JSC ProCredit Bank

International Financial Reporting Standards
Consolidated and Separate Financial Statements
and Independent Auditors’ Report
31 December 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC ProCredit Bank

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of JSC ProCredit Bank (the "Bank") and its subsidiary (the "Group") which comprise:

- the consolidated and separate statements of financial position as at 31 December 2021;
- the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, and consolidated and separate statements of cash flows for the year then ended; and
- notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2021, and their consolidated and separate financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The consolidated and separate financial statements of JSC ProCredit Bank and its subsidiary for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 6 May 2021.

Other Information

Other information comprises the information included in the Group's and the Bank's consolidated and separate management report. Other information was obtained before the date of auditor's report and management is responsible for it. Our opinion on the consolidated and separate financial statements does not cover the other information.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Bank'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 Group and the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's consolidated and separate financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and the Bank'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 Group's and the Bank'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 consolidated and separate 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 Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

- The information given in the Group's and the Bank's 2021 consolidated and separate management report is consistent in all material respect with the 2021 consolidated and separate financial statements; and
- The 2021 consolidated and separate management report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing in all material respect.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Management report

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

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

Auditor's responsibilities for the Consolidated and Separate Management report

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

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

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

13 May 2022

Consolidated and Separate Statements of Financial Position

in '000 GEL		Consolidated		Separate	
	Notes	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Assets					
Cash and balances with the NBG	6	186,602	199,902	186,602	199,902
Mandatory reserve deposits with NBG		204,717	215,459	204,717	215,459
Investments in debt securities	8	41,690	51,465	41,690	51,465
Investments in equity securities	9	234	234	234	234
Investments in subsidiary	9	-	-	6,100	6,100
Due from banks	7	15,164	31,978	15,162	31,978
Financial assets at fair value through profit or loss		1,306	-	1,306	-
Loans and advances to customers	10	1,329,729	1,354,923	1,329,729	1,354,923
Current tax asset		-	4,019	-	4,019
Investment properties	11	4,949	5,103	4,940	5,094
Intangible assets	12	1,519	781	1,519	781
Property and equipment	13	44,247	47,875	44,247	47,875
Right-of-use assets	14	1,694	1,951	1,694	1,951
Other assets	15	7,496	9,668	5,491	6,297
Total assets		**1,839,347**	**1,923,358**	**1,843,431**	**1,926,078**
Liabilities					
Due to banks	16	1,103	55,717	1,103	55,717
Financial liabilities at fair value through profit or loss		100	3,415	100	3,415
Customer accounts	17	1,011,729	977,404	1,018,055	982,985
Other borrowed funds	18	514,936	582,858	514,936	582,858
Subordinated debt	21	25,400	53,753	25,400	53,753
Lease liabilities	23	1,886	2,300	1,886	2,300
Current tax liability		6,085	-	6,085	-
Other liabilities	19	7,121	1,462	7,028	1,097
Other provisions		855	721	855	721
Deferred tax liability	20	1,291	2,639	1,291	2,639
Total liabilities		**1,570,506**	**1,680,269**	**1,576,739**	**1,685,485**
Equity					
Share capital	22	112,483	100,352	112,483	100,352
Share premium	22	72,118	51,324	72,118	51,324
Retained earnings		84,240	91,413	82,091	88,917
Total equity		**268,841**	**243,089**	**266,692**	**240,593**
Total equity and liabilities		**1,839,347**	**1,923,358**	**1,843,431**	**1,926,078**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2022.

Marita Sheshaberidze
Director

Nana Chikvaidze
Chief Accountant

The notes set out on pages 5 to 64 form an integral part of these Financial Statements.

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income

in '000 GEL		Consolidated		Separate	
	Notes	2021	2020	2021	2020
Interest income calculated using effective interest rate method		111,717	94,796	111,717	94,796
Interest expense		(39,007)	(37,948)	(39,007)	(37,948)
Net interest income	**24**	**72,710**	**56,848**	**72,710**	**56,848**
Reversal/(Charge) of impairment losses on loans	10	3,853	(4,868)	3,853	(4,868)
Net interest income after provision for loan impairment		**76,563**	**51,980**	**76,563**	**51,980**
Fee and commission income	25	13,599	11,835	13,599	11,836
Fee and commission expenses	25	(12,319)	(11,791)	(12,319)	(11,791)
Net (loss)/gain from trading in foreign currency		16,146	(360)	16,146	(360)
Net foreign exchange translation gain/(loss)		(10,057)	12,142	(10,057)	12,142
Fair value change of derivatives		4,712	(2,267)	4,712	(2,267)
Personnel expenses		(14,263)	(13,140)	(14,204)	(13,085)
Other administrative expenses	26	(25,039)	(22,524)	(24,981)	(22,470)
Other operating income	27(a)	4,861	5,090	2,826	3,862
Other operating expense	27(b)	(4,003)	(1,168)	(1,738)	(1,159)
Profit before income tax		**50,200**	**29,797**	**50,547**	**28,688**
Income tax expense	20	(8,755)	(1,062)	(8,755)	(1,062)
Profit and total comprehensive income for the year		**41,445**	**28,735**	**41,792**	**27,626**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2022.

Marita Sheshaberidze
Director

Nana Chikvaidze
Chief Accountant

Consolidated and Separate Statements of Changes in Equity

in '000 GEL		Consolidated				Separate			
	Notes	Share capital	Share premium	Retained earnings	Total	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2020		**100,352**	**51,324**	**62,678**	**214,354**	**100,352**	**51,324**	**61,291**	**212,967**
Total comprehensive income									
Profit for the year		-	-	28,735	**28,735**	-	-	27,626	**27,626**
Total comprehensive income for the year		-	-	**28,735**	**28,735**	-	-	**27,626**	**27,626**
Balance at 31 December 2020		**100,352**	**51,324**	**91,413**	**243,089**	**100,352**	**51,324**	**88,917**	**240,593**
Balance at 1 January 2021		**100,352**	**51,324**	**91,413**	**243,089**	**100,352**	**51,324**	**88,917**	**240,593**
Total comprehensive income									
Profit for the year		-	-	41,445	**41,445**	-	-	41,792	**41,792**
Total comprehensive income for the year		-	-	**41,445**	**41,445**	-	-	**41,792**	**41,792**
Dividends declared	22	-	-	(48,618)	**(48,618)**			(48,618)	**(48,618)**
Shares issued	22	12,131	20,794	-	**32,925**	12,131	20,794	-	**32,925**
Transactions with owners, recorded directly in equity		**12,131**	**20,794**	**(48,618)**	**(15,693)**	**12,131**	**20,794**	**(48,618)**	**(15,693)**
Balance at 31 December 2021		**112,483**	**72,118**	**84,240**	**268,841**	**112,483**	**72,118**	**82,091**	**266,692**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2022.

