competition

The leasing industry is developing rapidly and becoming increasingly competitive. Although the Company currently holds more than 70% of market share and Georgian leasing industry still has great potential for development, there can be no assurance that the Company will be able to maintain its current position as a result of the increasingly intense competition. Some of Company's competitors may have greater financial and management resources than the Company does. They may have more operational and financial resources as well as customer networks and relationships, lower financing costs, and higher risk tolerance

or different methods of risk assessment, such that they can consider or afford a wider variety of investments, establish more relationships, and bid more aggressively on assets available for sale. In addition, some of Company's competitors may offer better terms to prospective lessees than the Company does.

Company also competes with major commercial banks and other financial services providers in Georgia and despite the fact that the Company is offering to its clients benefits, which is specific only for leasing due to its legal structure and specific nature, these institutions may provide financing at more favourable terms to the Company's current and prospective customers. Moreover, more advantageous financing terms can be offered by dealers/distributors of certain types of leasable assets.

Risk Management and internal control systems

In recent years, as the Company business developed to a variety of industries, its business model and risk exposures became more complex. Company continually improves its risk management system, including introduction of separate strategic unit organized under CRO in charge of control for credit, asset and legal risks of Company. In addition to that the Company annually performs financial and tax audit performed by third party independent auditors and also internal audit performed by the Parent in order to identify control deficiencies. Such audit results are reported to the shareholders. As Company's business and operations evolve, its risk management measures may not be able to capture and mitigate all material risks in the business. Therefore, when Company enters a new industry, approaches new customers or develops new products or services, is may not be able to adequately identify and estimate all future risk exposures, since some of its risk management and control methods are based upon historical business experience, market behaviour and past events, and such risk exposures could be significantly greater than Company estimations based on historical data.

Company's other risk management methods depend on the evaluation of information regarding markets, customers or other relevant matters, which may be inaccurate, incomplete, obsolete or improperly evaluated.

Furthermore, as Company business is developing, its risk management and internal control policies may not be able to effectively reduce and mitigate all types of risks, including unexpected risks and those of which the Company is unaware of, which may contribute to an increase in the non-performing asset ratio. In addition, in response to operational, legal or financial risks, Company needs to establish various sets of policies and procedures, in order to accurately record and verify a large number of transactions and events. Such policies and procedures may not be fully effective. Any failure to properly implement Company's risk management procedures or any failure to identify applicable risks may materially and adversely affect Company's financial condition and results of operations.

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Company to mitigate credit risk and to protect against credit losses prove less effective than expected. The Company employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the Company's lease portfolio. In addition, even though the Company requires regular financial disclosure by its corporate customers', customer financial statements may not always present a complete and accurate picture of each customer's financial condition. Furthermore, some of the Company's corporate customers may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Company's credit risk evaluation procedures, the Company may be unable to evaluate correctly the current financial condition of each prospective corporate leasee and to determine accurately the ability of such corporate leasee to repay its leases when due.

Currency Fluctuations

A substantial portion of the total assets of the Company, especially its lease portfolio is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their leases denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the lease. Consequently, any depreciation of the Lari against the currency of the lease may result in difficulties related to the repayment of the leases, which, in turn, may lead to a decrease in the quality of the Company's lease portfolio and an increase in impairment provisions for leases extended to the Company's customers, which may have a material adverse effect on the Company.

Although the Company seeks to minimise its open foreign currency positions through limits on the Company's foreign currency positions and gradually increases portion of lease portfolio denominated in local currency, there can be no assurance that these measures will protect against foreign exchange risks. If the Lari exchange rate against the US dollar fluctuates, this could lead to the Company suffering losses, which could, in turn, have a material adverse effect on the Company.

Political Instability in Georgia

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political climate in the country was highly volatile in the 1990s and in the early part of the 2000s.

Georgian Dream Coalition won a majority of seats in the Georgian parliamentary elections held October in 2012. Then-President Mikheil Saakashvili's governing party admitted defeat thus leading to a transfer of power in Georgia. Shortly Mr. Ivanishvili was elected as the Prime Minister by the Georgian Parliament; however in November 2013 he stepped down and is no longer an elected official. In 2018 Mr. Ivanishvili returned to political activities as the chairman of Georgian Dream Coalition.

Georgia's economic policy is based on the principles of a free market economy, which includes the protection of property rights, free competition and freedom of the private sector with an effective and transparent government. The Georgian Dream Coalition is generally seen to be business and investor friendly and to date has remained committed, in principle, to major economic and fiscal policies designed to liberalise and improve the Georgian economy. The Prime Minister has promised to introduce additional reforms, including reforms to the tax system, to further incentivise economic growth and job creation.

Any political instability in Georgia could have negative effects on the Georgian economy, which could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

Economic Instability in Georgia

Since the dissolution of the Soviet Union in the early 1990s, Georgia's society and economy have undergone a rapid transformation from a one-party state with a centrally-planned economy to a pluralist democracy with a market economy. At times this transformation has been marked by periods of significant instability resulting at various times in declines in GDP, hyperinflation, an volatile currency, high levels of state debt relative to GDP, the existence of a "black" and "grey" market economy, high unemployment and underemployment and the impoverishment of a portion of the Georgian population.

After the recession in 2008 and 2009, caused by the combined effects of the 2008 conflict in the Tskhinvali Region/South Ossetia and the global financial crisis (which suspended the economic growth in result of several economic reforms implemented in 2004), Georgian economy returned to growth. According to data of Geostat, FDI number equalled to $1,818 million in 2014, $1,652.5 million - in 2015, $1.602.9 million - in

2016 and $1,861.9 million - in 2017. Further, real GDP increase indicator reached 4.6% in 2014, 2.9% - in 2015, 2.8% - in 2016 and 5.0% - in 2017. Improvement of growth speed was primarily as a result of real growth in the construction, financial intermediation, real estate, hotels and restaurants, trade and transport sectors. Further, FDI primarily increased due to increased FDI inflows from the Netherlands, Azerbaijan, China and the United States. According to data of Geostat, In 2017 FDI made up 12.3% of GDP (in 2016 – 11.1%).

According to NBG and Geostat data, Georgia's current account deficit was 12.6% of GDP in 2015, 13.2% – in 2016, 8.9% - in 2017. The current account balance was improved due to increase in export of goods and tourism services. Notwithstanding the growth of balance, negative balance still remains as a significant risk. If increases in net FDI inflows will not progress, it may result in an increase in the levels of Government borrowing to finance the current account deficit, a depreciation of the Lari or a reduction in imports, any of which could materially adversely affect the Georgian economy.

Furthermore, Georgian economy is quite dollarized. According to NBG data, the dollarization rate for total deposits of natural and legal persons in commercial banks was 60.2% as at December 31, 2014, 69.5% as at December 31, 2015, 71.4% as at December 31, 2016, 65.6% as at December 31, 2017. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarization rate could adversely impact the effectiveness of the implementation of the NBG's monetary and exchange rate policies.

Georgia's economy has also been affected by a number of external shocks, including the Russia-Ukraine crisis, the deepening recession in Russia and currency devaluations in its trading partner countries, including, Turkey, Russia, Azerbaijan and Armenia. These shocks have led to a decrease in Georgia's exports in the period of 2014-2016 resulting in a corresponding shortfall in foreign earnings, and, combined with the worldwide strengthening of the US dollar, resulted in the Lari depreciating by more than 29.0% against the US dollar in 2015. Whilst this depreciation has helped the Georgian economy to adjust to such external shocks, it has also increased the debt burden of borrowers with US dollar-denominated loans, thereby increasing demand for Lari-denominated debt. In addition, according to estimates published by Geostat, annual inflation, as measured by the end-of-period consumer price index, in Georgia was 2.0% in 2014, 4.9% - in 2015, 1.8% - in 2016, 6.7% in 2017. Increased inflation in 2017 was primarily caused by occasional factors such as increase of excise rate on tobacco, alcohol and oil products. High and sustained inflation could lead to market instability, a financial crisis, reduction in consumer purchasing power and confidence. There can be no assurance that Georgia will be able to continue to cope with current external shocks affecting its economy.

Any changes in monetary policy, a further material depreciation of the Lari relative to the US dollar or the Euro, continued increases in inflation or the occurrence of other negative, including external, factors, could adversely affect Georgia's economy. This, in turn, could have a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

Risk Management

TBC Leasing contracts include the lessee prepayment of 20% of the equipment price at the inception of the lease. The Company holds title to the leased assets during the contract term and passes it to the lessees only at the contracts' end. TBC Bank's Credit Committee makes final decision to issue leases with value of more than $300,000. All lease recommendations (approval of lessee's limits, amendments to lease agreements, etc.) are reviewed and approved by the Credit Committee of the Company.

The Company actively manages its liquidity risk, ensuring availability of sufficient funds to meet financial commitments as they come due. The Management Board (which is composed of the CEO, CRO and CFO)

controls liquidity risks by means of maturity analysis and liquidity gap analysis. The Company actively monitors future expected cash flows on clients' and the Company's operations.

Financial Risk Management

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

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 300,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

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

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

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

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

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

The Management Board controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the

Company an opportunity to minimize losses from significant currency rates fluctuations toward the national currency.

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 because of such changes but may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2017 or 2016, the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortized cost. The exposure to the cash flow interest risk as at 31 December 2017 and 2016 arises from one borrowing at variable interest rate. All other financial assets and liabilities bear fixed interest or are interest free.

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

TBC Leasing's corporate bodies are the General Meeting of Shareholders ("**General Meeting**"), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and the Company's Charter. The GMS elects the members of the Company Supervisory Board, which is responsible for supervising the Company Management Board. The Company Supervisory Board appoints CEO of the Company and in its turn the CEO appoints the other members of the Company Management Board, which is the executive body of the Company directly responsible for day-to-day operations.

Supervisory Board Member's Biographies

Vakhtang Butskhrikidze, Chairman

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016 and as a member of the Supervisory Board in September 2016. Mr Butskhrikidze is also a member of the supervisory boards of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the supervisory board of the Partnership Fund, Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

Badri Japaridze, Member

Badri Japaridze was appointed as head of the Foreign Relations department at TBC Bank in 1992 and became the Bank's vice president in 1993. In 1996-2014, he was chairman of the Board at TBC TV. Between 1995 and 2003, he served as a vice president at Georgian Glass and Mineral Water, of which he was a co-founder. The company was later renamed IDS Borjomi and he was a member of the Board between 2004 and 2010.

In 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has been deputy chairman of it since 1996. In 2004, he was also elected as a member of the Board of Directors of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is a co-founder.

In 2006, Mr Japaridze was elected to the supervisory board of the EUGeorgian Business Council and simultaneously became the council's deputy chairman. In 2008, he became a member of the Supervisory Board at Geoplant, a position that he retains today. Mr Japaridze is also chairman of the supervisory board at TBC Kredit and deputy chairman of the supervisory board at TBC Leasing. Mr Japaridze was appointed as a deputy chairman of the Board at TBC Bank in May 2016.

Mr. Japaridze graduated from the Faculty of Psychology at Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology at Moscow State University. In addition, in 2001, he completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of parliament in Georgia.

Nikoloz Kurdiani, Member

Nikoloz Kurdiani has more than ten years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Mr. Kurdiani was Managing Director at Kaspi Bank, a leading retail bank in Kazakhstan.

Prior to obtaining his MBA degree in 2007, he served as Head of the Retail Banking Division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Mr. Kurdiani held the position of Senior Sales Support Expert at the CEE Retail Division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was Head of the Retail Division of ATF Bank, UniCredit Group in Kazakhstan.

Mr. Kurdiani obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr-University Bochum in Germany and the Caucasus School of Business.

