Scope
ESG Analysis

TBC Leasing

Georgian Leasing Company

Scope ESG Analysis has assessed the alignment of the Green Bond Framework (Framework) of TBC Leasing (TBC Leasing) with the 2021 Green Bond Principles (GBP) of the International Capital Markets Association (ICMA). Scope ESG's assessment reveals that TBC Leasing's Framework is fully aligned with the GBP.

This second-party opinion is based on four GBPs: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting. Our methodology supplements the 'use of proceeds' element with an 'impact of proceeds' assessment, an EU taxonomy alignment, and a review of impact risks. The Framework has received two green leaves, which signals a significant environmental impact contribution.

Figure 1: TBC Leasing's Environmental Framework Assessment

- Transformative
- **Significant**
- Limited
- Negative

Issuance assessment

Scope's criteria	Electron Framework description	Scope ESG Assessment
Use of proceeds	→ Energy efficiency → Pollution prevention and control → Clean transport	ICMA-aligned
Process for project evaluation and selection	→ Establishment of a green bond committee comprising four key members of the company. The committee manages the process evaluation and selection of green projects. Exclusion criteria are aligned with international standards	ICMA-aligned
Management of proceeds	→ Proceeds are documented and updated in a green register managed by the finance department. → Pending allocation, proceeds will be held in short-term deposits dedicated to ESG issues in the organisation	ICMA-aligned
Reporting	→ Annual reporting on the allocation of proceeds until full allocation → Impact metrics including greenhouse gas (GHG) emissions reduction	ICMA-aligned
Electron's sustainability strategy	→ TBC Leasing is committed to financing a wide range of environmentally sustainable projects by supporting SMEs in their shift towards a green economy	Significant
EU taxonomy and Georgia's SF taxonomy alignment	→ TBC Leasing's activity on clean transportation is partially aligned with EU taxonomy. However, alignment with EU taxonomy is not considered by TBC Leasing → TBC Leasing is willing to comply with the Sustainable Finance taxonomy for Georgia on their green project categories	Taxonomy partially-aligned
Impact assessment	→ TBC Leasing's projects support SME financing to reduce Georgia's finance gap and increase green finance in the region. → Energy efficiency and GHG emissions reduction are key topics for Georgia's 2030's Climate Change Strategy.	Transformative
ESG management risks	→ TBC Leasing has implemented an environmental and social management risk system to identify and mitigate ESG risks related to leased assets.	Transformative

Figure 1: Alignment with United Nations Sustainable Development Goals

Figure 2: Engagement with EU Taxonomy draft regulation

Substantial contribution to climate change mitigation & adaptation

+

Do no significant harm to any of the six environmental objectives

+

Minimum safeguards complied with

Methodology

We were commissioned by the issuer to provide a second-party opinion on its Framework. We based our opinion on: TBC Leasing's internal documents, interviews with TBC Leasing's relevant stakeholders, documents on external market/regulatory research, and data from our internal database.

The leaf score summarises our evaluation and verification of the environmental impact of TBC Leasing's Framework. The described targets within each of the green project categories lead to individual leaf scores. In the case of multiple project categories, the aggregate of the scores yields the overall score of our second-party opinion report.

Our minimum requirement for GBP alignment is that each green project category of the Framework has a positive environmental impact, as represented by one green leaf.

Scoring	Description	GBP category	Sector criteria
	Transformative environmental contribution and complete alignment with relevant national and industry standards	Energy efficiency	Energy efficient assets with at least 30% energy efficiency compared to the market alternative
		Pollution prevention and control	Substantial GHG emissions reduction considering the full lifecycle of the asset including manufacturing, use and disposal
		Clean transport	Zero direct-emission forms of transport such as electric vehicles or semi-electric vehicles with direct emissions below 50gCO_2/km
	Significant environmental contribution and at least partial alignment with relevant market standards	Energy efficiency	Assets that contribute to at least 15% energy efficiency compared to the market alternative
		Pollution prevention and control	GHG emissions reduction considering the use-phase of the selected asset
		Clean transport	Semi-electric transport that substantially reduces current emissions
	Environmentally friendly but insufficient quantifiable impact metrics and limited alignment with relevant market standards	Energy efficiency	No measurable energy efficiency contribution compared to the alternative option in the market
		Pollution prevention and control	No measurable GHG emissions reduction
		Clean transport	Transport that reduces emissions but does not contribute to long-term transformation that can be environmentally harmful in its manufacturing
	Significant environmental contribution and at least partial alignment with relevant market standards	Energy efficiency	Energy-intensive assets that contribute to an increase of energy consumption
		Pollution prevention and control	Assets that increase GHG emissions
		Clean transport	Transport that increases emissions

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Introduction

TBC Bank, the parent company of TBC Leasing, is the largest banking group in the Caucasus region with 38.6% market share of total assets and a strong presence in Georgia, where most of its business is concentrated. The bank also has a subsidiary bank in Uzbekistan, a microfinance organisation in Azerbaijan and a representative office in Israel.

TBC Bank, the parent company of TBC Leasing, is the largest banking group in the Caucasus region

Listed on the London Stock Exchange's FTSE 250 index, TBC Bank offers retail, corporate and investment banking, and micro, small and medium enterprises (MSMEs) banking services nationwide, has a multi-billion loan portfolio and employs more than 10,000 people.

TBC Leasing (the issuer) established in 2003, is wholly owned by TBC Bank and part of the TBC Bank Group. TBC Leasing is the leader of Georgia's leasing industry, with 82% market share, serving up to 2,100 customers and managing a leasing portfolio of GEL 338m with 126 employees as of December 2022. The company offers leasing solutions and complementary advisory services, including financial leasing, operating leasing and sale-and-leasebacks to corporates, SMEs, start-ups and individuals.

TBC Leasing offers leasing solutions including financial and operating leasing in Georgia

TBC Leasing's business model relies on purchasing an eligible asset and leasing it to customers. Revenue is generated each year the asset is owned, which is an average of 4-6 years. The asset is then sold in the second-hand market or re-leased. During this process, costs relate to employees, maintenance, property, transport and depreciation.

The company's solutions mainly comprise financial and operating leases for various types of assets such as machinery and equipment, vehicles, construction equipment, agricultural equipment, IT and communication equipment, medical technology, real estate and large-scale movable assets such as aircraft and yachts. The majority of the assets leased by TBC Leasing are related to cars, construction equipment and road construction equipment.[1]

The operating leasing services engage in business activities that may earn revenues or incur expenses and include three segments. The first segment is the largest part of the portfolio, with GEL 260m as of December 2022, and includes all leases to legal entities or groups of entities (MSMEs and corporate clients) to finance assets that are not vehicles. The second is the automotive segment with a GEL 41m portfolio, including all leases to legal entities or groups of entities to finance vehicles. The third is the retail segment, with GEL 28m, which includes leases to all non-business individual customers.