Marita Sheshaberidze
Director

Nana Chikvaidze
Chief Accountant

Consolidated and Separate Statements of Cash Flows

in '000 GEL		Consolidated		Separate	
	Notes	2021	2020	2021	2020
Profit before income tax		**50,200**	**29,797**	**50,547**	**28,688**
(Release)/Accrual of provision for loan impairment	10	(3,853)	4,868	(3,853)	4,868
Depreciation and amortization		4,952	5,637	4,952	5,628
Net foreign exchange translation loss/(gain)		10,057	(12,142)	10,057	(12,142)
Fair value change of derivatives		(4,712)	2,267	(4,712)	2,267
Accrual of other provisions		73	195	73	195
Gain from disposal of property and equipment		(563)	(1,577)	(563)	(1,577)
Net interest income		(72,710)	(52,559)	(72,710)	(52,559)
Operating cash flows before changes in operating assets and liabilities		**(16,556)**	**(23,514)**	**(16,209)**	**(24,632)**
Net change in assets and liabilities from operating activities after non-cash items:					
Mandatory reserve deposit with the NBG		(5,981)	(8,374)	(5,981)	(8,374)
Loans and advances to customers		(81,696)	(111,550)	(81,696)	(110,254)
Other assets		2,212	2,240	847	2,181
Due to banks		(51,977)	(30,604)	(51,977)	(30,604)
Financial assets and liabilities at fair value through profit or loss		91	(110)	91	(110)
Customer accounts		97,195	105,704	97,940	107,197
Other liabilities		6,058	(90)	6,331	(192)
Total net change in assets and liabilities from operating activities after non-cash items		**(34,098)**	**(42,784)**	**(34,445)**	**(40,156)**
Interest received		115,549	87,861	115,549	87,861
Interest paid		(36,997)	(41,394)	(36,997)	(41,394)
Income tax paid		-	(2,493)	-	(2,493)
Net cash from/(used in) operating activities		**27,898**	**(22,324)**	**27,898**	**(20,814)**
Purchase of property and equipment and intangible assets		(3,587)	(2,944)	(3,587)	(2,944)
Proceeds from sale of property and equipment and investment properties		2,498	4,363	2,498	2,853
Purchase of investments in debt securities		(95,283)	(130,651)	(95,283)	(130,651)
Proceeds from sale of investments in debt securities		104,898	101,139	104,898	101,139
Cash flows from/(used in) investing activities		**8,526**	**(28,093)**	**8,526**	**(29,603)**
Dividends paid	22	(48,618)	-	(48,618)	-
Shares issued		32,925	-	32,925	-
Payment of lease liabilities		(556)	(1,648)	(556)	(1,648)
Proceeds from other borrowed funds		54,051	162,592	54,051	162,592
Repayments of other borrowed funds		(64,509)	(71,822)	(64,509)	(71,822)
Payments of subordinated debts		(23,647)	-	(23,647)	-
Cash flows (used in)/from financing activities		**(50,354)**	**89,122**	**(50,354)**	**89,122**
Net (decrease)/increase in cash and cash equivalents		**(13,930)**	**38,705**	**(13,930)**	**38,705**
Cash and cash equivalents at the beginning of the year		231,880	170,472	231,880	170,472
Effects of exchange rate changes		(16,184)	22,703	(16,184)	22,703
Cash and cash equivalents at the end of the year	6	**201,766**	**231,880**	**201,766**	**231,880**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2022.

Marita Sheshaberidze
Director

Nana Chikvaidze
Chief Accountant

Expected Credit Losses – ECL

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

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

The Group and Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group and Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 28 for a description of how the Group and Bank determines when a SICR has occurred. If the Group and Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's and Bank's definition of credit impaired assets and definition of default is explained in Note 28. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit lines and overdrafts, that may include both a loan and an undrawn commitment component, the Group and Bank measures expected credit losses over the period that the Group and Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off

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

Financial assets – derecognition

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

Financial assets – modification

The Group and Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group and Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

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

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

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognized in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Financial instruments – offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Foreign currency translation

(a) Functional and presentation currency

The national currency of Georgia is the Georgian lari (GEL), which is the Bank's and its subsidiary's functional currency and the currency in which these Consolidated and Separate Financial Statements are presented. Management has determined the functional currency to be the GEL as it reflects the economic substance of the underlying events and circumstances of the Group and Bank. The GEL is not convertible outside Georgia.

All financial information presented in GEL has been rounded to the nearest thousand except when otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

Foreign currency differences arising on retranslation are recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss).

The reporting exchange rates and average rates for the period used in the consolidated and separate statement of financial position and the consolidated and separate statement of profit or loss and other comprehensive income are listed in Note 28.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the consolidated and separate statement of cash flows represent the Group's and Bank's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group and Bank's counterparties held with the Group and Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory reserve deposits with the National Bank of Georgia

Mandatory reserve deposits with the NBG are carried at AC and are not available to finance the Group's and Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated and separate statements of cash flows.

Due from banks

Amounts due from banks include placements with the banks with original maturities of more than three months. Amounts due from banks are recorded when the Group and Bank advances money to counterparty banks. Amounts due from banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Otherwise they are carried at Fair value ("FV").

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group and Bank in settlement of overdue loans. The Group and Bank recognises repossessed assets in the consolidated and separate statement of financial position when it has the full and final settlement rights to the collateral, and when it is entitled to retain any excess proceeds from the realisation of the collateral.

At initial recognition repossessed assets are measured at the lower of the cost and the fair value less costs to sell and are included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's and Bank's intention with respect to recovery of these assets. They are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

The carrying amount of the repossessed assets is measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Group and Bank classifies investments in debt securities as carried at AC, these are initially measured at fair value plus incremental transaction costs, and subsequently at their amortised cost using the effective interest method. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

The Group and Bank considers investment securities to have low credit risk. If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The Group and Bank measures loss allowances at an amount equal to 12-month ECL. ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

For PD purposes, counterparties (financial institutions, sovereigns) and countries, rating information provided by Moody's is used. As empirical default rates are not available for all rating classes, PDs for classes without empirical information are linearly interpolated from the next available empirical rates above or below the considered class. For Financial Institutions, country-specific LGDs published by Moody's are used.

Release of loss allowances

In the event of decrease of credit risk, the already recognised loss allowance is reduced accordingly.

Write-offs, recoveries and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the consolidated and separate Statement of Profit or Loss and other comprehensive income under "(Charge)/Reversal of impairment losses on loans". Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Non-substantial modification

Non-substantial modification is a modification event that does not result in derecognition of the original asset. The effect is recognised through profit or loss as a modification gain or modification loss. The modification gain or loss is calculated as the difference between the original gross carrying amount and the present value of the modified contractual cash flows discounted at the original effective interest rate.

Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation on other major classes of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Buildings	2-3%
• Capital expenditures and other remaining fixed assets	3-10%
• Furniture and fixtures	20-25%
• IT and other equipment	20-25%

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated and separate statements of profit or loss and other comprehensive income.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. These include properties with currently undetermined future use. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in Consolidated and Separate profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Software has an expected useful life of five to eight years.

Impairment of non-financial assets

Non-financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in Consolidated and Separate profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law used to be entered into force from 1 January 2019, but the Government postponed the launch of the 'Estonian model' of taxation for the financial sector till 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

Liabilities to banks and customers and other borrowed funds

Liabilities to banks and customers and other borrowed funds are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognised if:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be no earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognized as interest expense.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group and Bank on behalf of a customer authorizing a third party to draw drafts on the Group and Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group and Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Subordinated debt

Subordinated debt consists mainly of liabilities to shareholder which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early.

Following initial recognition at fair value, the subordinated debt is measured at amortised cost. Premiums and discounts are accounted for over the respective terms in the profit or loss under “interest expense”.

Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When share capital is increased, any difference between the registered amount of share capital and the actual consideration received is recognized as share premium.

Dividends

Dividends on ordinary shares are recognised as a distribution from equity in the period in which they are approved by the Group’s shareholders.

Interest income and expense

Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The Group and Bank does not have interest income on debt instruments at FVTPL calculated at nominal interest rate during 2021.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group and Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group and Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group and Bank does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income and expenses

Fee and commission income and expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions for payment transfers and cash transactions and debit/credit card issuance fees, which are earned on execution of the underlying transaction, are recorded upon completion of the transaction. Account maintenance, internet bank and SMS service fees are recognized based on the applicable service contracts, usually on a time-proportion basis.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group and Bank have retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Group and Bank recognize a right-of-use asset and a lease liability at a lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the minimum lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's/Bank's incremental borrowing rate. Generally, incremental borrowing rate is used as the discount rate.

Lease payments included in the measurement of the lease liability comprise of fixed payments, including in-substance fixed payments.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments or in assessment of whether the Bank will exercise extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset, or the amount is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities as separate line-item in the consolidated and separate statement of financial position.

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated and separate financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated and Separate financial statements is included in the following judgements:

- **Classification of financial assets:** assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.
- **Modification of financial assets:** When financial assets are contractually modified (e.g. renegotiated), the Group and Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group and Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.
- **ECL:** Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is included in the following notes:

- Establishing the criteria for determining whether credit risk on financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of model used in ECL – Note 28(a);

5. NEW STANDARS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group and Bank has not early adopted the new or amended standards in preparing these consolidated and separate financial statements.

The following new and amended standards are not expected to have a significant impact on the Group’s and the Banks consolidated and separate financial statements.

— COVID-19-Related Rent Concessions (Amendment to IFRS 16).
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
— Reference to Conceptual Framework (Amendments to IFRS 3).
— Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

- Definition of Accounting Estimates (Amendments to IAS 8).
- IFRS 17 *Insurance Contracts and amendments* to IFRS 17 *Insurance Contracts*.
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

6. CASH AND BALANCES WITH THE NBG

Consolidated and Separate

The cash and balances with the National Bank of Georgia (NBG) comprise the following items:

in '000 GEL	31 December 2021	31 December 2020
Cash on hand	39,659	38,625
Balances at the NBG excluding mandatory reserves	26,143	7,664
Nostro accounts other than with NBG	120,817	153,618
Loss allowance for balances with NBG and Nostro accounts	(17)	(5)
Total cash and balances with the NBG in the statement of financial position	**186,602**	**199,902**

In 2021, Fitch Ratings affirmed the Government of Georgia's short term Issuer Default Rating of "B" and long-term Issuer Default Rating of "BB" with the stable outlook (2020: short term "B" and long-term "BB").