Management Board Member's biographies

Gaioz Gogua, Chief Executive Officer (Director)

Gaioz (Gaga) Gogua has served as the CEO of TBC Leasing since November 2017. Prior to his current position Mr. Gogua worked at TBC Bank which he joined in 2001 as a Credit Manager. Over the years at TBC Bank he worked in various managerial positions including, Regional Director, Branch Director and Head of Branch Credit Department. Mr. Gogua has bachelors and masters degrees in physics from Georgian Technical University and an MBA degree from ESM Tbilisi.

Nato Toronjadze, Chief Commercial Officer (Deputy Director)

Nato Toronjadze joined TBC Leasing in 2009 and over the years has served as Credit Risk Manager, Head of Credit Department, Chief Operating Officer and Chief Risk Officer. In April 2017 she became Chief Commercial Officer of the Company. Ms. Toronjadze holds BBA and MBA degrees in Quantitative Analysis from Georgian-American University.

Nugzar Loladze, Chief Financial Officer

Mr. Loladze joined TBC Leasing 2014 as the CFO. Before joining TBC Leasing, Mr. Loladze worked at Ernst & Young as senior auditor and later the leader of Transaction Advisory Services. Mr. Loladze graduated from Caucasus School of Business (CSB).

Salome Ghudushauri, Chief Operating Officer

Salome Ghudushauri became the Chief Operating Officer of TBC Leasing in April 2017. Ms. Ghudushauri joined the Company in 2010 and at various times served as a Senior Lease Project Manager, Acting Head of Credit Department and Strategic Projects Manager. She holds BBA and MBA degrees in Quantitative Analysis from Georgian-American University.

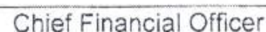
Levan Abashidze, Chief Automotive Officer

Levan Abashidze joined TBC Leasing as Chief Automotive Officer in October 2016. Previously from 2008 he worked at ARVAL BNP Paribas first as the Head of Credit Risk and Pricing Department and then as the Head of Remarketing. From November 2006 to December 2007 Mr. Abashidze was the Head of SME Lending Division at Cartu Bank. Before this he served as Credit Adviser at Small Enterprise Lending Program at EBRD, Deputy Chairman of Board of Directors of Georgian Maritime Bank and Credit Officer at ProCredit Bank Georgia. Mr. Abashidze holds BBA degree from Sofia University St. Kliment Ohridski and MBA degrees from Caucasus School of Business and American Institute of Business and Economics (AIBEc).

Nana Shonia, Chief Legal Officer

Nana Shonia joined TBC Leasing in 2007 and since January 2013 has served as Chief Legal Officer. Previously Ms. Shonia worked as an In-House Legal Counsel and Senior Lawyer. Before joining the Company she worked as a Lawyer at ProCredit Bank Georgia from 2005 to 2007. Ms. Shonia holds Bachelors and Masters Degrees in Jurisprudence from Tbilisi State University.

The business address of each of the members of the Management Board is the registered office of the Company at 80 Chavchavadze Ave., Tbilisi, Georgia.



Chief Executive Officer	Chief Financial Officer
Gaioz Gogua	Nugzar Loladze

26 September 2018

JOINT STOCK COMPANY TBC LEASING

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

31 December 2017

Independent Auditors' Report

Financial Statements
Statement of Financial Position 1
Statement of Profit or Loss and other Comprehensive Income 2
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	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	7,865,169	5,277,270
Due From Banks	8	4,431,850	-
Prepayments	9	3,013,077	1,028,009
Tax assets, net		2,463,305	763,842
Advances towards leasing contracts	10	23,017,214	9,614,800
Net investment in finance lease	11	143,776,957	94,783,939
Property and Equipment	12	3,128,044	492,286
Intangible assets	13	717,237	507,530
Investment Property	14	2,299,128	1,976,128
Assets purchased for leasing purpose		2,740,407	285,982
Assets repossessed from terminated leases	15	3,328,098	2,573,242
Other financial assets	16	4,046,937	4,151,269
Other assets		1,676	91,050
TOTAL ASSETS		**200,829,099**	**121,545,347**
LIABILITIES			
Loans from banks and financial institutions	17	135,781,499	68,236,223
Advances received from customers	19	12,907,386	7,043,926
Debt Securities in issue	18	7,798,098	13,260,660
Subordinated loan	20	15,684,639	15,833,761
Other liabilities	21	9,256,894	1,854,829
TOTAL LIABILITIES		**181,428,516**	**106,229,399**
EQUITY			
Share capital	22	3,059,000	3,059,000
Additional paid-in capital		2,149,827	2,149,827
Retained earnings		14,191,756	10,107,121
TOTAL EQUITY		**19,400,583**	**15,315,948**
TOTAL LIABILITIES AND EQUITY		**200,829,099**	**121,545,347**

Chief Executive Officer
Gaioz Gogua

Chief Financial Officer
Nugzar Loladze

23 July 2018

	Note	2017	2016
Finance income from leasing		22,517,026	16,767,170
Income from operating lease		287,351	-
Interest expense		(9,344,863)	(7,357,366)
Net finance income		**13,459,514**	**9,409,804**
Provision for impairment of net investment in finance lease	11	(262,677)	(651,780)
Net finance income after provision for impairment of net investment in finance lease		**13,196,837**	**8,758,024**
Provision for impairment of other financial assets	16	(1,993,124)	(1,486,862)
Other income	23	819,979	848,706
Gain on initial recognition of repossessed assets		308,121	140,823
Write-down of repossessed assets to net realizable value	15	(448,810)	(516,930)
Loss from sale and release of repossessed assets	15	(111,057)	(229,747)
Losses net of gains from derivative financial instruments		-	(424,195)
Foreign exchange translation gains less losses		966,581	1,447,648
Administrative and other operating expenses	24	(8,976,892)	(6,180,367)
Gain on revaluation of investment property	14	323,000	1,085,615
Profit before income tax		**4,084,635**	**3,442,715**
Income tax expense	25	-	(166,172)
PROFIT FOR THE YEAR		**4,084,635**	**3,276,543**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,084,635**	**3,276,543**

	Share capital	Additional Paid in Capital	Retained earnings	Total equity
Balance at 31 December 2015	**2,792,000**	**1,301,034**	**6,830,578**	**10,923,612**
Total comprehensive income for the year	-	-	3,276,543	**3,276,543**
Shares issued	267,000	848,793	-	**1,115,793**
Balance at 31 December 2016	**3,059,000**	**2,149,827**	**10,107,121**	**15,315,948**
Total comprehensive income for the year	-	-	4,084,635	**4,084,635**
Balance at 31 December 2017	**3,059,000**	**2,149,827**	**14,191,756**	**19,400,583**

	Note	2017	2016
Cash flows from operating activities			
Cash receipts from lessees		92,654,568	66,445,744
Cash receipts from lessees as security deposit		15,404,242	9,438,154
Cash receipts from sale of repossessed assets		1,297,543	2,933,116
Cash receipts from terminated lease contracts		1,963,360	916,650
Cash paid for purchase of assets for leasing purposes		(145,217,348)	(73,687,885)
Cash paid to suppliers		(5,530,867)	(3,376,777)
Cash paid to employees		(1,935,530)	(1,218,950)
Cash (used in)/generated from operations		**(41,364,032)**	**1,450,052**
Interest paid on subordinated loans	26	(1,757,196)	(1,648,467)
Interest paid on loans from banks and financial institutions	26	(5,411,572)	(4,535,807)
Interest paid on debt securities issued	26	(585,408)	(540,179)
Taxes paid		(4,960,149)	(4,201,277)
Net cash used in operating activities		**(54,078,357)**	**(9,475,678)**
Cash flows from investing activities			
Interest received		235,887	12,636
Proceeds from sale of property and equipment		-	18,347
Purchase of property and equipment		(275,495)	(260,110)
Purchase of intangible assets		(161,893)	(197,681)
Net cash used in investing activities		**(201,501)**	**(426,808)**
Cash flows from financing activities			
Loans from banks and financial institutions received	26	119,604,203	13,346,561
Debt securities redemption	26	(4,877,400)	-
Debt securities issued		-	6,970,893
Cash Paid For Deposits (Due From Banks)		(4,431,850)	-
Proceeds from issuance of ordinary shares		-	1,115,793
Loans from banks and financial institutions repaid	26	(52,834,029)	(19,652,255)
Net cash from financing activities		**57,460,924**	**1,780,992**
Effect of exchange rate changes on cash and cash equivalents		(593,167)	2,558,665
Net increase/(decrease) in cash and cash equivalents		**2,587,899**	**(5,562,829)**
Cash and cash equivalents at the beginning of the year	7	5,277,270	10,840,099
Cash and cash equivalents at the end of the year		**7,865,169**	**5,277,270**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for JSC TBC Leasing (the "Company").

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

Principal activity. The Company's principal business activity is providing lease finance to companies and individuals within Georgia. The Company leases various types of industrial equipment and equipment used in information technology. The Company purchases leasing assets from suppliers in Georgia and abroad.

As at 31 December, the shareholders of the Company were as follows:

Shareholders	**2017 Ownership interest, %**	**2016 Ownership interest, %**
JSC TBC Bank (the "Parent")	99.61%	99.61%
Minority Shareholder – individual	0.39%	0.39%
Total	**100%**	**100%**

As at 31 December 2017 and 31 December 2016, the ultimate controlling party was TBC Bank Group PLC, registered in the United Kingdom.

Registered address and place of business. The Company's registered office is located at 80 Chavchavadze ave, Tbilisi 0160, Georgia.

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

2 Operating Environment of the Company

Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked in a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2018" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 9th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions.

The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate.

GDP growth stood at 4.8% YoY growth in 2017, per initial estimates of Geostat. Growth was broad based across different sectors of the economy and was mostly driven by Construction, Trade and Repairs, Real estate, transport and communications sectors.

Economic recovery in almost all trading partner countries of Georgia continues to underpin growth in export, tourism and remittances inflows. Exports of goods went up by 29.1% YoY in 2017, growth was diversified across different regions. Exports increased most to CIS countries (+60.0% YoY), exports continued to grow to EU (+13.0% YoY) as well as to other countries (+12.2% YoY). Imports of goods also went up by 9.4%, making the balance of trade in goods to worsen slightly by 1.4% YoY in 2017.

2 Operating Environment of the Company (Continued)

Tourism inflows went up by an estimated 28.0% YoY with the total number of visitors exceeding 7.5 mln. Sharp growth in tourism revenues have sizeable positive impact on Georgia's Current Account balance.

Remittance inflows increased by 19.8% YoY in 2017, with remittances up by 15.1% YoY from EU and 15.6% YoY from CIS countries. Growth of remittances from other countries stood at 31.3% YoY. In the latter group of countries Israel and Turkey had highest contribution to growth as remittances from these countries went up by 96.1% YoY and 25.6% YoY, respectively.

Given the positive trend in external inflows, CA balance improved markedly, in the first 9 months of 2017 CA deficit as a % of GDP stood at 7.1% compared to the 11.2% over the same period last year.

Annual CPI inflation peaked in June, 2017 at 7.1% and declined slightly to 6.7% by the end of 2017. Increased excise taxes in the beginning of 2017, higher oil prices and depreciation of the nominal effective exchange rate of GEL were among the factors that kept inflation close to 7% by the end of the year. To address above target inflation, NBG increased policy rate by 0.25 PP from 7% to 7.25% in December, 2017. Overall, in 2017 NBG raised policy rate by 0.75 PP, from 6.5% in the beginning of 2017 to 7.25% by the end of 2017.