The company has extensive geographical coverage in Georgia and provide services through various types of channels including through official representative dealerships, vendors, direct sales channels and TBC Bank. TBC Leasing also has partnerships with local and international equipment vendors and car dealers to facilitate efficient and early access to customers and ensure broad sales coverage. In addition, TBC Leasing is actively involved in state programmes such as "Enterprise Georgia" in conjunction with the Ministry of Economy and Sustainable Development.

TBC Leasing's client portfolio ranges in size and scale from small and medium corporates to retail individuals. It is also diversified across industries, including all sectors of the economy, with no industry representing more than 20%.

TBC Leasing intends to issue a green bond with a total amount of GEL 15m. Proceeds will be directly used to finance energy-efficient assets with a minimum 15% energy efficiency, assets that contribute to CO_2 reduction, and clean transportation.

Proceeds to finance energy-efficient assets, assets that reduce CO_2 emissions, and clean transport

[1] TBC Leasing Annual Report 2022 https://tbcleasing.ge/assets/investors/reports/Annual%20Report%20and%20Audited%20FS%20-%20FY2022.pdf

Overall sustainability strategy

TBC Bank Group's ESG strategy focuses on five areas: enhanced ESG governance structure at the Board and executive levels and climate-related risks and opportunities, increase sustainable loan portfolio, access to green and sustainable financing sources, employee diversity, equality and inclusion, impact measurement and reporting.

TBC Group's ESG strategy focused on five key areas

As part of the strategy, TBC has established targets for 2023 which include an increase of their sustainable loan portfolio from GEL 782m to GEL 1 bn, increase regular reporting on climate-related risks, scenario analysis, and stress testing, as well as to harmonise their green loan procedure with the Sustainable Finance green taxonomy for Georgia. In addition, TBC Group is committed to measure their carbon footprint with Paris alignment and science-based targets. As for social targets, TBC Group aims to increase the share of women in middle managerial position to 43% and the social impact procurement to GEL 5m. For 2025, TBC Group aims to be carbon neutral.

TBC Group aims to be net-zero by 2025

Various initiatives and programmes have been developed to support each of the areas of the Group's ESG strategy such as the establishment of two-ESG related committees and a Diversity, Equality, and Inclusion Policy. In addition, TBC's ESG strategy is focused on growing the sustainable loan portfolio by financing energy efficient, renewable energy and resource efficient projects, women-led and women-owned business, startups, and rural businesses. Lastly, TBC Group through their responsible purchasing practices, engage with small local suppliers to include them in TBC Group's supply chain.

In 2022, separate ESG strategies have been developed in the eight subsidiaries of the TBC Group, approved by the respective Board of Directors, and starting 2023, supervised on a regular basis. The ESG strategies of each subsidiary define several key areas such as:

Each TBC Group subsidiary with an ESG strategy

- A strong ESG governance within the company
- Sustainable financing
- Resource ad energy efficiency
- Employee diversity, equality, and inclusion
- A system and approach for impact measurement and reporting
- Responsible procurement
- Renewable energy usage
- Support the Group's Net-Zero GHG emissions targets.

The progress and implementation status of ESG strategies are monitored through quarterly, semi-annual, and annual reports provided by each subsidiary. In addition, to support the implementation of the ESG strategies several thematic workshops are planned throughout the year.[2]

As part of this strategy, TBC Leasing finances a wide range of environmentally sustainable projects, supporting clients in their shift towards a greener economy and allowing SMEs an alternative means of financing with which they can expand business opportunities focused on green activities.

TBC Leasing supports SMEs to shift towards a greener economy

TBC Leasing's objective is to manage environmental and social risks associated with its operations to minimise negative environmental impacts. To this end, it has adopted an Environmental and Social policy that describes its commitment to sustainable finance as an integral component of responsible corporate governance. The Environmental policy lays out certain principles such as defining the environmental aspects and impacts of business activities, developing measures to

[2] TBC Bank Group PLC Sustainability Report 2022, https://www.tbcbankgroup.com/media/2849/tbc-bank-group-plc-sustainability-report-2022.pdf

minimise negative environmental impacts, complying with applicable environmental, health, safety and labour regulations and declining to finance business that has negative environmental and social impacts.[3]

The Environmental policy describes the company's Environmental Management System (EMS), which is aimed at ensuring the company's compliance with all applicable environmental, health, safety and occupational regulations and its application of appropriate best practices to ensure customers also comply with environmental and social obligations. These regulations are applicable to all staff.

International financial institutions have cooperated with TBC Leasing to finance projects with an environmental contribution

TBC Leasing, in cooperation with international financial institutions including the European Bank for Reconstruction and Development, FMO, Green for Growth Fund and the European Fund for Southeast Europe, have developed new products to increase the financing volume of energy-efficient assets as well as finance renewable energy production. By focusing on projects with an environmental contribution such as solar panels, wind power and small-scale hydro power plants, TBC Leasing has facilitated energy-saving agricultural and manufacturing assets totalling GEL 25.2m, 23% of which was for solar installations. As of December 2022, the green portfolio share in the total leasing portfolio is 7.5%.

With the Green for Growth Fund, TBC Leasing has developed its Digital Solar Marketplace in Georgia to connect its clients (both commercial businesses and private individuals) with relevant technology vendors and to catalyse the wider uptake of solar PV technology in Georgia. This project has funding from the European Union under the EU4Energy Initiative to improve energy supply, security and connectivity and promote energy efficiency among eastern European countries. In addition, TBC Leasing has received EUR 3m from the European Bank for Reconstruction and Development to finance investments in MSMEs to support sustainable investment in technologies, occupational health and safety and environmental protection as well as to promote the use of green technologies.

Our assessment

TBC Leasing sustainability strategy scores two green leaves

TBC Group has published quantitative and qualitative ESG targets and a sustainability strategy addressing relevant risks and material objectives in the industry. TBC Leasing contributes to the Group's strategy without publishing specific targets, however, is committed to a publicly available sustainability strategy, and complies with relevant environmental certifications and standards.