The following cash and equivalents were considered as cash for the cash flow statement:

in '000 GEL	31 December 2021	31 December 2020
Cash and balances with NBG, net	186,602	199,902
Due from banks with a maturity up to three months (Note 7)	15,164	31,978
Total cash and cash equivalents in the consolidated and separate statement of cash flows	**201,766**	**231,880**

Balances with the NBG above exclude the mandatory reserve deposit which is a non-interest bearing deposit calculated in accordance with regulations issued by the NBG. Refer to Note 29 for the estimated fair value of cash and cash equivalents. The interest rate analysis of cash and cash equivalents is disclosed in Note 28. As at 31 December 2021 the Group and Bank has one bank (2020: one bank), whose balance exceeds 10% of equity. The gross amount of the balance as at 2021 was GEL 115,928 thousand (2020: GEL 139,129 thousand).

As at 31 December 2021 the Group and Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2020: Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. DUE FROM BANKS

Consolidated and Separate

in '000 GEL	31 December 2021	31 December 2020
Due from Banks in OECD* countries	-	3,651
Due from Banks in non-OECD countries	15,164	28,328
Loss allowance for loans to banks	-	(1)
Total due from banks	**15,164**	**31,978**

* Organisation for Economic Cooperation and Development

The following table details the credit ratings of due from banks as assessed by Fitch Ratings:

in '000 GEL Neither past due nor impaired	AA-	A-	BBB	BB-	B-	B+	B	Total
31 December 2021	-	-	-	15,005	-	-	159	**15,164**
31 December 2020	-	-	3,652	17,004	-	10,002	1,320	**31,978**

Refer to Note 29 for the estimated fair value of each class of amounts due from banks. The interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31.

8. INVESTMENTS IN DEBT SECURITIES

Consolidated and Separate

Figures below represent Investment securities measured at amortized cost.

in '000 GEL	31 December 2021	31 December 2020
Certificates of deposit of the NBG	11,836	19,209
Treasury bills issued by the Government of Georgia	29,854	32,256
Total investments in debt securities	**41,690**	**51,465**

No investment in debt securities are past due or impaired. As at 31 December 2021 the Group and Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2020: Stage 1). Management estimates that ECL is immaterial at reporting dates.

9. INVESTMENTS

Investments in subsidiaries

Separate

Investment in subsidiaries (related to separate financial statements)

Investment in subsidiaries as at the reporting dates were as follows:

Subsidiary	Country of incorporation	Ownership as at 31 December 2021	Investment as at 31 December 2021 (‘000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

Subsidiary	Country of incorporation	Ownership as at 31 December 2020	Investment as at 31 December 2020 (‘000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

LLC Procredit Property is a wholly-owned subsidiary of Procredit Bank Georgia, which was formed under Georgian Law on 23 July 2007. The principal operations of the company are holding and managing movable and immovable properties acquired through auctions from the Bank's defaulted customers. As at 31 December 2021 net assets of the Subsidiary is GEL 11,932 thousand (2020: GEL 10,335 thousand).

Investments in equity securities

Consolidated and Separate

Equity investments comprise shares in the following companies:

in '000 GEL	Ownership interest	Amount At 31 December 2021	Ownership interest	Amount At 31 December 2020
JSC Creditinfo Georgia	21.08%	95	21.08%	95
JSC United Clearing Center Georgia	6.25%	54	6.25%	54
JSC American Academy in Tbilisi	4.73%	50	4.73%	50
S.W.I.F.T.SCRL	0.12%	35	0.12%	35
Total		**234**		**234**

The Bank does not have significant influence over JSC Creditinfo Georgia.

10. LOANS AND ADVANCES TO CUSTOMERS

Consolidated and Separate

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2021:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2021**	**Gross amount**	**ECL allowance for impairment**	**Net amount**	**Share of total portfolio**
Wholesale and retail loans				
loan size up to EUR 50,000	24,383	(617)	23,766	1.79%
loan size EUR 50,000 to EUR 250,000	156,005	(4,636)	151,369	11.38%
loan size more than EUR 250,000	270,457	(2,982)	267,475	20.11%
Total wholesale and retail loans	**450,845**	**(8,235)**	**442,610**	**33.29%**
Agricultural, forestry and fishing loans				
loan size up to EUR 50,000	3,864	(146)	3,718	0.28%
loan size EUR 50,000 to EUR 250,000	16,513	(631)	15,882	1.19%
loan size more than EUR 250,000	21,540	(855)	20,685	1.56%
Total agricultural, forestry and fishing loans	**41,917**	**(1,632)**	**40,285**	**3.03%**
Production loans				
loan size up to EUR 50,000	10,621	(496)	10,125	0.76%
loan size EUR 50,000 to EUR 250,000	76,253	(3,644)	72,609	5.46%
loan size more than EUR 250,000	155,816	(2,144)	153,672	11.56%
Total production loans	**242,690**	**(6,284)**	**236,406**	**17.78%**
Transportation and storage loans				
loan size up to EUR 50,000	2,060	(26)	2,034	0.15%
loan size EUR 50,000 to EUR 250,000	15,198	(101)	15,097	1.14%
loan size more than EUR 250,000	29,041	(532)	28,509	2.14%
Total transportation and storage loans	**46,299**	**(659)**	**45,640**	**3.43%**
Other economic activities				
loan size up to EUR 50,000	20,134	(555)	19,579	1.47%
loan size EUR 50,000 to EUR 250,000	134,690	(3,851)	130,839	9.84%
loan size more than EUR 250,000	321,693	(6,739)	314,954	23.69%
Total other economic activities loans	**476,517**	**(11,145)**	**465,372**	**35.00%**
Total Business loans	**1,258,268**	**(27,955)**	**1,230,313**	**92.52%**
Housing loans				
loan size up to EUR 50,000	24,354	(928)	23,426	1.76%
loan size EUR 50,000 to EUR 250,000	68,923	(1,669)	67,254	5.06%
loan size more than EUR 250,000	4,802	(37)	4,765	0.36%
Total housing loans	**98,079**	**(2,634)**	**95,445**	**7.18%**
Investment loans				
loan size up to EUR 50,000	3,705	(191)	3,514	0.26%
loan size EUR 50,000 to EUR 250,000	396	(11)	385	0.03%
Total investment loans	**4,101**	**(202)**	**3,899**	**0.29%**
Other loans	**75**	**(3)**	**72**	**0.01%**
Total Private loans	**102,255**	**(2,839)**	**99,416**	**7,48%**
Total	**1,360,523**	**(30,794)**	**1,329,729**	**100.00%**

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2020:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2020**	**Gross amount**	**ECL allowance for impairment**	**Net amount**	**Share of total portfolio**
Wholesale and retail loans				
loan size up to EUR 50,000	25,994	(1,130)	24,864	1.84%
loan size EUR 50,000 to EUR 250,000	166,833	(4,293)	162,540	12.00%
loan size more than EUR 250,000	250,865	(1,954)	248,911	18.37%
Total wholesale and retail loans	**443,692**	**(7,377)**	**436,315**	**32.20%**
Agricultural, forestry and fishing loans				
loan size up to EUR 50,000	3,707	(46)	3,661	0.27%
loan size EUR 50,000 to EUR 250,000	19,649	(552)	19,097	1.41%
loan size more than EUR 250,000	18,404	(205)	18,199	1.34%
Total agricultural, forestry and fishing loans	**41,760**	**(803)**	**40,957**	**3.02%**
Production loans				
loan size up to EUR 50,000	11,671	(650)	11,021	0.81%
loan size EUR 50,000 to EUR 250,000	77,439	(3,875)	73,564	5.43%
loan size more than EUR 250,000	126,254	(2,763)	123,491	9.11%
Total production loans	**215,364**	**(7,288)**	**208,076**	**15.36%**
Transportation and storage loans				
loan size up to EUR 50,000	2,977	(40)	2,937	0.22%
loan size EUR 50,000 to EUR 250,000	17,939	(131)	17,808	1.31%
loan size more than EUR 250,000	25,081	(173)	24,908	1.84%
Total transportation and storage loans	**45,997**	**(344)**	**45,653**	**3.37%**
Other economic activities				
loan size up to EUR 50,000	27,522	(805)	26,717	1.97%
loan size EUR 50,000 to EUR 250,000	147,389	(8,013)	139,376	10.29%
loan size more than EUR 250,000	352,306	(9,136)	343,170	25.33%
Total other economic activities loans	**527,217**	**(17,954)**	**509,263**	**37.59%**
Total Business loans	**1,274,030**	**(33,766)**	**1,240,264**	**91.54%**
Housing loans				
loan size up to EUR 50,000	31,926	(1,096)	30,830	2.28%
loan size EUR 50,000 to EUR 250,000	79,100	(2,720)	76,380	5.64%
loan size more than EUR 250,000	3,441	(70)	3,371	0.25%
Total housing loans	**114,467**	**(3,886)**	**110,581**	**8.16%**
Investment loans				
loan size EUR 50,000 to EUR 250,000	3,390	(89)	3,301	0.24%
loan size more than EUR 250,000	732	(44)	688	0.05%
Total investment loans	**4,122**	**(133)**	**3,989**	**0.29%**
Other loans	**93**	**(4)**	**89**	**0.01%**
Total Private loans	**118,682**	**(4,023)**	**114,659**	**8.46%**
Total	**1,392,712**	**(37,789)**	**1,354,923**	**100.00%**