Fiscal deficit narrowed from 3.9% in 2016 to an estimated 3.8% in 2017, in line with the government's strategy to gradually bring down budget deficit below 3% over the medium term. Reduction in budget deficit mostly reflected better than expected growth of tax revenues as well as more prudent approach towards the current spending. Budget project for 2018 envisages further reduction of budget deficit to c. 3% of GDP, which should further strengthen the fiscal position of the country.

3 Significant Accounting Policies

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

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

3 Significant Accounting Policies (Continued)

Finance leases. Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and/or
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Finance income is determined on the basis of the principal amount and interest rate implicit in the lease and is recognized on a systematic basis over the period of the lease agreement.

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 receivable 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.

Net investment in finance lease / Finance income recognition. The Company records net investments in finance lease in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

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

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

Advances towards leasing contracts. Advances towards leasing contracts comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards leasing contracts are transferred into net investment in finance lease.

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

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 impairment and subsequently at amortised cost less impairment.

3 Significant Accounting Policies (Continued)

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 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.

Provision for impairment of financial assets accounted for at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company classifies its lessees as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively.

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed lessees in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Company assesses the lessees on an individual basis and measures the amount of the loss as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted by the exposure’s original effective interest rate. The Company uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

If the Company determines that there is no objective evidence that an individually assessed financial asset incurred an impairment whether significant or not, it assesses such asset for impairment collectively.

In order to calculate impairment allowance for collectively assessed loans pools, the Company estimates the following risk parameters: probability of default and loss given default, based on historical experience. In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Company adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

The Company reverses previously recognised impairment loss if, once identified, the amount of the impairment loss decreases and the decrease is related to an objective event. The previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. In order to reverse provisions for individually significant lessees there should be objective evidence that the lessees’ financial standing has improved or there is improvement in collateral coverage.

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

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

Assets purchased for leasing purpose. Assets purchased for leasing purposes represent equipment purchased to be subsequently transferred into leases, stated at cost less impairment, if any.

3 Significant Accounting Policies (Continued)

Assets Repossessed from Terminated Leases. Assets returned as a result of termination of lease contracts are considered as assets, which can be sold or leased again. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight line basis over the lease term. Assets received through terminated contracts are initially recognised at the fair value on the date of the termination of lease contracts and are subsequently re-measured at the lower of cost and net realisable value.

Recognition and measurement of financial instruments*.* The Company recognizes financial assets and liabilities on its Statement of Financial Position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out in this note.

Derecognition of financial assets. 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 the 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 additional restrictions on the sale.

Offset of financial assets and liabilities. Financial assets and liabilities are offset and reported net on the Statement of Financial Position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated, using the straight-line method to allocate their cost to their residual values over their estimated useful life, as follows:

	Years
Computers and office equipment	5
Vehicles and vehicles lease out under operating lease	5
Furniture and fixtures	5
Leasehold improvements	6.5

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.

3 Significant Accounting Policies (Continued)

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

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

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

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

	Years
Leasing ERP Software	10
Other intangible assets	5-7

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

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents include cash on hand and balance with banks. 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 are carried at amortised cost. Cash and cash equivalents include all bank placements with original maturities of less than three months.

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

Share capital. Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

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. The Company does not apply hedge accounting.

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.

Before 1 January 2017, the income tax charge/(credit) comprised current tax and deferred tax and was recognised in profit or loss for the year, except if it was recognised in other comprehensive income or directly in equity because it related to transactions that were also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax was the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses were based on estimates if financial statements were authorised prior to filing relevant tax returns.

Deferred income tax was provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes were not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances were measured at tax rates enacted or substantively enacted at the end of the reporting period, which were expected to apply to the period when the temporary differences reverse or the tax loss carry forwards be utilised.

3 Significant Accounting Policies (Continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards were recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions could be utilised.

Deferred income tax assets and liabilities were offset when there was a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there was an intention to settle the balances on a net basis.

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.

15 % income tax 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. As a results, the Company derecognised all deferred tax assets and liabilities as of 31 December 2016 and accounted the respective impact in the profit and loss in 2016. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position.

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

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

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

3 Significant Accounting Policies (Continued)

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

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

At 31 December 2017 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.5922 (2016: USD 1 = GEL 2.6468); EUR 1 = GEL 3.1044 (2016: EUR 1 = GEL 2.7940).

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Company.

Changes in presentation. Where necessary corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on net investments in finance lease. The Company regularly reviews its net investments in finance lease to assess impairment. In determining whether an impairment loss should be recorded, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of every individual lease in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of lessee, national or local economic conditions that correlate with defaults of individual lessee. Management uses estimates based on historical loss experience for asset with credit risk characteristics and objective evidence of impairment similar to individual lessee when estimating its future cash flow. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loss impairment 72,935 GEL (2016: 64,607 GEL), respectively. Impairment provisions are based on the estimate of discounted future cash flows taking into account repayments and realisation of any assets held as collateral.

Impairment losses on other financial assets. The Company regularly reviews its other financial assets to assess impairment. In determining whether an impairment loss should be recorded, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of every individual item comprising receivables from terminated leases, other receivables and loans issued to lessees. Management uses estimates based on status of legal cases against the debtors, their financial condition and other supporting documents and sources.

Valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an international valuation company at the end of the reporting period.

Due to the current economic environment, the frequency of property transactions is low in the Company's principal market. Nevertheless, in management's assessment there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Company's investment properties. Further details are disclosed in Note 14.

Assets Repossessed from Terminated Leases. 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 external 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 the market comparison approach. For tax reporting purposes the assets are qualified as fixed assets and the initial value is determined per provisions of Georgian Tax Code, depreciated tax value calculated from the purchase date of the asset to be leased by the Company.

5 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

6 New Accounting Pronouncements

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Company has not early adopted any of the amendments effective after 31 December 2017 and it expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortised cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL).
- The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the TBC Leasing estimated the impact of GEL 778,348 on financial statements from the adoption of the new standard on 1 January 2018. The Company plans to use modified retrospective approach and anticipated impact of adoption will result in the decrease to shareholders' equity.

6 New Accounting Pronouncements (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

In thousands of GEL	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL*	Other	Mandatory	Voluntary	
Investment in Finance Lease	FLR	AC	143,776,957	778,348	-	-	-	**142,998,609**
Total Investment in Finance Lease			**143,776,957**	**778,348**	**-**	**-**	**-**	**142,998,609**

Impairment of financial assets

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage I – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage II – assets for which significant increase in credit risk since initial recognition is identified;
- Stage III – credit-impaired exposures.

For stage I exposures the Company creates 12 months expected credit losses, whereas for stage II and stage III lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage II classification and incorporation of forward looking information in allowance calculation. For stage I no increase was identified considering that the Company has already been applying 12 months loss identification period (LIP) under IAS 39 methodology.

For the Stage II classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 DPD overdue;
- Downgrade of the risk category of the borrower since initial recognition;
- Deterioration of the probability of default parameter above the predefined threshold.

Under IFRS 9 methodology the Company updated its default definition criteria as well in order to make it consistent with the Copany's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- baseline (most likely)
- upside (better than most likely)
- downside (worse than most likely)

6 New Accounting Pronouncements (Continued)

The Company derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to 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 figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. No material effect is expected on the Company due to introduction of the new standard.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also to access financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company does not expects any impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company does not expects any impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company does not expects any impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

7 Cash and Cash Equivalents

	31 December 2017	31 December 2016
Current accounts with banks	7,865,169	5,277,270
Cash and cash equivalents	**7,865,169**	**5,277,270**

At 31 December 2017, cash and cash equivalents of GEL 6,919,880 (2016: GEL 4,161,582) are held on the Company's current accounts with JSC TBC Bank and show no indication of impairment.

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

	31 December 2017	31 December 2016
Current accounts with banks with "BB-" to "BB+" rating	7,369,930	4,613,887
Current accounts with banks with "B-" to "B+" rating	185,182	459,452
Current accounts with banks unrated	310,057	203,931
Cash and cash equivalents	**7,865,169**	**5,277,270**

Certain balances with banks were pledged as collateral for a loan obtained from banks, these amounts are subject to use only in issuance of finance lease and are disclosed in Note 17.

The information on related party balances and transactions is disclosed in Note 31.

8 Due From Banks

	31 December 2017	31 December 2016
Placements with banks with original maturities of more than three months	4,431,850	-
Less: Provision for impairment	-	-
Total due from banks	**4,431,850**	**-**

Amounts due from banks include placements with original maturities of more than three months that are collateralised and represent neither past due nor impaired amounts at the end of 2017.

As of 31 December 2017 GEL 4,432 thousand, (2016: nil) were kept on deposits as collateral under loan arrangement with TBC Bank disclosed in Note 17. Interest rates of due from banks are disclosed in Note 31.

9 Prepayments

	31 December 2017	31 December 2016
Prepaid insurance for leasing assets	1,966,021	939,290
Prepayments for assets to be leased under operating lease	968,314	-
Other prepayments	78,742	88,719
Total prepayments	**3,013,077**	**1,028,009**

10 Advances towards Leasing Contracts

Advances towards leasing contracts at the year-end comprised GEL 23,017,214 as at 31 December 2017 (2016: GEL 9,614,800). The advances towards leasing contracts are all current, subsequently reclassified to net investment in finance lease usually within two months period after the reporting date.
Refer to note 28 for the estimated fair value of advances towards leasing contracts.

11 Net Investments in Finance Lease

Net and gross investments in finance lease are as follows:

	31 December 2017	31 December 2016
Gross investment in finance lease	191,706,675	121,819,711
Unearned finance income	(46,471,022)	(25,743,641)
Investment in finance lease	**145,235,653**	**96,076,070**
Allowance for impairment	(1,458,696)	(1,292,131)
Total net investments in finance lease	**143,776,957**	**94,783,939**

Gross investments in finance lease are as follows:

	31 December 2017	31 December 2016
Due in less than 1 year	85,818,422	65,169,734
Due in between 1 and 5 years	105,888,253	56,649,977
Total gross investments in finance lease	**191,706,675**	**121,819,711**

The movements in the provision for impairment of net investments in finance lease are as follows:

	31 December 2017	31 December 2016
Provision for impairment at the beginning of the year	**1,292,131**	**799,923**
Provision of impairment during the year	262,677	651,780
Amounts written off during the year as uncollectible	(96,112)	(159,572)
Provision for impairment at the end of the year	**1,458,696**	**1,292,131**

Analysis by credit quality of net investment in finance leases are as follows:

	31 December 2017	31 December 2016
Neither past due not impaired		
Customers with more than two years of experience	38,071,170	28,083,983
New Customers	78,408,358	45,359,279
Total current and not impaired	**116,479,528**	**73,443,262**
Past due but not impaired		
- Less than 30 days overdue	16,652,682	15,336,972
- 30 to 90 days overdue	8,480,073	5,069,021
Total past due but not impaired	**25,132,755**	**20,405,993**
Impaired contracts – gross		
- 30 to 90 days overdue	343,286	-
- 90 to 180 days overdue	2,223,179	1,079,403
- 180 days to 360 days overdue	339,210	965,768
- More than 360 days overdue	717,695	181,644
Total impaired(*)	**3,623,370**	**2,226,815**
Total investment in finance lease – gross	**145,235,653**	**96,076,070**
Provision for impairment losses	(1,458,696)	(1,292,131)
Total Net investment in finance lease	**143,776,957**	**94,783,939**

(*)Total impaired leases include both collectively and individually impaired leases

11 Net Investments in Finance Lease (Continued)

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

The Company normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contractual term subject to full payment of lease obligations. Generally the lease terms are up to five years.
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

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

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

The effect of collateral at 31 December 2017:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	126,186,357	194,470,806	19,049,296	14,389,566

The effect of collateral at 31 December 2016:

	Over-Collateralised assets		**Under-Collateralised assets**	
	Carrying value of the assets	*Fair value of collateral*	*Carrying value of the assets*	*Fair value of collateral*
Investment in finance lease - gross	72,477,598	108,860,654	23,598,472	17,018,200

Certain leases receivable and advances towards leasing contracts as at 31 December 2017 were pledged as collateral for loans obtained from banks and other financial institutions (Note 17).