[3] https://tbcleasing.ge/assets/investors/reports/ESRM%20TBCL.pdf

Green Bond Principles: assessment of issuance

Use of proceeds

Green project category	Fulfilment	Leaf score
Energy efficiency	Financing of eligible assets with an energy efficiency of at least 15-20% compared to alternative equipment (this could be the replacement of old equipment or the acquisition of new technology)	
Pollution prevention and control	Financing of equipment that contributes to a minimum of 15% CO_2 emissions reduction	
Clean transport	Financing of electric and hybrid vehicles for SMEs and private individuals	

The 'energy efficiency' project category has scored two green leaves, led by TBC Leasing's intention to finance the purchase of machinery and equipment that requires at least 15-20% less energy consumption than the comparable alternative. This could be the replacement of old equipment and machinery or the purchase of new assets with cleaner technology.

The energy efficiency project category has scored two green leaves

The 'pollution prevention and control' project category has scored two green leaves as TBC Leasing aims to finance assets that contribute to a reduction of at least 15% CO_2 emissions compared to market alternatives. We note that CO_2 emissions reduction only considers the use-phase of the asset and not the full lifecycle.

The pollution prevention and control project category has scored two green leaves

The 'clean transport' project category scores three green leaves led by TBC Leasing's financing of electric and hybrid vehicles for micro, small and medium companies as well as for private individuals. While TBC Leasing does not provide a direct emissions threshold for the hybrid vehicles, we note that they adhere to the Georgia's Sustainable Finance taxonomy on hybrid passenger cars and light commercial vehicles and assume they will comply with direct emissions standards. We note that the environmental impact is driven by the national energy mix, which is dominated by non-renewable energy sources in Georgia.

The clean transport project category has scored three green leaves

The proceeds will be fully placed in Georgia for the purpose of purchasing equipment in different industries such as medicine, services, development, construction, road construction, industrial (agricultural, manufacturing, trade), natural resources, renewable energy, technology, media and telecommunications. Around 90% of the leases are expected to go to MSMEs and 10% to private individuals. However, we note this is not a condition in the Framework nor a precise distribution.

Proceeds will be fully placed in Georgia

TBC Leasing's proceeds aims to provide leasing to a minimum of 30 green projects and increase the share of its green portfolio from 7.5% to 15-20% at the bond's maturity.

We note that the projects detailed in the Framework are aligned with TBC Leasing's sustainability strategy.

Our assessment

TBC Leasing's aggregate score of two green leaves indicate alignment with selected sector criteria. The projects descriptions are clear, detailed and transparent and comply with the ICMA's GBPs.

TBC Leasing's projects scores two green leaves

Process for project evaluation and selection

TBC Leasing has established an internal green bond committee for selecting, evaluating and monitoring eligible green projects. The committee is composed of four members from the finance, credit and risk departments. Specifically, they are the Head of the Finance Department and the

Establishment of a green committee

Head of Capital Markets and Investor Relations Management, the Head of the Credit Department, and the Head of the Enterprise Risk Management Department, which oversees the environmental and social risks in the organization.

The committee will be responsible for reviewing and assessing whether the proposed projects comply with the eligibility criteria throughout the lifespan of the green bond. In addition, they will oversee that the product portfolio is aligned with the categories specified in the use of proceeds, verify the content of the Framework, and monitor the allocation of the proceeds.

TBC Leasing's exclusion criteria for its eligible leases under the green bond proceeds will be aligned to its internal policy as well as the exclusion lists of the European Bank for Reconstruction and Development[4], International Finance Corporation, the German Investment Corporation and the Asian Development Bank.

TBC Leasing's exclusion criteria aligned with international standards

Our assessment

TBC Leasing's process for project evaluation and selection has scored three green leaves as it has a precise project selection process and identifies material ESG objectives associated with the chosen projects.

TBC Leasing's process for project evaluation and selection scores three green leaves

Management of proceeds

The proceeds from the green bond will be managed by the company's finance department in a separate green register. The green register is to ensure that proceeds only support green projects. The finance department will monitor and regularly supervise the use of proceeds' alignment with the eligible projects.

Establishment of green finance register

Pending full allocation, the proceeds will be temporarily deposited in short-term deposits in banks that are dedicated to environmental and social issues and have an ESG strategy implemented.

Our assessment

TBC Leasing's management of proceeds has scored three green leaves as the company has a well-designed and transparent process to track investments and has a process for unallocated net proceeds. Temporary investments finance ESG/green products or at least prevent investment controversies.

TBC Leasing's management of proceeds scores three green leaves

Reporting

TBC Leasing has committed to provide all bondholders an annual report within 12 months of the issuance until full allocation. These reports will include allocation and disbursement of proceeds as well as an impact report.

Allocation and impact reports to be published annually to investors

The allocation report will include the percentage of allocated and unallocated investments balance.

In accordance with the 2021 Harmonised Framework for Impact Reporting, TBC Leasing has committed to provide annual reporting to bond investors on selected impact indicators and, where feasible, to demonstrate the environmental impacts of the projects to which the proceeds have been allocated. The environmental impact will be measured based on annual GHG emissions and CO_2 emissions reduction.

Our assessment

TBC Leasing's reporting process has scored one yellow leaf and it is partially aligned with the GBP. We note that TBC Leasing faces data limits and relies on customer data. However, it is recommended that reporting includes a list of projects to which the green bond proceeds have been allocated, a brief description of the projects, and the expected impact. We note that energy

TBC Leasing's reporting scores one yellow leaf

[4] https://www.ebrd.com/downloads/about/sustainability/Environmental_and_Social_Exclusion_and_Referral_Lists_15092008.pdf

efficiency measures should also be included to reflect the overall impact of the green bond proceeds.

Our opinion

Alignment with UN Sustainable Development Goals (SDGs)

The SDGs adopted by all UN member states in 2015 are a collection of 17 global targets comprising an agenda for achieving sustainable development by 2030. We deem the following SDGs to be relevant for TBC Leasing[5]:

TBC Leasing's Framework is tied to three relevant UN SDGs

7. Renewable energy: ensure access to affordable, reliable, sustainable and modern energy for all

9. Industry, innovation, and infrastructure: build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

13. Climate action: take urgent action to combat climate change and its impacts

Appendix II lists the relevant indicators for measuring TBC Leasing's contribution to each SDG. The contribution to the SDGs can be quantified in post-issuance impact reporting.

Alignment with EU taxonomy and Georgia's Sustainable Finance taxonomy

The EU taxonomy regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It establishes a basis for the EU taxonomy by setting out four overarching conditions that a particular economic activity must meet to qualify as environmentally sustainable. The taxonomy regulation establishes six environmental objectives: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

TBC Leasing's clean transport category pertains to one EU taxonomy sector

As the eligible assets for leasing are not related to a specific industry, the 'energy efficiency' and 'pollution prevention and control' project categories cannot be associated with an EU taxonomy activity. However, TBC Leasing's 'clean transport' project category pertains to one EU taxonomy activity for which the first delegate act on climate change mitigation specifies technical screening criteria, namely, transport by motorbikes, passenger cars and light commercial vehicles.