The size categories above refer to the amounts originally disbursed to one single borrower.

As at 31 December 2021 and 2020 the Group and the Bank had no borrowers or groups of connected borrowers whose loan balances exceeded 10% of equity.

The following table discloses the changes in the expected credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

Consolidated and Separate

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2021	**1,274,576**	**74,702**	**41,401**	**2,033**	**1,392,712**
New financial assets originated	489,328	-	-	111	**489,439**
Modification of contractual cash flows of financial assets	(404)	1,342	(361)	-	**577**
Derecognitions	(249,713)	-	(4,783)	(522)	**(255,019)**
Write-offs	-	-	(12,058)	-	**(12,058)**
Changes in interest accrual	1,288	1,075	1,016	46	**3,425**
Repayments	(145,952)	(5,211)	(4,247)	(40)	**(155,450)**
Transfer from Stage 1 to Stage 2	(28,218)	28,218	-	-	**-**
Transfer from Stage 1 to Stage 3	(383)	-	383	-	**-**
Transfer from Stage 2 to Stage 1	2,840	(2,840)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(13,137)	13,137	-	**-**
Transfer from Stage 3 to Stage 2	-	991	(991)	-	**-**
Transfer from Stage 3 to Stage 1	562	-	(562)	-	**-**
Foreign exchange and other movements	(93,743)	(6,869)	(2,423)	(69)	**(103,104)**
Gross outstanding amount as at 31 December 2021	**1,250,181**	**78,271**	**30,512**	**1,559**	**1,360,523**

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2020	**1,025,618**	**36,433**	**30,492**	**1,137**	**1,093,680**
New financial assets originated	380,500	-	-	460	**380,960**
Modification of contractual cash flows of financial assets	(466)	1,768	(250)	-	**1,052**
Derecognitions	(133,638)	-	(1,840)	-	**(135,478)**
Write-offs	-	-	(3,493)	-	**(3,493)**
Changes in interest accrual	5,684	1,530	1,298	436	**8,948**
Repayments	(111,367)	(5,062)	(3,287)	-	**(119,716)**
Transfer from Stage 1 to Stage 2	(132,667)	132,667	-	-	**-**
Transfer from Stage 1 to Stage 3	(1,593)	-	1,593	-	**-**
Transfer from Stage 2 to Stage 1	96,752	(96,752)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(16,557)	16,557	-	**-**
Transfer from Stage 3 to Stage 2	-	4,074	(4,074)	-	**-**
Transfer from Stage 3 to Stage 1	32	-	(32)	-	**-**
Foreign exchange and other movements	145,721	16,601	4,437	-	**166,759**
Gross outstanding amount as at 31 December 2020	**1,274,576**	**74,702**	**41,401**	**2,033**	**1,392,712**

The total amount of loans recoveries of amounts previously written off during the year 2021 was GEL 8,547 thousand (2020: GEL 6,441 thousand).

Further analysis of loans is detailed in Note 28.

The table below show reconciliations from the opening to the closing balances of the expected credit loss allowance of loans to customers:

Consolidated and Separate

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2021	**(10,123)**	**(4,519)**	**(22,633)**	**(514)**	**(37,789)**
New financial assets originated	(3,375)	-	-	-	**(3,375)**
Release due to derecognition	1,820	-	4,197	-	**6,017**
Transfer from Stage 1 to Stage 2	478	(478)	-	-	**-**
Transfer from Stage 1 to Stage 3	8	-	(8)	-	**-**
Transfer from Stage 2 to Stage 1	(57)	57	-	-	**-**
Transfer from Stage 2 to Stage 3	-	1,078	(1,078)	-	**-**
Transfer from Stage 3 to Stage 2	-	(80)	80	-	**-**
Transfer from Stage 3 to Stage 1	(10)	-	10	-	**-**
Increase in PDs/LGDs/EaDs	(3,805)	(741)	(8,401)	(915)	**(13,862)**
Decrease in PDs/LGDs/EaDs	5,836	684	3,352	-	**9,872**
Usage of allowance	-	-	12,058	-	**12,058**
Increase due to modification without derecognition	(51)	(852)	(6,156)	-	**(7,059)**
Decrease due to modification without derecognition	392	118	106	-	**616**
Foreign exchange and other movements	693	390	1,595	50	**2,728**
Balance at 31 December 2021	**(8,194)**	**(4,343)**	**(16,878)**	**(1,379)**	**(30,794)**

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2020	**(6,319)**	**(1,567)**	**(15,577)**	**(97)**	**(23,560)**
New financial assets originated	(2,375)	-	-	-	**(2,375)**
Release due to derecognition	464	784	2561	-	**3,809**
Transfer from Stage 1 to Stage 2	1,189	(1,189)	-	-	**-**
Transfer from Stage 1 to Stage 3	28	-	(28)	-	**-**
Transfer from Stage 2 to Stage 1	(1,469)	1,469	-	-	**-**
Transfer from Stage 2 to Stage 3	-	904	(904)	-	**-**
Transfer from Stage 3 to Stage 2	-	(64)	64	-	**-**
Transfer from Stage 3 to Stage 1	(1)	-	1	-	**-**
Increase in PDs/LGDs/EaDs	(3,925)	(2,730)	(7,039)	(417)	**(14,111)**
Decrease in PDs/LGDs/EaDs	3,443	1,606	3,939	-	**8,988**
Usage of allowance	-	-	3,493	-	**3,493**
Increase due to modification without derecognition	(432)	(3,187)	(6,521)	-	**(10,140)**
Decrease due to modification without derecognition	347	-	-	-	**347**
Foreign exchange and other movements	(1,073)	(545)	(2,622)	-	**(4,240)**
Balance at 31 December 2020	**(10,123)**	**(4,519)**	**(22,633)**	**(514)**	**(37,789)**

Analysis by credit quality of loans outstanding at 31 December 2021 is as follows:

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 1									
Not in Arrears	436,017	34,604	223,508	33,517	415,406	91,966	3,671	72	1,238,760
- less than 30 days overdue	1,481	4,281	-	1,402	3,436	784	36	-	11,421
Total Stage 1 loans	**437,498**	**38,885**	**223,508**	**34,919**	**418,842**	**92,750**	**3,707**	**72**	**1,250,181**
Stage 2									
Not in Arrears	4,607	771	8,736	1,346	48,160	2,454	30	-	66,104
- less than 30 days overdue	-	-	-	10,035	-	179	17	-	10,230
- 31 to 90 days overdue	834	-	763	-	55	235	49	-	1,937
Total Stage 2 loans	**5,441**	**771**	**9,499**	**11,381**	**48,215**	**2,868**	**96**	**-**	**78,271**
Stage 3									
Not in Arrears	1,690	-	7,337	-	5,955	1,021	19	3	16,025
- less than 30 days overdue	272	-	384	-	716	194	-	-	1,566
- 31 to 90 days overdue	-	-	-	-	-	-	57	-	57
- over 90 days overdue	5,823	2,261	1,962	-	1,350	1,245	222	-	12,864
Total Stage 3 loans	**7,785**	**2,261**	**9,683**	**-**	**8,021**	**2,460**	**298**	**3**	**30,512**