Fair value of collateral in respect of past due but not impaired leases receivable and in respect of impaired leases receivable assessed by internal appraisers within the credit department on annual basis was as follows at 31 December:

	31 December 2017	**31 December 2016**
Fair value of collateral - past due but not impaired	37,891,185	26,869,154
Fair value of collateral - impaired	5,117,102	1,905,273

12 Property and Equipment

	Land	Computer and office equipment	Furniture and Fixtures	Vehicles	Vehicles leased out under operating lease	Leasehold improvem ent	Total
Cost at 1 January 2016	9,934	64,023	37,764	103,256	-	17,027	232,004
Accumulated Depreciation	-	(32,684)	(29,850)	(12,791)	-	(17,027)	(92,352)
Carrying amount at 1 January 2016	**9,934**	**31,339**	**7,914**	**90,465**	**-**	**-**	**139,652**
Additions	-	61,510	206,660	42,777	-	159,569	470,516
Disposals	-	(119)	(35,731)	(22,569)	-	(17,027)	(75,446)
Depreciation Charge	-	(18,025)	(29,742)	(18,894)	-	(25,056)	(91,717)
Elimination of accumulated depreciation on disposals	-	77	29,443	2,734	-	17,027	49,281
Carrying amount at 31 December 2016	**9,934**	**74,782**	**178,544**	**94,513**	**-**	**134,513**	**492,286**
Cost at 31 December 2016	9,934	125,414	208,693	123,464	-	159,569	627,074
Accumulated Depreciation	-	(50,632)	(30,149)	(28,951)	-	(25,056)	(134,788)
Carrying amount at 31 December 2016	**9,934**	**74,782**	**178,544**	**94,513**	**-**	**134,513**	**492,286**
Additions	-	108,372	42,353	188,035	2,436,298	90,905	2,865,963
Disposals	-	(2,554)	-	(19,330)		-	(21,884)
Depreciation Charge	-	(27,219)	(44,474)	(20,908)	(88,356)	(34,062)	(215,019)
Elimination of accumulated depreciation on disposals	-	1,510	17	5,171	-	-	6,698
Carrying amount at 31 December 2017	**9,934**	**154,891**	**176,440**	**247,481**	**2,347,942**	**191,356**	**3,128,044**
Cost at 31 December 2017	9,934	231,232	251,046	292,169	2,436,298	250,474	3,471,153
Accumulated Depreciation	-	(76,341)	(74,606)	(44,688)	(88,356)	(59,118)	(343,109)
Carrying amount at 31 December 2017	**9,934**	**154,891**	**176,440**	**247,481**	**2,347,942**	**191,356**	**3,128,044**

13 Intangible Assets

	Leasing ERP software	Other intangible assets	Total
Cost at January 1 2016	60,729	32,708	93,437
Accumulated Depreciation	-	(6,195)	(6,195)
Carrying amount at 1 January 2016	**60,729**	**26,513**	**87,242**
Additions	425,089	3,160	428,249
Amortization Charge	-	(7,961)	(7,961)
Carrying amount at 31 December 2016	**485,818**	**21,712**	**507,530**
Cost at 31 December 2016	485,818	35,868	521,686
Accumulated Depreciation	-	(14,156)	(14,156)
Carrying amount at 31 December 2016	**485,818**	**21,712**	**507,530**
Additions	227,378	-	227,378
Amortization Charge	-	(17,671)	(17,671)
Carrying amount at 31 December 2017	**713,196**	**4,041**	**717,237**
Cost at 31 December 2017	713,196	35,868	749,064
Accumulated Depreciation	-	(31,827)	(31,827)
Carrying amount at 31 December 2017	**713,196**	**4,041**	**717,237**

As at 31 December 2017 and 2016 leasing ERP software was in testing phase and respectively no amortization expense was charged.

14 Investment Property

As of 31 December 2017 investment property comprised of a land plot (10,839 sq/m) with buildings (2,847 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 assets repossessed from terminated leases with the purpose to use in settlement of outstanding balance of net investment in finance lease from the lessee (JSC Gldanula). However, the lessee refused to cover existing liability and applied to the Court in order to cancel the auction results. In 2016 the 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. An entity related to the previous lessee has the right to appeal the above decision of the Court. Considering the previous Court decisions on this case the management has assumed that the risk of negative outcome of further litigation, if any, is remote. As of 31 December 2017 the Company had not started any 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 2017 the fair value of investment property was estimated at GEL 2,299,128. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), for which certain adjustments were applied to prices based on the differences between the Company's assets and the comparative analogues. The fair value belongs to level 3 measurements in the fair value hierarchy. The gain of GEL 323,000 from revaluation of investment property at fair value was recognised in profit and loss in 2017 year.

14 Investment Property (Continued)

	Transferred from repossessed assets at cost	Fair value as of 31 December 2017	Valuation technique	Other key informa-tion	Unobserv able inputs	Range of unobservable inputs (weighted average)
Investment property	890,513	2,299,128	Sales comparison approach	Land and building	Price per square meter	130 - 180

15 Assets Repossessed from Terminated Leases

	31 December 2017	31 December 2016
Carrying value at the beginning of the year	2,573,242	4,462,680
Assets repossessed from terminated leases during the year at fair value	4,917,334	6,142,846
Disposal through sales	(1,595,532)	(2,897,455)
Disposal through transfer to new leases	(2,118,136)	(3,727,386)
Write down to net realizable value	(448,810)	(516,930)
Transfer to investment property	-	(890,513)
Carrying amount at the end of the year	**3,328,098**	**2,573,242**

Write down to net realisable value of GEL 448,810 (2016: GEL 516,930) is the effect of reassessment of net realisable value on the repossessed assets from terminated leases as of the balance sheet date, which are accounted as inventory defined by accounting policy. Loss from sale and release of repossessed assets comprised GEL 111,057 and GEL 229,747 for 2017 and 2016 years respectively.

16 Other Financial Assets

At 31 December analysis of other financial assets are as follows:

	31 December 2017	31 December 2016
Restricted cash	**-**	**138,689**
Gross receivables from terminated lease	4,741,987	4,248,362
Provision for impairment of receivables from terminated leases	(3,402,591)	(3,058,797)
Net receivable from terminated leases	**1,339,396**	**1,189,565**
Gross other receivables	3,379,787	1,916,083
Provision for other receivables	(1,721,786)	(1,296,849)
Net other receivables	**1,658,001**	**619,234**
Gross loans issued to lessees	3,881,082	3,810,930
Provision for loans issued to lessees	(2,831,542)	(1,607,149)
Net loans issued to lessees	**1,049,540**	**2,203,781**
Total other financial assets	**4,046,937**	**4,151,269**

16 Other Financial Assets (continued)

Other receivables represent financial assets arisen from terminated contracts with suppliers of assets to be leased for which amount was prepaid by the Company.

	Receivables from terminated leases	Other receivables	Loans issued to Lessees	Total
Provision for impairment as at 1 January 2016	**2,833,600**	**1,035,384**	**606,949**	**4,475,933**
Provision charge for impairment during 2016	225,197	261,465	1,000,200	1,486,862
Provision for impairment as at 31 December 2016	**3,058,797**	**1,296,849**	**1,607,149**	**5,962,795**
Provision charge for impairment during 2017	343,794	424,937	1,224,393	1,993,124
Provision for impairment as at 31 December 2017	**3,402,591**	**1,721,786**	**2,831,542**	**7,955,919**

Analysis by credit quality of other financial assets are as follows:

	31 December 2017	31 December 2016
Neither past due nor impairment		
Restricted cash	-	138,689
Total neither past due nor impaired	**-**	**138,689**
Past due but not impaired		
Other receivables	1,240,226	554,565
- less than 90 days overdue	1,240,226	554,565
Total past due but not impaired (gross)	**1,240,226**	**554,565**
Receivables individually determined to be impaired		
Receivables from terminated leases	4,741,987	4,248,362
- more than 90 days overdue	4,741,987	4,248,362
Other receivables	2,139,561	1,361,518
- more than 90 days overdue	2,139,561	1,361,518
Loans issued to lessees	3,881,082	3,810,930
- more than 90 days overdue	3,881,082	3,810,930
Total individually impaired (gross)	**10,762,630**	**9,420,810**
Less impairment provision	**(7,955,919)**	**(5,962,795)**
Total other financial assets	**4,046,937**	**4,151,269**

17 Loans from Banks and Financial Institutions

	Maturities	31 December 2017	31 December 2016
Loans from TBC Bank	04.12.2020	21,541,810	2,197,898
TBC Bank - Letter of Credit	30.08.2017	-	711,318
Loans from IFAD	01.02.2021	4,236,706	4,314,223
Loans from BSTDB	08.05.2018	-	4,364,703
Loans from ResponsAbility	16.05.2018	25,721,432	26,930,897
Loans from MicroVest	15.12.2017	-	5,009,935
Loans from Symbiotics	31.12.2018	30,409,593	10,058,037
Loans from Triple Jump	15.12.2020	22,103,771	14,649,212
Loans from Pasha Bank	31.05.2018	3,896,753	-
Loans from BlueOrchard	04.12.2020	12,983,884	-
Loans from VTB Bank	31.12.2018	3,198,737	-
Loans from TBC Kredit	10.08.2018	5,197,792	-
Loans from Green for Growth Fund	15.09.2020	6,491,021	-
Total loans from banks and financial institutions		**135,781,499**	**68,236,223**

Loans from banks and financial institutions are secured by certain cash and cash equivalents, certain leases receivable and advances towards leasing contracts as detailed in Note 7 and 11. As of 31 December 2017 amount of cash and cash equivalents pledged as collateral comprised 35,598 GEL (2016: GEL 2,640,857), the amount of due from banks pledged as collateral comprised 4,431,850 GEL (2016: GEL 0), the amount of gross investment in leases pledged as collateral comprised 145,248,843 GEL (2016: GEL 78,772,872) and the amount of advances towards leasing contracts pledged as collateral comprised 6,284,418 GEL, no advances towards leasing contracts were pledged as collateral for the year ended 31 December 2016.

The Company is obliged to comply with certain financial covenants stipulated by the loan agreements. At 31 December 2017 and 2016, management of the Company believes that the Company was in compliance with those covenants.

As at 31 December 2017 accrued interest payable included in loans from banks and financial institutions amounted to GEL 936,485 (2016: GEL 789,266).

Refer to Note 28 for the estimated fair value of loans from banks and financial institutions. The information on related party balances and transactions is disclosed in Note 31.

18 Debt Securities in Issue

	Currency	Maturity date	31 December 2017	31 December 2016
Bonds issued on domestic market	USD	22.07.2019	7,798,098	13,260,660
Total debt securities in issue			**7,798,098**	**13,260,660**

Refer to Note 28 for the disclosure of the fair value of debt securities in issue.

19 Advances Received from Customers

Advances from customers that were outstanding at the year-end comprised GEL 12,907,386 as at 31 December 2017 (2016: GEL 7,043,926). 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 placed on the Company's account as a security deposit against the customer's liabilities 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 10,293,519 as at 31 December 2017 (2016: GEL 6,008,992) represents security deposit received from customers in advance, while the remaining part of balance is lease payments received in advance and advances received for sale of repossessed assets.