TBC Leasing is partially aligned with technical screening criteria for the selected sector

TBC Leasing's activity on clean transport is partially aligned with the technical screening criteria for transport by motorbikes, passenger cars and light commercial vehicles. TBC Leasing plans to provide leasing services to SMEs and private individuals to lease electric and hybrid vehicles.

The EU taxonomy defines a 'do not significant harm' (DNSH) assessment. The DNSH assessment ensures that other environmental objectives are not harmed while a substantial contribution is made to one or more environmental objectives.

Adherence to Georgia's Sustainable Finance taxonomy

The DNSH specify a set of criteria for transport by motorbikes, passenger cars and light commercial vehicles. We note that TBC Leasing does not claim alignment with EU taxonomy and does not plan to do it in the future, however they adhere to the Sustainable Finance taxonomy for Georgia which will be used as a guide to measure and monitor existing and new sustainable financing activities in the portfolio.

The EU taxonomy includes a minimum social safeguards assessment to ensure that entities carrying out environmentally sustainable activities, labelled as taxonomy-aligned, meet certain minimum governance standards and do not violate social norms, including human rights and labour

[5] TBC Leasing's Framework refers to SDG 9 and 13 as material to its project. The Scope ESG's second-party opinions map the eligible GBP with a high relevance for SDGs rather than those with a high degree of alignment or positive achievement.

rights. This means that activities considered taxonomy-aligned will have to align with standards such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the International Bill of Human Rights. Additionally, issuers should comply with the ILO's Declaration of the International Labour Organisation on Fundamental Rights and Principles at Work.

The leasing activities financed by the issuance will be fully placed in Georgia, where adherence to EU labour standards is compulsory. TBC Leasing has internal policies in place such as i) a Code of Ethics; ii) a Code of Conduct; iii) a Diversity, Equality and Inclusion Policy; iv) an Incident Response Policy; and v) an Anti-Money Laundering Policy. It is also a member of the UN Global Compact through TBC Bank.

Scope confirms issuer's compliance with minimum social safeguards

Georgia's Sustainable Finance taxonomy

The Sustainable Finance taxonomy (SF taxonomy) was developed by the National Bank of Georgia in collaboration with local and international experts and stakeholders to provide a classification system to identify activities that deliver key climate, green, social, or sustainability objectives. The main purpose of the SF taxonomy for Georgia is to align international definitions with local requirements and integrate country-specific characteristics that will help local institutions to contribute to achieve Georgia's sustainability goals. The SF taxonomy is designed to address the most relevant issues and characteristics suitable for Georgia by including a green and social taxonomy. The taxonomy regulation was published on 3 August 2022 and came into force on 1 January 2023.

On SF taxonomy for Georgia, TBC Leasing's activities on energy efficiency, pollution prevention and control, and clean transport pertain to the following categories:

TBC Leasing's project categories pertain to five Georgia's SF taxonomy sub-categories

Main category	Category
Energy efficiency	Energy Efficiency in Industrial Facilities Energy Efficiency in Agriculture Energy Efficiency in Buildings
Pollution prevention and control	Air quality
Green transport	Private Transport

We note that TBC Leasing is willing to comply with the Georgia's SF taxonomy for existing and new sustainable finance activities under the Framework.

TBC Leasing confirms adherence with Georgia's Sustainable Finance taxonomy

<u>Our assessment</u>

The alignment of the issuance with the EU taxonomy is limited and has scored one yellow leaf. It complies with the technical screening criteria but does not disclose information pertaining to the DNSH criteria and minimum social safeguards. We note that TBC Leasing has stated its intention to align with Georgia's Sustainable Finance taxonomy on the activities mentioned in the Framework without providing any further details on the alignment degree and has published a list of internal policies on labour conditions and human rights.

TBC Leasing's alignment with EU taxonomy scores one yellow leaf

Impact of proceeds

SMEs in Georgia

Georgia has one of the fastest developing economies in the region, with GDP growth of 5.2% projected by 2028.[6] Small and medium-sized enterprises play an important role in the sustainable growth of the economy. In 2020, 98.13% of enterprises in Georgia were small and 1.47% were medium, contributing to 59.3% of total employment, 40.8% of turnover and 58.0% of value of output in the business sector.[7]

Georgia SMEs account for 99.6% of all active enterprises

The government of Georgia, through the implementation of the National SME Development Strategy 2016-2020 and 2021-2025, has prioritised SME development as the main source of private sector growth, job creation and innovation, by increasing the competitiveness of the SME sector and creating inclusive and sustainable economic growth. A strategic priority is to facilitate access to financing and promote the development of the green economy for SMEs.[8]

The EU-Georgia Association Agreement states that the parties should promote energy efficiency and energy savings in an economic and environmental manner, develop renewable energies with a primary focus on hydro sources, and develop and cooperate on environmental issues to promote sustainable development and the long-term objective of greening the economy.[9] While Georgia has significant green growth potential, it does not yet have a high-level strategic vision for it and SMEs can play a key role in the development of such an economy and the implementation of environmental standards in the country.

Energy efficiency is promoted by the EU-Georgia Association Agreement

The Georgian government has identified several investment needs to meet its sustainable development and climate change targets. While these do not refer specifically to SMEs and a significant proportion of these financial flows is not directly relevant for them, they should be accessible to and affordable for SMEs.[10]

Georgian investment needs to meet sustainable development and climate change targets

Investment needs in Georgia
USD 8.3bn for 2017-2030 energy efficiency (National Energy Efficiency Action Plan)
USD 10.6bn 2017-2030 for energy efficiency, non-energy GHG emissions and land use, land-use change, and forestry emission reduction (Low Emission Development Strategy)
USD 2.4bn for hydropower 2017-2030 (Third National Communication of Georgia to the United Nations Framework Convention on Climate Change)
USD 1.5bn-2.0bn for climate change adaptation over 2021-2030 (Intended National Determined Contribution)