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
POCI									
Not in Arrears	120	-	-	-	60	-	-	-	180
- over 90 days overdue	-	-	-	-	1,380	-	-	-	1,380
Total POCI loans	**120**	**-**	**-**	**-**	**1,440**	**-**	**-**	**-**	**1,560**
Less impairment provisions	**(8,234)**	**(1,632)**	**(6,285)**	**(659)**	**(11,145)**	**(2,634)**	**(202)**	**(3)**	**(30,794)**
Total loans and advances to customers	**442,608**	**40,285**	**236,405**	**45,641**	**465,373**	**95,445**	**3,900**	**72**	**1,329,729**

Analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 1									
Not in Arrears	427,102	38,593	187,745	45,914	453,797	105,911	3,679	90	1,262,831
- less than 30 days overdue	1,640	-	8,079	-	633	1,370	20	-	11,742
Total Stage 1 loans	**428,742**	**38,593**	**195,824**	**45,914**	**454,430**	**107,281**	**3,699**	**90**	**1,274,573**
Stage 2									
Not in Arrears	5,584	2,142	5,930	83	51,107	3,602	243	-	68,691
- less than 30 days overdue	-	582	1,169	-	2,464	-	-	-	4,215
- 31 to 90 days overdue	531	-	-	-	789	397	79	-	1,796
Total Stage 2 loans	**6,115**	**2,724**	**7,099**	**83**	**54,360**	**3,999**	**322**	**-**	**74,702**
Stage 3									
Not in Arrears	4,462	60	7,647	-	4,199	1,131	98	3	17,600
- less than 30 days overdue	185	-	248	-	152	88	-	-	673
- 31 to 90 days overdue	161	-	405	-	75	-	-	-	641
- over 90 days overdue	3,568	377	4,141	-	12,434	1,968	3	-	22,491
Total Stage 3 loans	**8,376**	**437**	**12,441**	**-**	**16,860**	**3,187**	**101**	**3**	**41,405**

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
POCI									
Not in Arrears	416	6	-	-	-	-	-	-	422
- over 90 days overdue	44	-	-	-	1,567	-	-	-	1,611
Total POCI loans	**460**	6	-	-	**1,567**	-	-	-	**2,033**
Less impairment provisions	**(7,377)**	**(803)**	**(7,288)**	**(344)**	**(17,954)**	**(3,886)**	**(133)**	**(4)**	**(37,789)**
Total loans and advances to customers	**436,315**	**40,957**	**208,076**	**45,653**	**509,263**	**110,581**	**3,989**	**89**	**1,354,923**

Loans in arrears more than 90 days are classified as impaired loans. Loans in arrears with less than or equal to 30 days overdue are considered unimpaired.

The size categories above refer to the amounts originally disbursed to the groups of connected borrowers.

Impact of COVID 19

Global COVID-19 Pandemic that the world has been experiencing in 2020 has pushed the global economies into recession. External shocks placed financial sector under stress conditions as well.

Similar to most of the countries, Georgian economy is also facing the challenges caused by the pandemic. The pressure on key economic sectors is still ongoing and the magnitude or the possible length of the crisis is yet unknown.

Due to the lockdown and sharp decline in performance of vulnerable sectors, dramatic increase of financial risks, especially credit risks, is almost inevitable.

The key assumption of the analysis is that the decline in the economy will have a direct impact on solvency of the borrowers, consequently effecting expected credit losses on the loan portfolio. However the Bank faced environment with readiness due the structure of the portfolio. Bank maintains robust financial performance and comply with all regulatory requirements. During 2020, as a result of the COVID 19 pandemic the Bank has provided a moratorium and restructuring options to its customers on the repayment of principal and interest. All COVID 19 moratoriums have expired by October, 2021. As at 31 December 2021 the remaining amount of gross book value of portfolio expired moratorium is GEL 249 million (2020: GEL 74 million) .

During 2021 Bank’s was continuing operations in regular and usual manner and there were no interruptions caused by pandemic. Management closely monitors the development of the situation on the world and Georgian markets in order to minimize negative consequences and respond to mitigate the impact of such events and circumstances as they occur. The Bank has conducted a stress test and monitors liquidity on a daily basis as part of the operational and strategic management of liquidity risk in order to ensure compliance with prudential liquidity ratios, match the actual volume of liquid assets to their required level, as well as ensure long-term liquidity safety.

Collateral

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group and Bank generally requests the borrowers to provide it.

For loans to customers which are performing, the fair value of collateral is assessed by an external professional appraiser and checked by the collateral valuation specialist. After the initial assessment bank performs annual review of collateral price.

The following tables provide information on collateral securing loans and advances to customers by type of collateral as at 31 December 2021 and 2020:

in '000 GEL **At 31 December 2021**	**Real estate**	**Financial guarantees ***	**Cash collateral**	**Other**	**Guarantors**	**No collateral**	**Total**
Wholesale and trade	338,678	54,831	1,666	6,182	30,188	11,065	442,609
Agriculture, forestry and fishing	33,170	5,436	-	87	1,592	-	40,285
Production	157,349	39,122	7,133	13,164	12,869	6,767	236,405
Transportation and storage	26,264	6,101	-	10,724	2,481	70	45,641
Other economic activities	391,408	33,962	1,279	21,175	15,617	1,931	465,373
Housing	92,444	-	3	84	878	2,035	95,445
Investment loans	1,290	-	381	-	325	1,904	3,900
Other	-	-	-	-	-	72	72
Total	**1,040,603**	**139,453**	**10,461**	**51,416**	**63,952**	**23,845**	**1,329,729**

in '000 GEL **At 31 December 2020**	**Real estate**	**Financial guarantees ***	**Cash collateral**	**Other**	**Guarantors**	**No collateral**	**Total**
Wholesale and trade	344,558	49,046	-	6,367	22,750	13,594	436,315
Agriculture, forestry and fishing	35,976	3,788	-	118	941	133	40,956
Production	140,091	39,532	276	17,020	6,711	4,445	208,075
Transportation and storage	27,171	3,234	-	13,132	1,865	249	45,652
Other economic activities	435,308	37,147	461	19,516	8,282	8,553	509,267
Housing	107,737	-	133	112	767	1,832	110,581
Investment loans	1,255	-	489	-	203	2,042	3,989
Other	-	-	-	-	-	89	89
Total	**1,092,097**	**132,747**	**1,359**	**56,265**	**41,518**	**30,937**	**1,354,923**

*From international financial institutions.

As at 31 December 2021 and 2020 'Other' collateral consists from: Shares in companies, Movable properties (Vehicles, Equipment), Household Goods, Livestock, Inventory, Receivables.

The tables above exclude overcollateralization and include value of collateral (mainly real estate) for Stage 3 loans, which exceeds the carrying amount of the Stage 3 loans at each reporting date.

If loan is collateralized by multiple type of collateral the collateral should be considered in the indicated order: Cash collateral, Financial Guarantees, Real estate and only last Movable collateral.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. For more information on credit risk management and interest rate analysis of loans and advances to customers refer to Note 28.

11. INVESTMENT PROPERTIES

Consolidated

in '000 GEL	2021	2020
Net book value at 1 January	**5,103**	**6,417**
Additions	-	120
Disposals	-	(1,346)
Depreciation for the year	(154)	(164)
Disposal of depreciation		76
Net book value at 31 December	**4,949**	**5,103**
Total acquisition costs	6,422	6,422
Accumulated depreciation	(1,473)	(1,319)
Net book value at 31 December	**4,949**	**5,103**

Rental income in 2021 under operating leases was GEL 1,286 thousand (2020: GEL 1,308 thousand).

Separate

in '000 GEL	2021	2020
Net book value at 1 January	**5,094**	**5,247**
Additions	-	-
Depreciation for the year	(154)	(154)
Net book value at 31 December	**4,940**	**5,094**
Total acquisition costs	6,413	6,413
Accumulated depreciation	(1,473)	(1,319)
Net book value at 31 December	**4,940**	**5,094**

Management estimates that the fair value of the investment properties approximates their carrying amount. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties. Key unobservable input used for sales comparison approach is price per square meter of similar properties. Adjustments are applied to the observable prices based on the difference between subject assets and analogues.