20 Subordinated Loans

	Maturities	31 December 2017	31 December 2016
Subordinated loans from TBC	05.12.2018	13,072,128	15,833,761
Subordinated Loans From Opportunity	05.12.2018	2,612,511	-
Total Subordinated Loan		**15,684,639**	**15,833,761**

As at 31 December 2017, accrued interest payable included in subordinated loans amounted to GEL 108,039 (2016: GEL 93,361).

Refer to Note 28 for the estimated fair value of subordinated loans. The information on related party balances and transactions is disclosed in Note 31.

21 Other Liabilities

	31 December 2017	31 December 2016
Liabilities to asset providers	8,180,733	1,271,115
Accrued expenses	171,579	107,204
Liabilities to service providers	418,769	36,504
Total financial liabilities	**8,771,081**	**1,414,823**
Bonuses payable	485,813	440,006
Other liabilities	**9,256,894**	**1,854,829**

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

22 Share Capital

The share capital of the Company as at 31 December 2017 was GEL 3,059,000 (2016: GEL 3,059,000). In 2016 company issued new 267 ordinary shares with par GEL 1,000 at GEL 4,179 each. The Shareholders of the Company also authorized issue of additional 267 shares in 2016 with the same terms, which were not issued as at 31 December 2016. Total number of authorised, issued and paid shares comprised 3,059 common shares with par value of GEL 1,000 each. Each share carried one vote. There was no movement on share capital during 2017.

23 Other Income

	2017	2016
Reimbursement & bonus income from insurance companies	624,490	240,410
Interest income on deposit	165,604	-
Income from penalties	20,133	182,667
Income from settlements related to loans issued to leases	-	355,853
Other income	9,752	69,776
Total other income	**819,979**	**848,706**

24 Administrative and Other Operating Expenses

	2017	2016
Staff costs	2,640,878	1,662,619
Insurance expenses	1,874,781	1,614,944
Taxes other than income tax	1,410,362	945,718
Professional services	665,683	359,496
Leased assets registration fee	318,850	98,517
Advertising costs	304,576	104,983
Occupancy and rent	286,217	266,325
Depreciation of property and equipment	232,690	99,678
Bank charges	127,232	78,706
Expenses on Assets maintenance	109,044	137,104
Withholding tax on non-residents	63,106	269,306
Land and Buildings maintenance	20,048	20,137
Other expenses	923,425	522,834
Total administrative and other operating expenses	**8,976,892**	**6,180,367**

Professional service fee includes GEL 101,912 (2016: GEL 132,314) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

25 Income Taxes

	2017	2016
Current tax	-	594,046
Re-measurement of deferred tax due to changes in tax law	-	(427,874)
Income tax expense for the year	**-**	**166,172**

25 Income Taxes (Continued)

Until the changes in the Tax Code of Georgia, as explained in Note 3, differences between the amounts recognised for the Company's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and carry forward of currently unused tax losses and tax credits gave rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The effect of the re-measurement due changes in tax law is detailed below:

	31 December 2017	Re-measurement of deferred tax due to changes in tax law	31 December 2016
Net investment in finance lease	-	392,045	(392,045)
Advances towards leasing contracts	-	86,938	(86,938)
Other financial assets	-	(5,795)	5,795
Property and equipment	-	4,436	(4,436)
Loans from banks and financial institutions	-	(71,606)	71,606
Other liabilities, including accruals	-	(136,242)	136,242
Assets repossessed from terminated leases	-	158,098	(158,098)
Net deferred tax liability	**-**	**427,874**	**(427,874)**

26 Net Debt Reconciliation

	Liabilities from financing activities			
	Loans from banks and financial institutions	Debt Securities in Issue	Subordinated Loan	Total
Net debt at 31 December 2016	**68,236,223**	**13,260,660**	**15,833,761**	**97,330,644**
Cash flows	61,358,602	(5,462,808)	(1,757,196)	54,138,598
Foreign exchange adjustments	(347,819)	(868,209)	(168,240)	(1,384,268)
Other non-cash movements	6,534,493	868,455	1,776,314	9,179,262
Net debt at 31 December 2017	**135,781,499**	**7,798,098**	**15,684,639**	**159,264,236**

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.

27 Financial Risk Management

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

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 300,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

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

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

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

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

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

27 Financial Risk Management (Continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	2,712,350	5,103,740	14,867	34,212	7,865,169
Due from banks	4,431,850	-	-	-	4,431,850
Net investment in finance lease	34,854,220	108,354,092	568,645	-	143,776,957
Advances towards leasing contracts	3,729,772	19,287,442	-	-	23,017,214
Other financial assets	492,562	3,554,375	-	-	4,046,937
Total financial assets	**46,220,754**	**136,299,649**	**583,512**	**34,212**	**183,138,127**
Loans from banks and financial Institutions	30,721,737	105,059,762	-	-	135,781,499
Debt Securities in issue	-	7,798,098	-	-	7,798,098
Advances received from customers	6,752,807	6,154,579	-	-	12,907,386
Subordinated loan	7,857,946	7,826,693	-	-	15,684,639
Other financial liabilities	2,538,886	6,718,008	-	-	9,256,894
Total financial liabilities	**47,871,376**	**133,557,140**	**-**	**-**	**181,428,516**
Net open currency position	**(1,650,622)**	**2,742,509**	**583,512**	**34,212**	**1,709,611**

The Company's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	GEL	USD	EUR	GBP	TOTAL
Cash and cash equivalents	2,246,160	2,985,705	11,581	33,824	5,277,270
Due from banks	-	-	-	-	-
Net investment in finance lease	9,334,964	85,448,975	-	-	94,783,939
Advances towards leasing contracts	765,228	8,849,572	-	-	9,614,800
Other financial assets	830,985	3,181,595	138,689	-	4,151,269
Total financial assets	**13,177,337**	**100,465,847**	**150,270**	**33,824**	**113,827,278**
Loans from banks and financial Institutions	4,827,052	63,408,740	431	-	68,236,223
Debt Securities in issue	-	13,260,660	-	-	13,260,660
Advances received from customers	1,441,941	5,601,985	-	-	7,043,926
Subordinated loan	7,847,641	7,986,120	-	-	15,833,761
Other financial liabilities	583,714	1,271,115	-	-	1,854,829
Total financial liabilities	**14,700,348**	**91,528,620**	**431**	**-**	**106,229,399**
Net open currency position	**(1,523,011)**	**8,937,227**	**149,839**	**33,824**	**7,597,879**

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% (2016: 10%) increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	31 December 2017		31 December 2016	
	Impact on profit or loss before tax	**Impact on equity**	**Impact on profit or loss before tax**	**Impact on equity**
US Dollar strengthening by 10% (2016: 10%)	274,251	274,251	893,723	759,664
US Dollar weakening by 10% (2016: 10%)	(274,251)	(274,251)	(893,723)	(759,664)

27 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.

As at 31 December 2017 or 2016 the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortised cost. The exposure to the cash flow interest risk as at 31 December 2017 and 2016 arises from one borrowing at variable interest rate, all other financial assets and liabilities bear fixed interest or are interest free. The table below presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts as at 31 December 2017, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Total**
Financial Assets					
Cash and cash equivalents	7,865,169	-	-	-	7,865,169
Due from banks	-	-	4,431,850	-	4,431,850
Net investment in finance lease	13,485,225	9,007,623	38,968,159	82,315,950	143,776,957
Advances towards leasing contracts	4,603,443	8,056,025	10,357,746	-	23,017,214
Other financial assets	607,041	809,387	1,011,734	1,618,775	4,046,937
Total financial assets	**26,560,878**	**17,873,035**	**54,769,489**	**83,934,725**	**183,138,127**
Financial Liabilities					
Loans from banks and financial institutions	1,217,272	1,713,870	48,766,840	84,083,517	135,781,499
Debt Securities in issue	50,540	-	-	7,747,558	7,798,098
Advances received from customers	2,581,477	4,517,585	5,808,324	-	12,907,386
Subordinated loan	117,413	-	14,867,226	700,000	15,684,639
Other financial liabilities	5,452,312	2,693,756	1,110,826	-	9,256,894
Total financial liabilities	**9,419,014**	**8,925,211**	**70,553,216**	**92,531,075**	**181,428,516**
Net interest rate sensitivity gap	**17,141,864**	**8,947,824**	**(15,783,727)**	**(8,596,350)**	**1,709,611**

27 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 2016, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	5,277,270	-	-	-	5,277,270
Due from banks	-	-	-	-	-
Net investment in finance lease	11,460,463	7,203,368	30,549,004	45,571,104	94,783,939
Advances towards leasing contracts	1,922,960	3,365,180	4,326,660	-	9,614,800
Other financial assets	740,576	802,516	1,003,145	1,605,032	4,151,269
Total financial assets	**19,401,269**	**11,371,064**	**35,878,809**	**47,176,136**	**113,827,278**
Financial Liabilities					
Loans from banks and financial institutions	611,733	861,296	24,507,499	42,255,695	68,236,223
Debt Securities in issue	85,943	-	-	13,174,717	13,260,660
Advances received from customers	1,408,785	2,465,374	3,169,767	-	7,043,926
Subordinated loan	118,530	-	-	15,715,231	15,833,761
Other financial liabilities	1,092,494	539,756	222,579	-	1,854,829
Total financial liabilities	**3,317,485**	**3,866,426**	**27,899,845**	**71,145,643**	**106,229,399**
Net interest rate sensitivity gap	**16,083,784**	**7,504,638**	**7,978,964**	**(23,969,507)**	**7,597,879**

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

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2017 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	2,075,349	2,819,372	62,534,628	82,853,491	150,282,840
Debt securities in issue	248,904	-	422,972	8,199,572	8,871,448
Advances received from customers	2,635,258	4,646,659	6,227,814	-	13,509,731
Subordinated loan	280,828	281,193	16,163,808	707,134	17,432,963
Other financial liabilities	5,724,841	2,828,402	1,166,351	-	9,719,594
Total potential future payments for financial obligations	**10,965,180**	**10,575,626**	**86,515,573**	**91,760,197**	**199,816,576**

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2016 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Total
Financial Liabilities					
Loans from banks	1,192,515	4,675,215	38,020,736	29,898,286	73,786,752
Debt securities in issue	298,079	61,712	5,816,279	8,783,649	14,959,719
Advances received from customers	1,438,135	2,535,813	3,398,694	-	7,372,642
Subordinated loan	265,338	279,650	1,303,455	17,477,574	19,326,017
Other financial liabilities	4,186,584	2,687,868	1,782,928	-	8,657,380
Total potential future payments for financial obligations	**7,380,651**	**10,240,258**	**50,322,092**	**56,159,509**	**124,102,510**

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 2017 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	7,865,169	-	-	-	7,865,169
Due from banks	-	-	4,431,850	-	4,431,850
Net investment in finance lease	13,485,224	9,007,623	38,968,159	82,315,951	143,776,957
Advances towards leasing contracts	4,603,443	8,056,025	10,357,746	-	23,017,214
Other financial assets	607,041	809,387	1,011,734	1,618,775	4,046,937
Total financial assets	**26,560,877**	**17,873,035**	**54,769,489**	**83,934,726**	**183,138,127**
Financial Liabilities					
Loans from banks and financial institutions	1,217,272	1,713,870	48,766,840	84,083,517	135,781,499
Debt Securities in issue	50,540	-	-	7,747,558	7,798,098
Advances received from customers	2,581,477	4,517,585	5,808,324	-	12,907,386
Subordinated loan	117,413	-	14,867,226	700,000	15,684,639
Other financial liabilities	5,452,311	2,693,756	1,110,827	-	9,256,894
Total financial liabilities	**9,419,013**	**8,925,211**	**70,553,217**	**92,531,075**	**181,428,516**
Liquidity gap	**17,141,864**	**8,947,824**	**(15,783,728)**	**(8,596,349)**	**1,709,611**
Cumulative liquidity gap	**17,141,864**	**26,089,688**	**10,305,960**	**1,709,611**	

27 Financial Risk Management (Continued)

The expected liquidity gap as at 31 December 2016 is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
Financial Assets					
Cash and cash equivalents	5,277,270	-	-	-	5,277,270
Net investment in finance lease	11,460,463	7,203,368	30,549,004	45,571,104	94,783,939
Advances towards leasing contracts	1,922,960	3,365,180	4,326,660	-	9,614,800
Other financial assets	740,576	802,516	1,003,145	1,605,032	4,151,269
Total financial assets	**19,401,269**	**11,371,064**	**35,878,809**	**47,176,136**	**113,827,278**
Financial Liabilities					
Loans from banks and financial institutions	611,733	861,296	24,507,499	42,255,695	68,236,223
Debt Securities in issue	85,943	-	-	13,174,717	13,260,660
Advances received from customers	1,408,785	2,465,374	3,169,767	-	7,043,926
Subordinated loan	118,530	-	-	15,715,231	15,833,761
Other financial liabilities	1,092,494	539,756	222,579	-	1,854,829
Total financial liabilities	**3,317,485**	**3,866,426**	**27,899,845**	**71,145,643**	**106,229,399**
Liquidity gap	**16,083,784**	**7,504,638**	**7,978,964**	**(23,969,507)**	**7,597,879**
Cumulative liquidity gap	**16,083,784**	**23,588,422**	**31,567,386**	**7,597,879**	

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

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

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 from its Parent. The amount of capital that the Company managed as of 31 December 2017 was GEL 35,085,222 (2016: 31,575,754).