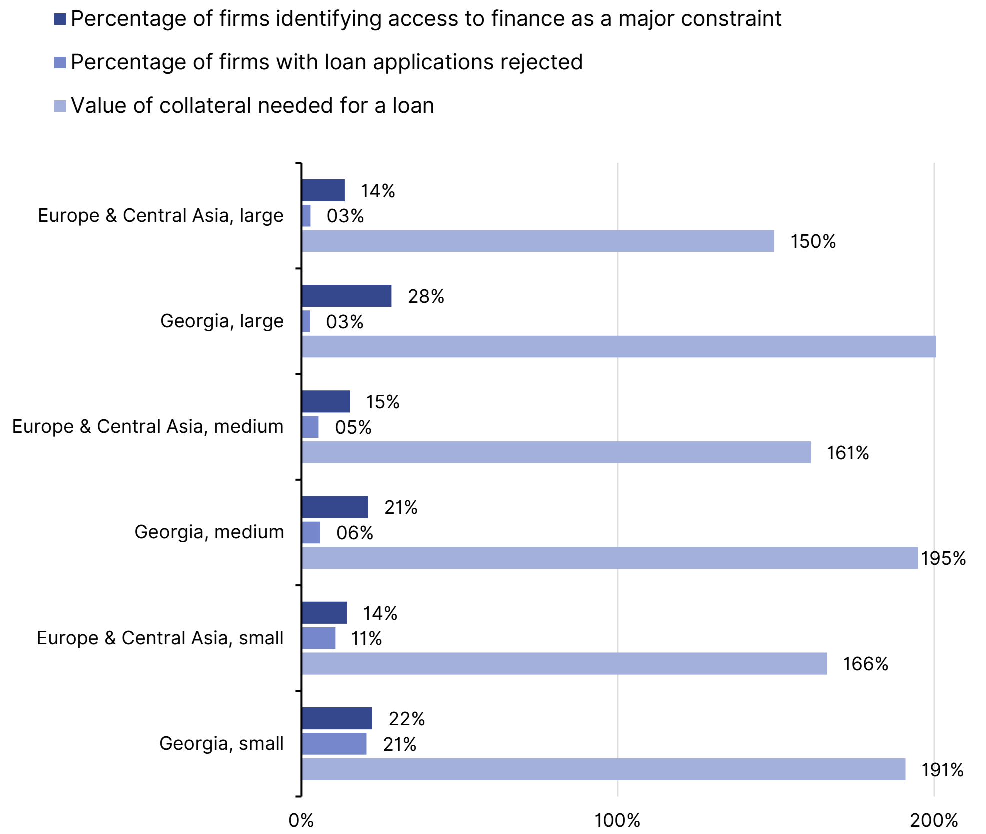
Green investments are costly and, in Georgia, about 90% of the related technologies are imported.[11] Georgian SMEs fund over 70% of their investments in fixed assets and 80% of working capital with internal resources[12]. The rest of their financing needs relies on the banking sector. The challenge for SMEs is that the value of collateral needed for a loan is high at 194.2% on average. Interest rates for them also tend to be high at around 15% or more. In addition, while banks deny credit to 2.6% of large enterprises, this rate is 20.6% for small enterprises and 5.9% for medium ones.[13] According to the European Investment Bank, the main reasons for rejections are a lack of eligible

90% of technologies related to green investments are imported

[6] IMF, World Economic Outlook, A Rocky Recovery, April 2023
[7] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en
[8] https://www.economy.ge/uploads/files/2017/ek__politika/sme_strategy/2022/sme_strategy_2021_2025_eng_2.pdf
[9] https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02)
[10] https://www.oecd-ilibrary.org//sites/dc98f97b-en/1/2/4/index.html?itemId=/content/publication/dc98f97b-en&_csp_=60f73d9cc0e52ae3bbaead987ac22a7c&itemIGO=oecd&itemContentType=book#section-d1e3411
[11] https://www.oecd-ilibrary.org/sites/dc98f97b-en/1/2/4/index.html?itemId=/content/publication/dc98f97b-en&_csp_=60f73d9cc0e52ae3bbaead987ac22a7c&itemIGO=oecd&itemContentType=book#endnotea4z2
[12] https://www.eib.org/attachments/efs/smes_and_private_sector_financing_in_georgia_en.pdf
[13] https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/georgia#finance

collateral, a lack of credit history, unmeasurable risks of the projects and poor business plans.[14] These difficulties are more prevalent among SMEs, especially the collateral requirements and the riskiness of the projects.

Figure 4: Barriers for SMEs in Georgia for access to finance, 2019



Source: Enterprise surveys, World Bank

Leasing as an alternative of SMEs financing to contribute to Georgia's financial gap of USD 2.5 million

In Georgia, green financing is only provided by international commercial banks and usually to renewable energy projects by large companies and projects where the loan amount exceeds EUR 500,000, usually more than what SMEs need.[15] On the other hand, microfinance institutions serve SMEs with loans ranging from EUR 10,000 to EUR 30,000, though at very high interest rates. Therefore, there is a gap for SMEs whose energy- and resource-efficiency investments are too big for microfinance but too small for traditional bank finance.[16] For this reason, leasing becomes an important way of financing. There is also good room for growth as 68% of formal MSMEs in Georgia have unmet financing needs (figure 5).

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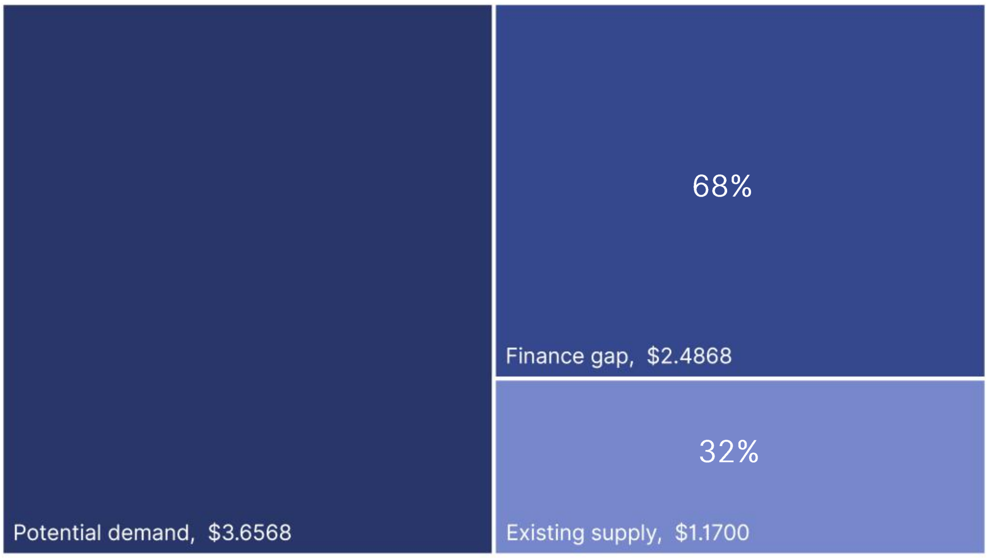
[14] https://www.eib.org/attachments/efs/smes_and_private_sector_financing_in_georgia_en.pdf
[15] https://www.economy.ge/uploads/files/2017/ek__politika/sme_strategy/2022/sme_strategy_2021_2025_eng_2.pdf
[16] https://www.oecd-ilibrary.org//sites/dc98f97b-en/index.html?itemId=/content/publication/dc98f97b-en#section-d1e685