12. INTANGIBLE ASSETS

The development of intangible assets is shown in the following table:

Consolidated and Separate

in '000 GEL	2021	2020
Net book value as at 1 January	781	544
Additions	1,582	869
Disposal	(27)	-
Amortisation for the year	(844)	(632)
Disposal of amortisation	27	-
Net book value as at 31 December	**1,519**	**781**
Total acquisition costs as at 31 December	6,996	5,441
Accumulated amortisation as at 31 December	(5,477)	(4,660)
Net book value as at 31 December	**1,519**	**781**

13. PROPERTY AND EQUIPMENT

The development of property and equipment was as follows:

Consolidated and Separate

in '000 GEL	Land & buildings, assets under construction	Other fixed assets	Total
Net book value at 1 January 2020	**41,737**	**9,261**	**50,998**
Additions	108	1,967	2,075
Disposals - at cost	(1,969)	(391)	(2,360)
Depreciation for the year	(1,038)	(3,135)	(4,173)
Disposals - accumulated depreciation	954	381	1,335
Net book value at 31 December 2020	**39,792**	**8,083**	**47,875**
Total acquisition costs	48,101	32,787	80,888
Accumulated depreciation	(8,309)	(24,704)	(33,013)
Net book value at 1 January 2020	**39,792**	**8,083**	**47,875**
Additions	10	1,635	1,645
Disposals - at cost	(2,010)	(810)	(2,820)
Depreciation for the year	(958)	(2,603)	(3,561)
Disposals - accumulated depreciation	310	798	1,108
Net book value at 31 December 2021	**37,144**	**7,103**	**44,247**
Total acquisition costs	46,101	33,612	79,713
Accumulated depreciation	(8,957)	(26,509)	(35,466)
Net book value at 31 December 2021	**37,144**	**7,103**	**44,247**

14. RIGHT-OF-USE ASSETS

Consolidated and Separate

Right-of-use assets

in '000 GEL	2021	2020
Net book value at 1 January	**1,951**	**2,871**
Additions	360	217
Disposals	(408)	(1,224)
Depreciation for the year	(392)	(669)
Disposals - accumulated depreciation	183	756
Net book value at 31 December 2021	**1,694**	**1,951**

15. OTHER ASSETS

At 31 December 2021 and 2020, other assets were as follows:

Consolidated

in '000 GEL	31 December 2021	31 December 2020
Accounts receivable from credit card and online payment system companies and money transfer agencies	1,260	971
Security deposit	557	593
Other	165	166
Loss allowance for account receivables	(34)	(73)
Total other financial assets	**1,948**	**1,657**
Non-current		
Repossessed properties	1,937	3,411
Prepayments for court fees and charges, net of provision	362	963
Prepayments for fixed assets	215	473
Current		
Prepayments for various services	2,536	2,783
Inventory and other	498	381
Total other non-financial assets	**5,548**	**8,011**
Total	**7,496**	**9,668**

Separate

in '000 GEL	31 December 2021	31 December 2020
Accounts receivable from credit card and online payment system companies and money transfer agencies	1,242	851
Security deposit	557	593
Other	166	167
Loss allowance for account receivables	(34)	(73)
Total other financial assets	**1,931**	**1,538**
Non-current		
Repossessed properties	96	300
Prepayments for court fees and charges, net of provision	362	963
Prepayments for fixed assets	215	473
Current		
Prepayments for various services	2,389	2,644
Inventory and other	498	379
Total other non-financial assets	**3,560**	**4,759**
Total	**5,491**	**6,297**

The Group and Bank allocates other financial assets under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). ECL at the year ends is shown in the above table.

Refer to Note 29 for the estimated fair value of other financial assets. Information on related party balances is disclosed in Note 31.

Comparative information is reclassified to conform to the presentation of 2021. The Group and the Bank have reclassified repossessed properties from investment property to other assets. The management believes that such classification reflect more accurate disclosure of economic substance of the transaction.

16. DUE TO BANKS

Due to banks consists of short-term loans obtained on the interbank market, as well as funds kept by other banks on correspondent accounts with the Bank.

Consolidated and Separate

in '000 GEL	31 December 2021	31 December2020
Banks in OECD countries	-	54,594
Banks in non-OECD countries	1,103	1,123
Total	**1,103**	**55,717**

Refer to Note 29 for the estimated fair value of due to banks. Information on related party balances is disclosed in Note 31.

17. CUSTOMER ACCOUNTS

Customer accounts consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

Consolidated

in '000 GEL	31 December 2021	31 December 2020
Current accounts	**280,200**	**300,628**
- private individuals	74,285	87,509
- legal entities	205,915	213,119
Savings accounts	**370,631**	**354,934**
- private individuals	201,087	197,093
- legal entities	169,544	157,841
Term deposit accounts	**359,121**	**321,616**
- private individuals	233,822	227,539
- legal entities	125,299	94,077
Other liabilities to customers	**1,777**	**226**
Total	**1,011,729**	**977,404**

Separate

in '000 GEL	31 December 2021	31 December 2020
Current accounts	**286,526**	**306,210**
- private individuals	74,285	87,509
- legal entities	212,241	218,701
Savings accounts	**370,631**	**354,934**
- private individuals	201,087	197,093
- legal entities	169,544	157,841
Term deposit accounts	**359,121**	**321,616**
- private individuals	233,822	227,539
- legal entities	125,299	94,077
Other liabilities to customers	**1,777**	**225**
Total	**1,018,055**	**982,985**

At 31 December 2021, the Group and Bank had included pending client transfers of GEL 1,777 thousand (2020: GEL 226 thousand) in other liabilities to customers.

The category "legal entities" includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

The following table shows a breakdown of customer accounts by economic sector:

Consolidated

in '000 GEL	31 December 2021	31 December 2020
Private individuals	509,193	512,141
Trade and services	352,205	307,116
Transportation and communications	24,164	50,799
Construction	32,528	35,790
Manufacture	41,028	26,350
Government	22,456	22,456
Agriculture and forestry	22,966	15,260
Mining and mineral processing	397	3,083
Other	6,791	4,409
Total	**1,011,729**	**977,404**

Separate

in '000 GEL	31 December 2021	31 December 2020
Private individuals	509,194	512,141
Trade and services	358,531	312,697
Transportation and communications	24,164	50,799
Construction	32,528	35,790
Manufacture	41,028	26,350
Government	22,456	22,456
Agriculture and forestry	22,966	15,260
Mining and mineral processing	397	3,083
Other	6,791	4,409
Total	**1,018,055**	**982,985**

At 31 December 2021, the Group and Bank had 105 customers (2020: 134 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 367,417 thousand (2020: GEL 435,341 thousand) or 36 % (2020: 44 %) of total customer accounts.

At 31 December 2021, customer accounts included deposits of GEL 10,370 thousand (2020: GEL 1,531 thousand) held as collateral for on-balance exposures and GEL 3,287 thousand (2020: GEL 4,258 thousand) held as collateral for irrevocable commitments under financial and performance guarantees and letters of credit refer to Note 30.

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31. Refer to Note 29 for the estimated fair value of each class of customer accounts.

18. OTHER BORROWED FUNDS

Consolidated and Separate

Liabilities to international financial institutions are an important source of financing for the Group and Bank. Below are reported medium- to long-term loans from international financial institutions:

in '000 GEL

Liabilities with fixed interest rates	Due	31 December 2021	31 December 2020
Ministry of Finance of Georgia	December 2026	1,589	2,198
European Investment Bank (EIB)	March 2023	11,489	20,371
European Investment Bank (EIB)	April 2024	11,564	17,225
European Investment Bank (EIB)	July 2022	6,302	13,410
European Investment Bank (EIB)	October 2024	12,234	17,355
European Investment Bank (EIB)	February 2024	2,838	4,227
European Investment Bank (EIB)	April 2022	826	2,639
European Investment Bank (EIB)	December 2026	17,384	-
Council of Europe Development Bank (CEB)	August 2022	3,343	7,114
Council of Europe Development Bank (CEB)	April 2027	43,816	50,505
European Bank for Reconstruction and Development (EBRD)	August 2024	52,434	60,303
ProCredit Holding AG & Co. KGaA	May 2024	54,008	63,370
ProCredit Holding AG & Co. KGaA	April 2024	15,822	18,238
ProCredit Bank AG, Frankfurt am Main	June 2021	-	6,594
ProCredit Bank AG, Frankfurt am Main	August 2027	30,126	34,727
ProCredit Bank AG, Frankfurt am Main	April 2024	15,823	17,946
Total liabilities with fixed interest rates		**279,598**	**336,222**
Liabilities with variable interest rates			
European Bank for Reconstruction and Development(EBRD)	July 2026	34,794	-
European Bank for Reconstruction and Development(EBRD)	February 2024	38,816	57,481
European Bank for Reconstruction and Development(EBRD)	September 2023	17,571	26,409
GREEN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2025	34,806	40,383
ProCredit Bank AG, Frankfurt am Main	July 2024	31,717	36,590
Council of Europe Development Bank (CEB)	August 2021	-	3,530
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	40,369	42,384
Oesterreichische Entwicklungsbank AG(OEeB)	February 2024	37,265	39,859
Total liabilities with variable interest rates		**235,338**	**246,636**
Total liabilities		**514,936**	**582,858**

Below table shows maturity analysis of other borrowed funds as at 31 December 2021 and 31 December 2020 based on carrying amount.