28 Fair Value of Financial Instruments

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 estimated fair values of financial instruments have been determined by the Company, using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information on interest rates in estimating the fair value of financial instruments.

All Company's financial assets and liabilities are carried at amortised cost. Cash and cash equivalents are carried at amortised cost, which equals current fair value. Net investment in finance lease, advances towards leasing contracts and other financial assets are stated net of provisions for impairment. 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.

28 Fair Value of Financial Instruments (Continued)

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments is normally their carrying amount. 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.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2017 are as follows:

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents	7,865,170	-	-	7,865,170
Due from banks	4,431,850	-	-	4,431,850
Advances towards leasing contracts	-	-	22,342,534	23,017,213
Net investments in finance lease	-	-	145,791,824	143,776,957
Other financial assets	-	-	3,136,372	4,046,937
Total assets	**12,297,020**	**-**	**171,270,730**	**183,138,127**
Financial liabilities				
Loans from banks and financial institutions	-	134,845,113	-	135,781,498
Debt securities in issue	-	7,776,600	-	7,798,098
Advances received from customers (Security Deposit)	-	10,293,519	-	10,293,519
Subordinated loan	-	15,576,600	-	15,684,639
Other liabilities	-	9,256,894	-	9,256,894
Total liabilities	**-**	**177,748,726**	**-**	**178,814,648**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as at 31 December 2016 are as follows:

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents	5,277,270	-	-	5,277,270
Due from banks	-	-	-	-
Advances towards leasing contracts	-	-	9,332,971	9,614,800
Net investments in finance lease	-	-	95,887,507	94,783,939
Other financial assets	-	-	3,838,187	4,151,269
Total assets	**5,277,270**	**-**	**109,058,665**	**113,827,278**
Financial liabilities				
Loans from banks and financial institutions	-	71,308,489	-	68,236,223
Debt securities in issue	-	14,035,640	-	13,260,660
Advances received from customers (Security Deposit)	-	6,008,992	-	6,008,992
Subordinated loan	-	17,808,563	-	15,833,761
Other liabilities	-	(1,854,829)	-	(1,854,829)
Total liabilities	**-**	**107,306,855**	**-**	**101,484,807**

29 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purpose of measurement, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Company classifies all its financial assets into the category of loans and receivables.
At 31 December 2016, 2015 all the Company's financial liabilities are carried at amortised cost.

30 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 material 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 2017 and 2016 no provision for potential tax liabilities has been recorded.

On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by new the Tax Code of Georgia effective from 1 January 2011.

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

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

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from banks and international financial institutions. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believe that as at 31 December 2017 and 2016 and during the respective years the Company has complied with the covenants that were in force.

31 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:

	2017		2016	
	Parent company	**Other related entities**	**Parent company**	**Other related entities**
Cash and cash equivalents	6,919,880	-	4,161,582	-
Due from banks	4,431,850	-	-	-
Net investment in finance leases (effective interest rate: 15.0%-40.0%)	-	721,120	-	819,055
Loans from banks and financial institutions (contractual interest rate: 7.5%-13.5%)	21,541,810	5,197,792	2,197,898	-
Subordinated loans (contractual interest rate: 12.0%-14.0%)	13,072,128	-	15,833,761	-
Other Liabilities	-	-	4,093	-

31 Related Party Transactions (Continued)

The income and expense items with related parties for the year ended 31 December 2017 and 2016 were as follows:

	2017		2016	
	Parent company	**Other related entities**	**Parent company**	**Other related entities**
Interest income	165,604	-	63,116	-
Finance income	-	206,076	-	254,174
Interest expense	2,601,191	72,163	1,940,982	-
Bank and other service charge	138,436	-	90,307	-

Key management compensation is presented below:

	2017		2016	
	Expenses	**Accrued Liability**	**Expenses**	**Accrued Liability**
Short-term benefits	1,133,337	305,950	789,275	197,340

During the year ended 31 December 2017 and 2016 the remuneration of members of the key management, being the members of the Management Board, comprised salaries, bonuses and compensation of insurance and business trip expenses.

Independent Auditor's Report

To the Shareholders and Management of JSC TBC Leasing

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC TBC Leasing (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. Other information comprises Management Report prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we are required to express an opinion whether certain parts of Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

PricewaterhouseCoopers Georgia LLC; Address: #12 Aleksidze Street, Business Center King David, Tbilisi 0160, Georgia, T: +995 32 250 80 50, F: +995 32 250 80 60, www.pwc.com/ge

We will issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit. Our updated report will include also our opinion mentioned in the preceding paragraph.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and 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 scepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

16 July 2018
Tbilisi, Georgia

TBC Leasing

JSC “TBC Leasing” was founded in 2003 by “TBC Bank” and from the very origination, company thrives towards becoming leading company of leasing market and sets high standards of customer service. TBC Leasing serves corporate and retail clients through different sales channels and constantly introduces innovative and new products to Georgian leasing market.

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Financial Indicators

Net Income (In Georgian Lari)

Change	+24.7%
2017	4,084,635
2016	3,276,543

Return on Average Equity

Change	-1.5 pp
2017	23.5%
2016	25.0%

Return on Average Assets

Change	-0.4 pp
2017	2.5%
2016	2.9%

Cost to Income Ratio

Change	2.0 pp
2017	44.1%
2016	42.1%

Cost of Risk

Change	-1.5 pp
2017	2.1%
2016	3.6%

Total Assets (In Georgian Lari)

Change	+65.2%
2017	200,829,099
2016	121,545,347

Non-Performing Leases

Change	-0.2 pp
2017	3.0%
2016	3.2%

Operating Indicators

Number of Employees

2017	79
2016	46

Number of Branches

2017	4
2016	1

Number of active Clients

2017	2,144
2016	598

Number of active Contracts

2017	3,440
2016	1,513

Company Overview

The Company’s key business objective is provision of asset financing for Small and Medium Enterprises in Georgia as well as retail leasing - from June 2017 the Company is actively engaged in retail market and as of 1H 2018 leases to retail clients comprised 12% of total leasing portfolio. The Company offers following types of lease products to its customers:

- Financial Lease –the lessee usually purchases the leased asset by the end of term;
- Operational Lease – the lessee returns the leased asset to the Company at the end of lease term;

Financial lease is the most popular product with the largest (approximately 95%) share in Company’s portfolio. It is closely followed by operational lease.

Each lease is disbursed based on documents (including application) duly presented by potential customer. Prior to issuing a product, the Company requests objective appraisal of the asset to be leased.

Because leased assets serve as collateral for the products, the Company’s credit policy requires them to be insured either by customers or the Company itself. Only top rates insurance companies are accepted as eligible providers.

Once the lease is effected, the Company conducts regular annual monitoring thereof, either through financial documentation or asset monitoring/revaluation.

The Company’s broadly diversified liability structure is supported by a range of high profile lenders including Symbiotics, ResponsAbility, Triple Jump, BlueOrchard, Green for Growth Fund and IFAD as well as local banks. In 2014 TBC Leasing successfully raised USD 2 mln through local inaugural private bond placement and in 2016 it placed additional USD 3 mln bonds.

Currently company operates with head office and 5 retail branches out of which two is located outside Tbilisi. Retail branches serve individual clients with monthly income in 700-2,000 GEL range and offer financial lease for used and imported cars. Besides branches, company is presented with sale’s points at 3 official car dealer outlets. Corporate clients are served at head office of the company.

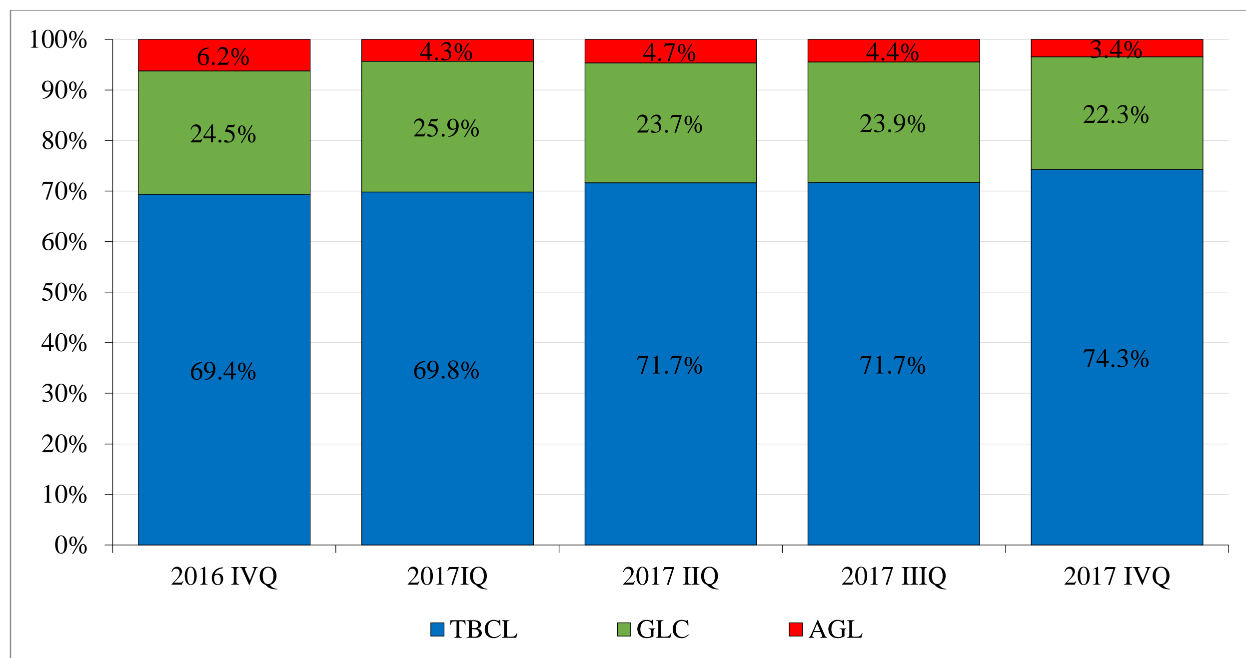
Future Development Plans and Recently Performed R&D

Company plans to emphasize on digital services in future, which at initial stage will include an online platform for clients to access their outstanding accounts with the company as well as to form new ones. In addition, company plans to increase its presence across Georgia with adding new branches in several major cities of the country.
Recently company has invested heavily in development of new operational and accounting software, which will support and enable future growth of the company.