Figure 5: MSMEs finance gap in Georgia in USD, 2019



Source: MSME Finance Gap, IFC, 2019

Leasing market represents 1% of Georgia's GDP

Currently, the leasing industry in Georgia represents around 1% of the country's GDP with a leasing portfolio of GEL 500m. Given that the leasing industry in its peer countries represent around 5% of the respective GDP, this industry has substantial room for growth in Georgia, which would mean a portfolio of GEL 3.4bn by 2024 or market potential of GEL 2.5bn. As of now, the leasing market portfolio is about 99% asset-based, while the remaining 1% is operating leasing/full-service leasing. In Georgia, the leasing industry is dominated by three companies focused on large enterprises and SMEs, where TBC Leasing is the leader, accounting for 82% of the market.[17]

TBC Leasing's ambitions to provide funding for leasing energy-efficient equipment and equipment and machinery that contribute to GHG emissions reduction, as well as to acquire electric and hybrid vehicles to boost green investment in the country contribute to meet the targets proposed in the Climate Action Plan and the National Determined Contribution and improve the competitiveness of SMEs in the region. In addition, the proceeds will increase the share of TBC Leasing's green portfolio to around 15-20% of the total from 7.5% in 2020 and could lead to a reduction in the environmental footprint of the eligible sectors and region.

Full lifecycle assessment should be included to ensure green leasing

However, while green leasing could have a positive environmental impact, the replacement of old equipment with new equipment should only be done when the environment impact of manufacturing and using new equipment and disposing of the old equipment is less than continuing to use the old equipment. Therefore, it is important for TBC Leasing and customers to understand the environmental impact of their products at each stage of their lifecycle.

TBC Leasing impact: energy efficiency

Energy efficiency plays a key role to combat climate change

Energy efficiency plays a key role in ensuring energy security and sustainable development, advancing technology, economic growth and social progress, and achieving net-zero emissions through decarbonisation. It is also a way to combat climate change, reduce energy costs for consumers and improve the competitiveness of businesses.

Georgia's energy efficiency targets will be approved in the mid-2023

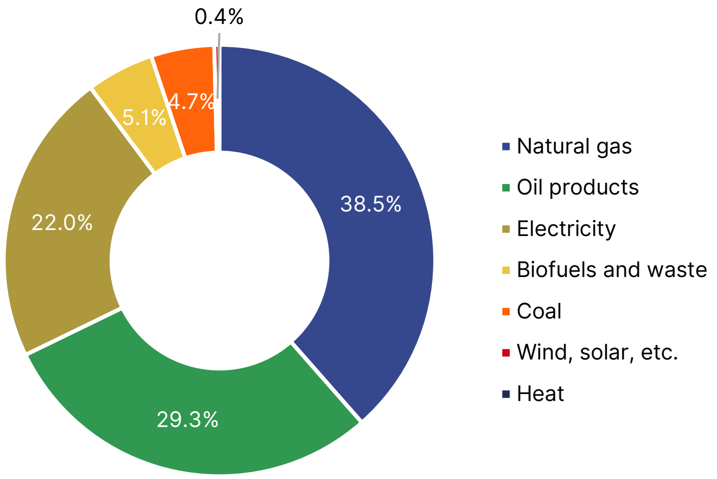
For this reason, the EU has established an energy efficiency target of at least 32.5% by 2030 compared to 2007[18]. This target was raised in 2022 to 13% compared to the 2020 reference

[17] TBC Leasing Annual Report, 2022
[18] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L2002

scenario[19]. Georgia's Energy Efficiency Law aims to create a legal framework for energy efficiency and to define a national energy efficiency target that will be included in the National Energy and Climate Plan draft submitted to the Energy Community in mid-2023.[20]

Georgia's energy needs rely heavily on imports of natural gas, oil products and coal. As seen in figure 6, fossil fuels account for almost 70% of the country's primary energy consumption. In addition, hydropower represents a large share in domestic energy production, which has resulted in Georgia's CO_2 intensity (fuel combustion emissions per unit of gross domestic product) being below the world average.

Figure 6: Energy consumption by source in Georgia, 2020

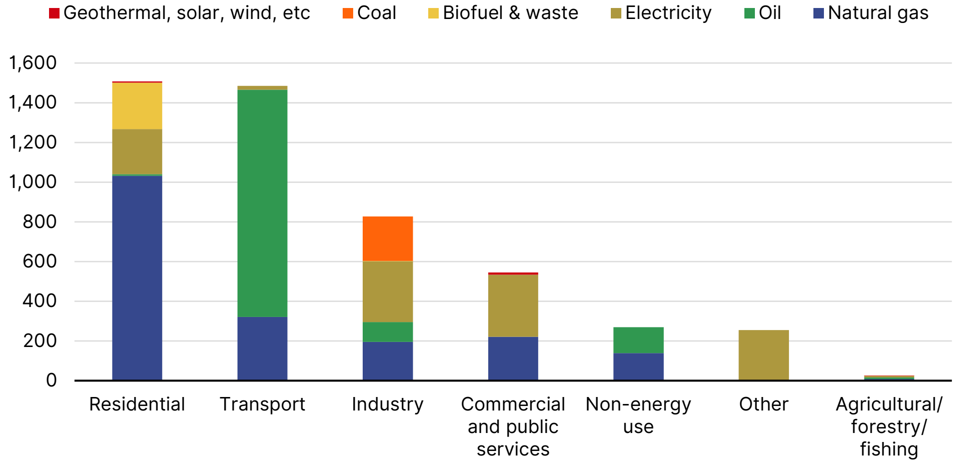


Source: Total final consumption by source, IEA

As shown in figure 7, the residential sector has the largest final energy consumption in the country followed closely by transport and industry.[21] Therefore, while TBC Leasing's Framework is not focused on a single type of equipment, it provides an opportunity to increase the energy efficiency of these key sectors by cooperating with international equipment vendors and car dealers to provide leasing of equipment and machinery with a lower energy consumption and higher environmental standards.

[19] https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficiency-targets-directive-and-rules/energy-efficiency-directive_en
[20] https://www.iea.org/reports/georgia-energy-profile/overview
[21] https://www.geostat.ge/media/50333/Publication-Energy-Balance-of-Georgia_2021.pdf

Figure 7: Total final energy consumption by sector and source, Georgia, 2021



Source: National Statistics Office of Georgia, 2022 Statistical Publication, Geostat

TBC Leasing impact: pollution prevention and control

In Georgia, the energy sector is the largest source of GHG emissions, responsible for 66.7% of the total, followed by agriculture (18.5%), production and industry (11.2%) and waste (8.8%).