As at 31 December 2021 (in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	78,186	398,256	38,494	**514,936**

As at 31 December 2020(in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	70,010	448,838	64,010	**582,858**

Refer to Note 29 for the estimated fair value of other borrowed funds. The interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31. Undiscounted cash flows are shown in note 28.

19. OTHER LIABILITIES

Consolidated and Separate

in '000 GEL	31 December 2021	31 December 2020
Liabilities to InnovFIN/DCFTA	5,147	-
Account payable	421	538
Other	1,396	465
Total other financial liabilities	**6,964**	**1,003**
Received prepayments and deferred fees from guarantees issued	157	459
Total other liabilities	**7,121**	**1,462**

In its lending business with SMEs the Group and Bank cooperates closely with the European Investment Bank (EIB) and the European Investment Fund (EIF) .Of particular note is the agreement with the EIF for the InnovFin & DCFTA guarantee programmes, which provides proportional guarantees for lending.
The table provides the balance of funds paid by the Guarantor under the Guarantee in respect of Defaulted Amounts.

Refer to Note 29 for the estimated fair value of other financial liabilities.

Note for the separate other liabilities is not materially different from consolidated note, hence one schedule is presented above which provides consolidated balances of other liability as at 31 December 2021 and 2020.

20. INCOME TAXES

The applicable income tax rate is 15% for Georgian companies. Income tax expenses recorded in profit or loss for the year comprise the following:

Consolidated

in '000 GEL	2021	2020
Current tax charge	10,103	27
Deferred tax charge	(1,348)	1,035
Income tax expense for the year	**8,755**	**1,062**

Reconciliation between the expected and the actual taxation charge is provided below:

in '000 GEL	2021	2020
Profit before tax	**50,200**	**29,797**
Theoretical tax charge at statutory rate of 15%	7,530	4,470
Tax effect of items which are not deductible:		
− Non-tax deductible expenses/(income)/ effects of change of tax legislation	1,225	(3,408)
Income tax expense for the year	**8,755**	**1,062**

The tax effect of the movements in the temporary differences is detailed below and is recorded at the rate of 15% (2020:15%).

in '000 GEL **Deferred tax on:**	31 December 2021	Charge to profit or loss	31 December 2020	Credit to profit or loss	1 January 2020
Allowances for losses on loans and advances to customers	1,219	(1,418)	2,637	1,202	1,435
Other temporary differences	72	70	2	(167)	169
Total deferred tax liability	**1,291**	**(1,348)**	**2,639**	**1,035**	**1,604**

There are no material unrecognized deferred tax assets or liabilities, or any taxes recognized directly in equity or other comprehensive income.

Note for the separate income tax is not materially different from the consolidated note, hence one schedule is presented above which includes consolidated balances related to income taxes as at and for the year ended 2021 and 2020.

21. SUBORDINATED DEBT

Consolidated and Separate

The subordinated debt can be broken down as follows:

in '000 GEL	Due	31 December 2021	31 December 2020
Subordinated debt with fixed interest rates			
ProCredit Holding AG & Co. KGaA	April 2025	-	25,169
ProCredit Holding AG & Co. KGaA	April 2025	7,882	8,390
ProCredit Holding AG & Co. KGaA	September 2028	17,518	20,194
Total		**25,400**	**53,753**

Creditors' claims to repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, these creditors will only be paid after the claims of all non-subordinated creditors have first been satisfied.
The Group and Bank made prepayment of subordinated loan , due to the unnecessarily high level of capital ratio.

Refer to Note 29 for the disclosure of the fair value of subordinated debt. The interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31.

22. SHARE CAPITAL AND SHARE PREMIUM

Shareholder structure is as follows:

in '000 GEL (except for the number of shares)	31 December 2021			31 December 2020		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount of share capital**	**Size of stake in %**	**Number of shares**	**Amount of share capital**
ProCredit Holding AG & Co. KGaA	100%	22,496,561	112,483	100%	20,070,275	100,352
Total	**100%**	**22,496,561**	**112,483**	**100%**	**20,070,275**	**100,352**

At 12 November 2021, the Group and the Bank issued additional 2,426,286 ordinary shares, the par value per share is GEL 5.00. The purchase price per share is GEL 13.57.

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2020	**20,070,275**	**100,352**	**51,324**
At 31 December 2021	**22,496,561**	**112,483**	**72,118**

Dividends

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. The Bank may determine the distribution of annual and interim profits in the form of dividends.

In 2021 dividend of GEL 48,618 thousand (GEL 2.16 per share) were declared and paid (2020: No dividends were declared).

23. NET DEBT RECONCILIATION

Consolidated and Separate

The table below 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.

	Liabilities from financing activities			
	Other borrowed funds	**Subordinated debt**	**Lease Liabilities**	**Total**
Balance at 1 January 2021	**582,858**	**53,753**	**2,300**	**638,911**
Proceeds	54,051	-	-	54,051
Repayments	(64,509)	(23,647)	(558)	(88,714)
Total changes from financing cash flows	**(10,458)**	**(23,647)**	**(558)**	**(34,663)**
The effect of changes in foreign exchange rates	**(57,758)**	**(4,244)**	**(328)**	**(62,330)**
Other changes				
Interest expense	12,692	3,430	112	16,234
New lease liability	-	-	360	360
Interest paid	(12,398)	(3,892)	-	(16,290)
Balance at 31 December 2021	**514,936**	**25,400**	**1,886**	**542,222**

	Liabilities from financing activities			
	Other borrowed funds	**Subordinated debt**	**Lease Liabilities**	**Total**
Balance at 1 January 2020	406,707	45,314	2,938	454,959
Proceeds	162,592	-	-	162,592
Repayments	(71,822)	-	(1,648)	(73,470)
Total changes from financing cash flows	**90,770**	**-**	**(1,648)**	**89,122**
The effect of changes in foreign exchange rates	**85,672**	**8,565**	**643**	**94,880**
Other changes				
Interest expense	19,084	3,569	150	22,803
New lease liability			217	217
Interest paid	(19,375)	(3,695)	-	(23,070)
Balance at 31 December 2020	**582,858**	**53,753**	**2,300**	**638,911**

24. NET INTEREST INCOME

Consolidated and Separate

Included within "net interest income" are interest income and expenses, as well as the unwinding of premiums and discounts on financial instruments at amortised cost.

in '000 GEL

Interest and similar income calculated using effective interest rate method	2021	2020
Loans and advances to customers	104,975	88,809
Investment in debt securities	4,520	3,605
Cash and cash equivalents and due from banks	2,222	2,382
Total interest income calculated using effective interest rate method	**111,717**	**94,796**
Interest and similar expenses		
Customer accounts	(20,626)	(19,308)
Other borrowed funds	(12,692)	(14,796)
Subordinated debt	(3,430)	(3,569)
Lease liabilities	(112)	(150)
Due to banks	(2,147)	(125)
Total interest expenses	**(39,007)**	**(37,948)**
Net interest income	**72,710**	**56,848**

25. FEE AND COMMISSION INCOME AND EXPENSES

Consolidated and Separate

in '000 GEL

Fee and commission income	2021	2020
Payment transfers and cash transactions	3,984	3,723
Account maintenance fee	4,165	3,472
Debit/credit card service fee	3,049	2,701
Letters of credit and guarantees	2,281	1,823
Internet bank fee	21	21
SMS service fee	5	5
Other fee and commission income	94	90
Total fee and commission income	**13,599**	**11,835**
Fee and commission expenses		
Debit/credit card service fee	(5,691)	(5,533)
Account maintenance fee	(1,383)	(1,249)
Letters of credit and guarantees	(4,937)	(4,813)
Payment transfers and transactions	(212)	(103)
Service fee	(96)	(93)
Total fee and commission expenses	**(12,319)**	**(11,791)**
Net fee and commission income	**1,280**	**44**

Comparative information is reclassified to conform to the presentation of 2021. The Group and the Bank have reclassified commission on Letters of credit and guarantees from interest expense to fee and commission expenses. The management believes that such classification reflect more accurate disclosure of economic substance of the transaction.