Leasing Market Overview

The major players in the market are TBC Leasing, Georgian Leasing Company (“**GLC**”) and Alliance Group Leasing (“**AGL**”). Other institutions active in the leasing market in Georgia are Liberty Bank, MFO Swiss Capital, MOGO LLC and various other microfinance and non-banking lending institutions. The three main companies (the Company, GLC and AGL) dominate the leasing industry in Georgia; however they are focused on large/SME institutions while retail leasing market is largely untapped. The majority (around 95%) of leases are financial leases.

In terms of market share TBC Leasing held 74.3% of the market in Q4 2017 and has maintained a leading position for a number of years. Market shares data for main three players is given in the table below:



In 2011, the Georgian parliament approved a new legislation in accordance with the principles of the International Institute for the Unification of Private Law (UNIDROIT), an independent intergovernmental organization based in Rome focused on aligning private and commercial law across states. As the result, a number of amendments were made to Georgia’s Tax and Civil Codes. The new legislation created stronger incentives for companies to lease by allowing them some tax flexibility as well as easier tax procedures for lessees, and reduced effective tax rates for lessors and lessees due to changes in lease accounting treatments.

From 2011 till the beginning of 2017 (enactment of the so-called “Estonian Model” of profit tax) leasing companies were allowed to fully deduct the fixed asset with the value of GEL 1,000. The deduction was done in proportion to depreciation costs calculated in accordance with applicable provisions of the Tax Code. Periodic lease payments (interest and principal) are treated as an expense for tax accounting purposes, thus allowing companies to reduce the burden of tax on profit. The code also allows effective property tax calculation on leased assets for lessors. The annual tax rate on leased taxable property for a leasing company shall be determined, during the entire period of lease agreement, as the maximum amount of 0.6% of the initial book value of the taxable property at the moment of its first transfer. VAT is paid in proportion to lease payments.

From January 1, 2017, the new amendments to the Tax Code enable the leasing companies to be relieved from profit tax exposure on their proceeds, unless profit is distributed to the partners (shareholders) in the form of dividends.

Overview of Financial Results of 2017

TBC Leasing’s financial statements are prepared in accordance with IFRS (International Financial Reporting Standards).

Main Financial Indicators:

	2017	2016	Change
Return on Average Equity	23.53%	24.97%	-1.44, pp
Return of Average Assets	2.53%	2.88%	-0.35, pp
Cost to Income	44.09%	42.14%	1.95, pp
Cost of Risk	2.08%	3.60%	-1.52, pp
NPL	2.97%	3.18%	-0.21, pp

Increasing Profitability

Company’s net income is rising year by year and 2017 was not the exception. Net income for the last year amounted to 4,084,635 GEL, which is 25% more than in 2016. Increased profitability is mainly driven by significant growth in lease portfolio and effective asset and liability management.

One of the most important financial ratio for the company is ROAE (Return on average equity), which is 23.53% for the last year. There is a slight deterioration compared to 2016, but if we make further analysis and look at the table below, we can see that return on average equity from continuing operations has significantly improved:

	2017	2016	Change
Net Income	4,084,635	3,276,543	25%
Net Income from Continuing Operations	3,761,635	2,190,928	72%
Return on Average Equity	23.53%	24.97%	-1.44, pp
Return on Average Equity (Continuing Operations)	21.67%	16.70%	4.97, pp

Net Lease Income

Net lease income for the period amounted to GEL 9,524,364, 41% more than previous year. As it was mentioned earlier, there was a significant growth in Lease portfolio, which was one of the drivers for increased profitability. Secondly, it should be mentioned that company has worked hard towards reducing cost of funds and if we look at the table below, we will see that Lease income increased by 31% compared to 2016, while interest expense rose only by 22% in the same period:

	2017	2016	Change
Lease Income	18,918,922	14,430,394	31%
Interest Expense	9,394,558	7,684,065	22%
Net Lease Income	9,524,364	6,746,328	41%
Net Lease Income Margin	50.34%	46.75%	3.59, pp

Provision for Impairment

Cost of risk of the company is comprised of two main elements: provision for impairment of net investment in finance lease and Non-operation costs, which in turn represents sum of provision of impairment of other financial assets and other non-operation costs.

Total provision expense has decreased by 14% compared to previous year, mainly because of lower level of provision on lease receivables. Non-operational costs are approximately on the same level, taking into account above mentioned information and significantly increased lease portfolio, cost of risk during the period has declined by 1.52% and amounted to 2.1% by the end of 2017 financial year.

	2017	2016	Change
Provision on lease receivables	262,677	651,780	-60%
Non-operational costs	2,387,900	2,437,930	-2%
Provision for impairment of other financial assets	1,993,125	1,486,862	34%
Other Non-operational costs	394,775	951,068	-58%
Total Provision	2,650,577	3,089,710	-14%
Cost of Risk	2.1%	3.6%	-1.52, pp

Administrative and Other Operating Expenses

Administrative and other operating expenses have increased and amounted to GEL 4,199,519, which is 48% more than previous year. Main determinant of such an increase is staff expenses, which rose in line with lease portfolio. Despite of increased expenses cost to income ratio have slightly deteriorated and by the end of 2017 equals 44.1%.

	2017	2016	Change
Staff Expenses	2,640,878	1,662,619	59%
Depreciation and Amortization	144,585	99,678	45%
Other Administrative and Operating Expenses	1,414,055	1,080,652	31%
Total Administrative and Other Operating Expenses	4,199,519	2,842,949	48%
Cost to Income	44.1%	42.1%	1.95, pp

Risk Factors and Uncertainties

Macro economy, policies and market conditions

Alike to the other countries in the world, in Georgia too companies’ business, financial condition and results of operations are largely affected by the macroeconomic and market conditions. Company generates most of its revenue from leasing services, growth of which is dependent on the demand for leasing services on Georgian market. A downturn in the Georgian economy may adversely affect the overall demand for leasing services, which could, in turn, harm Company’s business and growth prospects.

Company’s business, financial condition and results of operations are also subject to evolving macroeconomic conditions and local policies in Georgia, including inflation or deflation, fluctuations in currency, accessibility to financing and levels of interest rates. Changes in macroeconomic conditions and local policies may materially and adversely affect Company and its businesses, financial condition and results of operations. If Company fails to promptly adjust its business structure and proactively mitigate risks in response to such policy changes, its business operations and prospects may be adversely affected.

Funding

Company’s business is balance sheet-driven, which requires a substantial amount of funding to support the growth of the leased asset portfolio, to fund its operations and to repay the debts. Company has to make significant principal and interest payments on its outstanding indebtedness. Although the Company generally generates considerable funds from leasing operations, meeting its cash requirements for business needs in the long term requires substantial liquidity and stable access to multiple sources of funding. Company funds its operations and expansion primarily through bank and other partner financial institution borrowings, bond issuances and cash injections in equity capital, in addition to the cash generated from its business operations. If Company fails to maintain its existing and future funding arrangements on commercially acceptable terms, it may not be able to continue obtaining sufficient funding from the current sources. Company’s current sources of funding are adequate to support projected growth, but as a result of external and internal factors may not be sufficient to meet its liquidity needs in the future, and it may not be able to timely explore new sources to raise financing for the business.

Market Interest Rate

Since both the lease income the Company receives from leases and the interest the Company pays on its indebtedness are affected by market interest rates. High volatility in market interest rates will directly affect its financing costs, lease income, net interest margin, and, the Company’s profit margin and financial condition. Although the Company thoroughly tries to mitigate risk related to interest rate fluctuation by aligning floating and fixed interest rates on its funding and lease financing side, fluctuations in market interest rates are subject to various factors beyond Company’s control, such as the regulatory framework of the Georgian banking and financial sectors and the economic and political environment in Georgia.

Competition

The leasing industry is developing rapidly and becoming increasingly competitive. Although the Company currently holds more than 70% of market share and Georgian leasing industry still has great potential for development, there can be no assurance that the Company will be able to maintain its current position as a result of the increasingly intense competition. Some of Company’s competitors may have greater financial and management resources than the Company does. They may have more operational and financial resources as well as customer networks and relationships, lower financing costs, and higher risk tolerance

or different methods of risk assessment, such that they can consider or afford a wider variety of investments, establish more relationships, and bid more aggressively on assets available for sale. In addition, some of Company's competitors may offer better terms to prospective lessees than the Company does.

Company also competes with major commercial banks and other financial services providers in Georgia and despite the fact that the Company is offering to its clients benefits, which is specific only for leasing due to its legal structure and specific nature, these institutions may provide financing at more favourable terms to the Company's current and prospective customers. Moreover, more advantageous financing terms can be offered by dealers/distributors of certain types of leasable assets.

Risk Management and internal control systems

In recent years, as the Company business developed to a variety of industries, its business model and risk exposures became more complex. Company continually improves its risk management system, including introduction of separate strategic unit organized under CRO in charge of control for credit, asset and legal risks of Company. In addition to that the Company annually performs financial and tax audit performed by third party independent auditors and also internal audit performed by the Parent in order to identify control deficiencies. Such audit results are reported to the shareholders. As Company's business and operations evolve, its risk management measures may not be able to capture and mitigate all material risks in the business. Therefore, when Company enters a new industry, approaches new customers or develops new products or services, is may not be able to adequately identify and estimate all future risk exposures, since some of its risk management and control methods are based upon historical business experience, market behaviour and past events, and such risk exposures could be significantly greater than Company estimations based on historical data.

Company's other risk management methods depend on the evaluation of information regarding markets, customers or other relevant matters, which may be inaccurate, incomplete, obsolete or improperly evaluated.

Furthermore, as Company business is developing, its risk management and internal control policies may not be able to effectively reduce and mitigate all types of risks, including unexpected risks and those of which the Company is unaware of, which may contribute to an increase in the non-performing asset ratio. In addition, in response to operational, legal or financial risks, Company needs to establish various sets of policies and procedures, in order to accurately record and verify a large number of transactions and events. Such policies and procedures may not be fully effective. Any failure to properly implement Company's risk management procedures or any failure to identify applicable risks may materially and adversely affect Company's financial condition and results of operations.

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Company to mitigate credit risk and to protect against credit losses prove less effective than expected. The Company employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the Company's lease portfolio. In addition, even though the Company requires regular financial disclosure by its corporate customers', customer financial statements may not always present a complete and accurate picture of each customer's financial condition. Furthermore, some of the Company's corporate customers may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Company's credit risk evaluation procedures, the Company may be unable to evaluate correctly the current financial condition of each prospective corporate leasee and to determine accurately the ability of such corporate leasee to repay its leases when due.

Currency Fluctuations

A substantial portion of the total assets of the Company, especially its lease portfolio is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their leases denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the lease. Consequently, any depreciation of the Lari against the currency of the lease may result in difficulties related to the repayment of the leases, which, in turn, may lead to a decrease in the quality of the Company's lease portfolio and an increase in impairment provisions for leases extended to the Company's customers, which may have a material adverse effect on the Company.

Although the Company seeks to minimise its open foreign currency positions through limits on the Company's foreign currency positions and gradually increases portion of lease portfolio denominated in local currency, there can be no assurance that these measures will protect against foreign exchange risks. If the Lari exchange rate against the US dollar fluctuates, this could lead to the Company suffering losses, which could, in turn, have a material adverse effect on the Company.