Georgia to reduce 35% its domestic GHG emissions by 2030

Georgia contributes 0.03% to global GHG emissions[22] and aims to reduce by 35% its domestic GHG emissions by 2030 compared to 1990. In addition, Georgia conditionally commits to a reduction of 50% and 57% of GHG emissions to follow the 2C and 1.5C scenario, respectively, compared to 1990. Sectors targeted for GHG emissions reduction are transport, buildings, energy generation and transmission, agriculture, industry, waste and forestry.[23]

If measures to reduce emissions are not implemented, emissions from all key economic sectors are projected to increase 4% on average a year by 2030 to reach to 30.8 $MtCO_2e$ in 2030, 75% more than the 2015 level (17.6 $MtCO_2e$).[24]

TBC Leasing's financing of equipment and machinery with lower CO_2 emissions contribute to decreasing GHG emissions in the country and key economic sectors as well as to meeting Georgia's NDCs by funding assets with at least 15% CO_2 emissions reduction compared to the market alternative.

TBC Leasing impact: clean transport

Transport is responsible for 22% of GHG emissions in Georgia

In Europe, transport is the second largest source of CO_2 emissions at 24%, of which two-thirds stem from automobiles and light-commercial vehicles.[25] In Georgia, transport is the largest source of GHG emissions, responsible for 22% of emissions in 2019 and[26] forecasted to increase by 71% to 7.11 $MtCO_2e$ by 2030.[27] The emissions associated with this sector include 99% of direct energy emissions and 1% of electricity generation. Road passenger transport accounts for around 68% of the sector's emissions, with light duty vehicles responsible for around 88% followed by buses and minibuses. The remaining 31% of the sector's emissions comes from freight transport, mainly for agriculture (e.g. trucks, rail, and off-road vehicles).[28]

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[22] https://eu4climate.eu/georgia/
[23] Georgia's Updated National Determined Contribution (NDC), 2021 https://mepa.gov.ge/En/PublicInformation/32027/
[24] Georgia's 2030 Climate Change Strategy
[25] https://www.eea.europa.eu/data-and-maps/data/data-viewers/greenhouse-gases-viewer
[26] https://ourworldindata.org/co2/country/georgia
[27] Georgia's 2030 Climate Change Strategy
[28] https://newclimate.org/sites/default/files/2021/01/NewClimate_Decarbonisation-scenarios-for-Georgia-transport-sector_Jan21_2.pdf

Transport is also the second largest sector for energy consumption, responsible for around 30% of the nation's energy consumption[29] as most of the fuel used is either oil products (diesel and gasoline) or natural gas, all of which are imported. As seen in figure 7, these three fuel sources make up 99% of energy consumption in the sector. Georgia has the highest motorisation rate[30] among the European Neighbourhood Policy-East countries[31], at 340 passenger cars per 1,000 inhabitants in 2021.[32] However, over 87% of car fleets registered in Georgia are over 10 years old and the share of electric light duty vehicles is less than 1%.[33] An electric vehicle is expected to reduce GHG emissions by 65% compared to a conventional petrol vehicle, in the use-phase over 14 years.

Transport responsible for 30% of Georgia's energy consumption due to use of fuel

The average GHG emission intensity for non-electric private light duty vehicles in Georgia is 189 gCO_2e/v-km[34]. However, the EU will require new cars to be 95 gCO_2e/v-km for 2020-2024 and a 15% reduction from 2025 and a 37.5% reduction from 2030.[35] Therefore, as part of its National Energy and Climate Plan[36], Georgia has implemented several energy efficiency measures in the sector such as fuel taxes to encourage lower consumption, tax benefits for hybrid and electric vehicles and inspection and standards for transport vehicles.[37]

Energy efficiency measures implemented in the National Energy and Climate Plan

Georgia aims to reduce GHG emissions by 15% in the transport sector by 2030 compared to 2015 levels, by increasing the share of low- and zero-emission from 0.14% to 5% for electric vehicles and from 4.9% to 20% of hybrid cars.[38]

TBC Leasing plans to use a non-specified share of bond proceeds to finance electric and hybrid vehicles to SMEs and private individuals to contribute to two main targets in the sector, energy efficiency and the reduction of GHG emissions in the sector and the country.

TBC Leasing contributes to EU emissions targets by leasing clean modes of transport

Our assessment:

TBC Leasing's impact of proceeds has scored two green leaves as the project are aligned with relevant market standards and contribute to the ESG-related objectives of the relevant sectors. Best practices are adopted by TBC Leasing in executing the activity.

Impact of proceeds has scored two green leaves

[29] https://www.geostat.ge/media/50333/Publication-Energy-Balance-of-Georgia_2021.pdf
[30] Number of passenger cars relative to the size of population
[31] Armenia, Azerbaijan, Georgia, Moldova, and Ukraine
[32] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=European_Neighbourhood_Policy_-_East_-_transport_statistics#Road_transport
[33] Georgia's 2030 Climate Change Strategy
[34] Georgia's 2030 Climate Change Strategy
[35] https://climate.ec.europa.eu/eu-action/transport-emissions/road-transport-reducing-co2-emissions-vehicles/co2-emission-performance-standards-cars-and-vans_en
[36] National Energy Efficiency Action Plan (NEEAP) (2019-2020) https://faolex.fao.org/docs/pdf/geo198336.pdf
[37] https://www.iea.org/reports/georgia-energy-profile/energy-system-transformation
[38] 2021-2023 Action Plan of Georgia's 2030 Climate Strategy https://mepa.gov.ge/En/PublicInformation/32027/

ESG risks

Dedicated risk monitoring process for each transaction

While TBC Leasing's business model and bond proceeds will finance green projects with a positive environmental impact, the leasing industry, as well as TBC Leasing's Framework, entails environmental and social risks, the most material being in relation to the energy mix for electric vehicle charging stations, waste management, and environmental impact of leasing.

We note that while TBC Leasing plays a limited role in the manufacturing and operation of the assets, it is exposed to risks associated with the companies or projects to which they provide leasing. TBC Leasing has developed an environmental and social risk management system to ensure it complies with social and environmental assessments and labour and working condition regulations, applies best practice, and minimises its exposure to environmentally or socially derived financial, reputational and legal risks associated with the transactions.

For all commercial transactions, TBC Leasing will ensure customers demonstrate a systemic approach to environmental and social risk management and comply with local and national environmental, health, safety and labour regulations and standards. If a transaction poses a particular risk, TBC Leasing will work closely with the client to ensure the implementation of measures that avoid and minimise environmental and social risks. To do this, the company will assess if the business activity is included in the IFI exclusion list, identify the level of environmental and social risks associated with such business activity, assess the environmental and social impacts and the client's management to minimise those impacts, identify mitigating measures, and monitor and report on environmental and social risks to TBC Leasing's management.

Our assessment

TBC Leasing's ESG risks management score three green leaves

TBC Leasing's ESG risk management has scored three green leaves as they have a risk management strategy that addresses direct and indirect risks associated with every project category of this issuance. TBC Leasing conducts a full risk assessment before engaging in a project and ensures that risks are minimised to the best of its knowledge.

Associated project risks	TBC Leasing's risk mitigation measures
Energy mix (electric and plug-in hybrid vehicles)	Since more energy may be required for low-emission transport, Georgia's current energy mix poses a risk. While about 75% of the electricity generated in Georgia comes from hydro, the other 25% comes from natural gas[39], which makes it probable that electric vehicle recharging stations will remain powered by polluting energy sources and that the share of renewables in energy production will only increase gradually. In addition, the fuel mix used by power stations also determines air pollution since a decrease in emissions is accompanied by an increase in power plant emissions. Currently, Georgia's energy production covers about 21% of its energy demand. Therefore, the increasing need for electricity to charge electric vehicles would require an expansion in supply capacity; if this cannot be met domestically, it would have to be through imports of natural gas.
Waste management (disposal of old equipment)	Georgia has developed the National Waste Management Strategy 2016-2030 aligned with the EU Waste Management policy and legislation. In addition, Georgia is a party to the Basel Conventions on "Transboundary Transportation of Hazardous Wastes and Control of Their Disposal" and Stockholm Convention on "Persistent Organic Pollutants" on waste management. The Waste Management Code introduced the principle of the Extended Producers Responsibility (EPR) for four specific waste streams: waste oils, portable batteries/accumulators[40], waste from electric/electronic equipment[41] and waste tyres.

[39] https://www.iea.org/countries/georgia
[40] Portable batteries and accumulators, automotive accumulators, industrial batteries and accumulators, lead-acid batteries and accumulators, and nickel-cadmium batteries and accumulators
[41] Screens, monitors and equipment containing screens with a surface area of more than 100 cm^2, lamps, large equipment with external dimensions of more than 50 cm, small equipment with external dimensions of more than 50cm, and small IT and telecommunication equipment with external dimensions of more than 50cm

	Waste batteries and accumulators (lead-acid type 96% of the market; nickel cadmium, 2%) used for the ignition/lighting of cars on electrical vehicles and other industrial applications are mainly landfilled[42]. The electrical and electronic waste is collected by organisations and private individuals and in many cases environmental requirements are violated. For this, the National Waste Management Strategy aims to increase the reuse and recycle share from 70% to 78% for large equipment by 2030 and from 25% to 45% for small equipment and small IT and telecommunication equipment.[43] Regarding clean transport, the EPR regulation for end-of-life vehicles has yet to be approved. Almost 60,000 vehicles were decommissioned in Georgia during the last five years, where the dismantling/recycling of end-of-life vehicles is carried out by unauthorised persons without proper environmental requirements, thereby posing an environmental threat. The National Waste Management Strategy aims to increase the recovery share of end-of-life vehicles from 80% to 88% and the recycling share from 78% to 85% by 2030. [44] At the end of the lease-term, TBC Leasing transfers the ownership of the asset to the client. In case the client has increased overdue or other violations or conditions, TBC Leasing terminates the lease contract and repossess the asset which then is re-leased to new clients or sold in the market. If an asset cannot be re-leased or sold, it remains part of their inventory and stock. We have no information on TBC Leasing's procedures and involvement in the disposal or recycling of equipment. Accordingly, this SPO cannot assess the degree of TBC Leasing's contribution to waste reduction or recycling of equipment and machinery.
Leasing environmental impact	Leasing firms globally have adopted a strategy to promote environmental aims. This is because the leasing firm retains ownership of the off-lease assets, giving it an incentive to invest in a more durable product that results in lower demand for new products, reducing the environmental impact of manufacturing and disposal. However, leasing can be environmentally worse than selling despite the mid-life removal of off-lease products, depending on the product type. Studies show that leasing can be a good strategy for products that have a higher use impact compared to their production and disposal impacts, as well as for low-durability products such as printers and photocopiers. For products with a high use-phase impact and high durability, leasing has a higher environmental impact. Finally, for products that have a higher production and disposal impact such as laptops and carpets, leasing can be environmentally worse than selling the assets.[45] Therefore, the replacement of old equipment and/or the acquisition of new technology should be done as long as the environmental impact of manufacturing and using the new asset, and disposing of the old equipment is less than continuing to use the old equipment or an alternative option. In case of re-leasing, TBC Leasing assess and compares the asset under consideration to ensure a higher energy efficiency compared to the market alternative. In case it doesn't meet the criteria then the lease will not be issued under this Framework. In addition, TBC Leasing considers the CO_2 emissions reduction only on the use-phase of the asset and not the manufacturing nor disposal.

[42] World Bank. 2021. Georgia Solid Waste Sector Assessment Report, World Bank, Washington, DC. http://hdl.handle.net/10986/35704
[43] https://rec-caucasus.org/wp-content/uploads/2022/12/National-Waste-Management.pdf
[44] https://rec-caucasus.org/wp-content/uploads/2022/12/National-Waste-Management.pdf
[45] Vishal V. Agrawal, Mark Ferguson, L. Beril Toktay, Valerie M. Thomas, (2012) Is Leasing Greener Than Selling?. Management Science 58(3):523-533. https://doi.org/10.1287/mnsc.1110.1428

Appendix I: Documents provided by TBC Leasing

Document category	Document description
Market research on sector/regional standards	National Determined Contributions - Georgia
	National Energy Efficiency Action Plan (NEEAP) 2019-2020, Georgia
	Law of Georgia on Energy Efficiency
	Georgia’s 2030 Climate Change Strategy
	National Waste Management Strategy 2016-2030, Georgia
General information provided by TBC Leasing	Environmental and Social Risk Management System of TBC Leasing
Green bond-specific documentation provided by TBC Leasing	Green Bond Framework

Appendix II: SDG alignment

GBP category	SDG alignment	Indicators to be evaluated
Energy efficiency	 	→ Number of leases related to energy efficiency assets with at least 15-20% primary energy. → Annual greenhouse gas emissions
Pollution prevention and control	 	→ Annual greenhouse gas emissions reduction
Clean transport	 	→ Number of leases related to electric and hybrid vehicles

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Applied Methodologies

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