Political Instability in Georgia

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political climate in the country was highly volatile in the 1990s and in the early part of the 2000s.

Georgian Dream Coalition won a majority of seats in the Georgian parliamentary elections held October in 2012. Then-President Mikheil Saakashvili’s governing party admitted defeat thus leading to a transfer of power in Georgia. Shortly Mr. Ivanishvili was elected as the Prime Minister by the Georgian Parliament; however in November 2013 he stepped down and is no longer an elected official. In 2018 Mr. Ivanishvili returned to political activities as the chairman of Georgian Dream Coalition.

Georgia’s economic policy is based on the principles of a free market economy, which includes the protection of property rights, free competition and freedom of the private sector with an effective and transparent government. The Georgian Dream Coalition is generally seen to be business and investor friendly and to date has remained committed, in principle, to major economic and fiscal policies designed to liberalise and improve the Georgian economy. The Prime Minister has promised to introduce additional reforms, including reforms to the tax system, to further incentivise economic growth and job creation.

Any political instability in Georgia could have negative effects on the Georgian economy, which could, in turn, have a material adverse effect on the Company’s business, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

Economic Instability in Georgia

Since the dissolution of the Soviet Union in the early 1990s, Georgia’s society and economy have undergone a rapid transformation from a one-party state with a centrally-planned economy to a pluralist democracy with a market economy. At times this transformation has been marked by periods of significant instability resulting at various times in declines in GDP, hyperinflation, an volatile currency, high levels of state debt relative to GDP, the existence of a “black” and “grey” market economy, high unemployment and underemployment and the impoverishment of a portion of the Georgian population.

After the recession in 2008 and 2009, caused by the combined effects of the 2008 conflict in the Tskhinvali Region/South Ossetia and the global financial crisis (which suspended the economic growth in result of several economic reforms implemented in 2004), Georgian economy returned to growth. According to data of Geostat, FDI number equalled to $1,818 million in 2014, $1,652.5 million - in 2015, $1,602.9 million - in

2016 and $1,861.9 million - in 2017. Further, real GDP increase indicator reached 4.6% in 2014, 2.9% - in 2015, 2.8% - in 2016 and 5.0% - in 2017. Improvement of growth speed was primarily as a result of real growth in the construction, financial intermediation, real estate, hotels and restaurants, trade and transport sectors. Further, FDI primarily increased due to increased FDI inflows from the Netherlands, Azerbaijan, China and the United States. According to data of Geostat, In 2017 FDI made up 12.3% of GDP (in 2016 – 11.1%).

According to NBG and Geostat data, Georgia’s current account deficit was 12.6% of GDP in 2015, 13.2% – in 2016, 8.9% - in 2017. The current account balance was improved due to increase in export of goods and tourism services. Notwithstanding the growth of balance, negative balance still remains as a significant risk. If increases in net FDI inflows will not progress, it may result in an increase in the levels of Government borrowing to finance the current account deficit, a depreciation of the Lari or a reduction in imports, any of which could materially adversely affect the Georgian economy.

Furthermore, Georgian economy is quite dollarized. According to NBG data, the dollarization rate for total deposits of natural and legal persons in commercial banks was 60.2% as at December 31, 2014, 69.5% as at December 31, 2015, 71.4% as at December 31, 2016, 65.6% as at December 31, 2017. Although the NBG has adopted measures to support the development of Georgia’s domestic money markets, the dollarization rate could adversely impact the effectiveness of the implementation of the NBG’s monetary and exchange rate policies.

Georgia’s economy has also been affected by a number of external shocks, including the Russia-Ukraine crisis, the deepening recession in Russia and currency devaluations in its trading partner countries, including, Turkey, Russia, Azerbaijan and Armenia. These shocks have led to a decrease in Georgia’s exports in the period of 2014-2016 resulting in a corresponding shortfall in foreign earnings, and, combined with the worldwide strengthening of the US dollar, resulted in the Lari depreciating by more than 29.0% against the US dollar in 2015. Whilst this depreciation has helped the Georgian economy to adjust to such external shocks, it has also increased the debt burden of borrowers with US dollar-denominated loans, thereby increasing demand for Lari-denominated debt. In addition, according to estimates published by Geostat, annual inflation, as measured by the end-of-period consumer price index, in Georgia was 2.0% in 2014, 4.9% - in 2015, 1.8% - in 2016, 6.7% in 2017. Increased inflation in 2017 was primarily caused by occasional factors such as increase of excise rate on tobacco, alcohol and oil products. High and sustained inflation could lead to market instability, a financial crisis, reduction in consumer purchasing power and confidence. There can be no assurance that Georgia will be able to continue to cope with current external shocks affecting its economy.

Any changes in monetary policy, a further material depreciation of the Lari relative to the US dollar or the Euro, continued increases in inflation or the occurrence of other negative, including external, factors, could adversely affect Georgia’s economy. This, in turn, could have a material adverse effect on the Company’s business, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

Risk Management

TBC Leasing contracts include the lessee prepayment of 20% of the equipment price at the inception of the lease. The Company holds title to the leased assets during the contract term and passes it to the lessees only at the contracts’ end. TBC Bank’s Credit Committee makes final decision to issue leases with value of more than $300,000. All lease recommendations (approval of lessee’s limits, amendments to lease agreements, etc.) are reviewed and approved by the Credit Committee of the Company.

The Company actively manages its liquidity risk, ensuring availability of sufficient funds to meet financial commitments as they come due. The Management Board (which is composed of the CEO, CRO and CFO)

controls liquidity risks by means of maturity analysis and liquidity gap analysis. The Company actively monitors future expected cash flows on clients' and the Company's operations.

Financial Risk Management

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

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committee of the Parent and the Company's Management Board. The Parent's Credit Committee is involved in decisions of issue leases with value more than USD 300,000. Before any application is made to the Credit Committee or the Company's Management Board, all recommendations on lease processes (lessee's limits approved, or amendments made to lease agreements, etc.) are reviewed and approved by the risk-manager or the Credit Department.

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

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

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

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

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

The Management Board controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the

Company an opportunity to minimize losses from significant currency rates fluctuations toward the national currency.

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 because of such changes but may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2017 or 2016, the Company was not exposed to fair value interest rate risk since all its financial assets and liabilities are accounted for at amortized cost. The exposure to the cash flow interest risk as at 31 December 2017 and 2016 arises from one borrowing at variable interest rate. All other financial assets and liabilities bear fixed interest or are interest free.

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

Corporate Governance

TBC Leasing’s corporate bodies are the General Meeting of Shareholders (“**General Meeting**”), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and the Company's Charter. The GMS elects the members of the Company Supervisory Board, which is responsible for supervising the Company Management Board. The Company Supervisory Board appoints CEO of the Company and in its turn the CEO appoints the other members of the Company Management Board, which is the executive body of the Company directly responsible for day-to-day operations.

Supervisory Board Member’s Biographies

Vakhtang Butskhrikidze, Chairman

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC’s committees.

Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016 and as a member of the Supervisory Board in September 2016. Mr Butskhrikidze is also a member of the supervisory boards of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the supervisory board of the Partnership Fund, Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

Badri Japaridze, Member

Badri Japaridze was appointed as head of the Foreign Relations department at TBC Bank in 1992 and became the Bank's vice president in 1993. In 1996-2014, he was chairman of the Board at TBC TV. Between 1995 and 2003, he served as a vice president at Georgian Glass and Mineral Water, of which he was a co-founder. The company was later renamed IDS Borjomi and he was a member of the Board between 2004 and 2010.

In 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has been deputy chairman of it since 1996. In 2004, he was also elected as a member of the Board of Directors of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is a co-founder.

In 2006, Mr Japaridze was elected to the supervisory board of the EUGeorgian Business Council and simultaneously became the council's deputy chairman. In 2008, he became a member of the Supervisory Board at Geoplant, a position that he retains today. Mr Japaridze is also chairman of the supervisory board at TBC Kredit and deputy chairman of the supervisory board at TBC Leasing. Mr Japaridze was appointed as a deputy chairman of the Board at TBC Bank in May 2016.

Mr. Japaridze graduated from the Faculty of Psychology at Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology at Moscow State University. In addition, in 2001, he completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of parliament in Georgia.

Nikoloz Kurdiani, Member

Nikoloz Kurdiani has more than ten years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Mr. Kurdiani was Managing Director at Kaspi Bank, a leading retail bank in Kazakhstan.

Prior to obtaining his MBA degree in 2007, he served as Head of the Retail Banking Division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Mr. Kurdiani held the position of Senior Sales Support Expert at the CEE Retail Division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was Head of the Retail Division of ATF Bank, UniCredit Group in Kazakhstan.

Mr. Kurdiani obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr-University Bochum in Germany and the Caucasus School of Business.

Management Board Member's Biographies

Gaioz Gogua, Chief Executive Officer (Director)

Gaioz (Gaga) Gogua has served as the CEO of TBC Leasing since November 2017. Prior to his current position Mr. Gogua worked at TBC Bank which he joined in 2001 as a Credit Manager. Over the years at TBC Bank he worked in various managerial positions including, Regional Director, Branch Director and Head of Branch Credit Department. Mr. Gogua has bachelors and masters degrees in physics from Georgian Technical University and an MBA degree from ESM Tbilisi.

Nato Toronjadze, Chief Commercial Officer (Deputy Director)

Nato Toronjadze joined TBC Leasing in 2009 and over the years has served as Credit Risk Manager, Head of Credit Department, Chief Operating Officer and Chief Risk Officer. In April 2017 she became Chief Commercial Officer of the Company. Ms. Toronjadze holds BBA and MBA degrees in Quantitative Analysis from Georgian-American University.

Nugzar Loladze, Chief Financial Officer

Mr. Loladze joined TBC Leasing 2014 as the CFO. Before joining TBC Leasing, Mr. Loladze worked at Ernst & Young as senior auditor and later the leader of Transaction Advisory Services. Mr. Loladze graduated from Caucasus School of Business (CSB).

Salome Ghudushauri, Chief Operating Officer

Salome Ghudushauri became the Chief Operating Officer of TBC Leasing in April 2017. Ms. Ghudushauri joined the Company in 2010 and at various times served as a Senior Lease Project Manager, Acting Head of Credit Department and Strategic Projects Manager. She holds BBA and MBA degrees in Quantitative Analysis from Georgian-American University.

Levan Abashidze, Chief Automotive Officer

Levan Abashidze joined TBC Leasing as Chief Automotive Officer in October 2016. Previously from 2008 he worked at ARVAL BNP Paribas first as the Head of Credit Risk and Pricing Department and then as the Head of Remarketing. From November 2006 to December 2007 Mr. Abashidze was the Head of SME Lending Division at Cartu Bank. Before this he served as Credit Adviser at Small Enterprise Lending Program at EBRD, Deputy Chairman of Board of Directors of Georgian Maritime Bank and Credit Officer at ProCredit Bank Georgia. Mr. Abashidze holds BBA degree from Sofia University St. Kliment Ohridski and MBA degrees from Caucasus School of Business and American Institute of Business and Economics (AIBEc).

Nana Shonia, Chief Legal Officer

Nana Shonia joined TBC Leasing in 2007 and since January 2013 has served as Chief Legal Officer. Previously Ms. Shonia worked as an In-House Legal Counsel and Senior Lawyer. Before joining the Company she worked as a Lawyer at ProCredit Bank Georgia from 2005 to 2007. Ms. Shonia holds Bachelors and Masters Degrees in Jurisprudence from Tbilisi State University.

The business address of each of the members of the Management Board is the registered office of the Company at 80 Chavchavadze Ave., Tbilisi, Georgia.

Chief Executive Officer	Chief Financial Officer
Gaioz Gogua	Nugzar Loladze

26 September 2018