26. OTHER ADMINISTRATIVE EXPENSES

Consolidated

Other administrative expenses include the following items:

in '000 GEL	2021	2020
Communication and IT expenses	6,934	5,553
Depreciation and amortization	4,798	5,473
Consulting services	3,603	3,035
Personnel recruitment, training and other staff-related expenses	3,058	2,399
Consulting and legal services	1,107	849
Utilities and electricity	967	761
Marketing, advertising and entertainment	699	649
Repair and maintenance	360	490
Insurances	389	363
Transport	315	337
Audit and other financial services	129	266
Office rent	127	116
Security service	20	96
Taxes other than on income	2,028	1,753
Other	505	384
Total	**25,039**	**22,524**

Administrative expenses above includes GEL 129 thousand (2020: GEL 266 thousand) 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.

Of the total personnel and administrative expenses, expenses of GEL 984 thousand were incurred on staff training and related activities during 2021 (2020: GEL 812 Thousand).

In 2021 the monthly average number of persons employed by the Group and Bank was 273 people (2020:275).

Consolidated other administrative expenses presented above are not materially different from separate amounts.

Breakdown of monthly average number of employees by categories is as follows:

	2021	2020
Senior Management	3	3
Middle Management	20	21
Other staff	250	251
Total	**273**	**275**

27. OTHER OPERATING INCOME AND EXPENSES

Consolidated

(a) *Other operating income*

in '000 GEL	2021	2020
Gain from disposal of property, and equipment	563	1,577
Rental income from investment properties	1,286	1,308
Income from sale of repossessed properties	2,252	787
Other operating income	760	1,418
Total	**4,861**	**5,090**

(b) *Other operating expenses*

in '000 GEL	2021	2020
Loss related to write/sale off of repossessed property	2,415	-
Expenses related for deposit insurance fund	461	488
Expenses from disposal of property and equipment	66	3
Other operating expense	1,061	677
Total	**4,003**	**1,168**

Consolidated other operating income and expenses presented above are not materially different from separate amounts.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT

Consolidated and Separate unless otherwise indicated.

Management of the Overall Group and Bank Risk Profile – Capital Management

Objectives

Overall, the Group and Bank is not allowed to take on more risk than it is capable of bearing. The capital management of the Group and Bank has the following objectives:

- Ensuring that the Group and Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Ensuring full compliance by the Bank with external capital requirements set by the regulator of the Georgian banking sector.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Group and Bank to implement its plans for growth while following its business strategy.

Processes and procedures

The capital management of the Group and Bank is governed by the Policy on Capital Management and the Policy on ICAAP (Internal Capital Adequacy Process). To ensure that the above stated objectives are met, the Group and Bank uses four indicators. Aside from regulatory and Basel III/Capital Requirements Regulation (CRR) ratios, the Tier1 leverage ratio and ICAAP are monitored on a monthly basis by the General Risk Unit and the Parent's General Risk Management Committee.

Compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the local banking supervision authorities of Georgia. Capital adequacy is calculated and reported to the members of the Group and Bank General Risk Management Committee on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance (quarterly).

As at 31 December 2021 the Group and Bank was in compliance with the regulatory capital adequacy requirements imposed by the NBG according to the guidelines of the Basel Committee (Basel II /III). The following table shows the capital adequacy ratios as calculated in accordance with those requirements:

As at 31 December 2021 (Pillar I + Pillar II)	2021 Actual	2021 Requirement	2020 Actual	2020 Requirement
Tier 1 Capital /RWA	15.65%	11.83%	12.45%	7.30%
Tier 1 + Tier 2 Capital /RWA	18.20%	15.82%	16.51%	11.05%

NBG introduced Pillar II buffers which were to be maintained from December 2017. As of 31 December 2021, the minimum requirements including set buffers for Tier 1 equals to 11.83% and for Regulatory capital 15.82% of the total risk weighted assets. Unhedged credit risk is excluded from total risk weighted assets for Pillar I and added as a buffer. The requirements are increased compared to December 2020. During 2021, the bank has fully recovered the capital buffer requirements released due to pandemics with the consent of NBG.

During 2021, the bank increased/recovered the following buffers in regards with the capital:

- The conservation buffer in volume of 2.5% of the total risk weighted assets has been recovered.
- Currency induced credit risk (CICR) buffer coefficient has been restored to 75%.

Additionally, in the framework of the General Risk Assessment Program, NBG increased the net GRAPE buffer from 1.4% to 1.5%, due to the latest macroeconomic developments, consideriing the effects of the pandemics on the economy.

Starting from January 1, 2023 the commercial banks will be required to calculate CICR buffer based on dollarization level of the total loan portfolio, which will result in increased capital requirement for the bank.

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation across the Parent in compliance with the Basel III requirements as set forth under the European Capital Requirements Directive and Capital Requirements Regulation (CRR). The following table shows the Basel III / CRR capital adequacy ratios of the Group and Bank:

Consolidated and Separate:

As at 31 December	**2021***	**2020***
Tier 1 Capital / RWA	21.10%	17.86%
Tier 1 + Tier 2 Capital / RWA	22.96%	21.05%

in '000 GEL

As at 31 December	**2021***	**2020***
Ordinary share capital	112,483	100,352
Share premium	72,118	51,324
Prior period retained earnings	91,413	62,678
Profit for first nine months	30,173	22,973
Less other adjustments	(1)	(3)
Less dividends paid in current year	(48,618)	-
Less intangible assets	(1,519)	(781)
Tier I capital	**256,049**	**236,543**
Adjusted Tier I capital	**256,049**	**236,543**
Subordinated loans	22,542	48,170
Tier II capital	**22,542**	**48,170**
Total regulatory capital	**278,591**	**284,713**

in '000 GEL

As at 31 December	**2021***	**2020***
RWA on balance	1,059,862	1,165,362
RWA off balance	35,874	35,185
RWA from open currency position	309	7,828
RWA from operational risk	117,564	115,978
Total RWA	**1,213,609**	**1,324,353**

* These amounts are unaudited.

The Group and Bank uses a combination of straight equity and subordinated debt, mainly issued by the Parent for capital management purposes.

With respect to leveraging, a lower limit for the ratio of Tier 1 capital to recognized and unrecognized exposures (Tier 1 leverage ratio) was introduced in 2011 according to which the leverage ratio of the Group and Bank should not fall below 5%. As at 31 December 2021 and 2020 the Group and Bank's leverage ratio was above 10%.

ICAAP

In addition to regulatory capital ratios, the Group and Bank assesses its capital adequacy by using the concept of ICAAP to reflect the specific risk profile of the Group and Bank, i.e. comparing potential losses arising from its operations with its risk bearing capacity.

The risk bearing capacity of the Group and Bank is defined as equity (net of intangibles) plus subordinated debt with the maturity of over one year, which amounted to GEL 293 million as at 31 December 2021 (2020: GEL 295 million). The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential, i.e. GEL 176 million, unaudited for 2021 (2020: GEL 177 million, unaudited). For calculating potential losses in the different risk categories the following concepts are used:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates are calculated and applied to the current loan portfolio as well as the off-balance portfolio to calculate potential loan losses;
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation;
- Market risks: Whereas historical currency fluctuations are statistically analysed and the highest variances (99% confidence level) are applied to current currency positions, interest rate risk is measured by the economic value impact which represents the change in present value of the bank's future cash flows which would result in the case of interest rate shock. The economic value risk has a longer term perspective;
- Operational risk: The calculation of economic capital required to cover operational risk on bank level is made according to Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR). The value used for the internal capital adequacy calculation equals the capital charge under the Standardised Approach.

The volume of economic capital to cover credit risk stayed stable as at 31 December 2021 and 2020. Counterparty, interest rate and currency risk limit utilisation remained low. All risks combined, as quantified by the methods established in the Group and Bank Standards for Bank ICAAP, are below 60% of the Group and Bank's total risk taking potential as defined. Other risks have been assessed as not sufficiently relevant for the Group and Bank or as relevant, but not quantifiable.

The table below shows the distribution of the RAtCR among the different risk categories as determined by the Parent's Risk Management Committee and the level of utilisation for the Group and Bank as at the end of December 2021.

Risk Factor	**Risk Detail**	**Limit** (in %) *	**Limit** (in '000 GEL)*	**Actual** (in '000 GEL)*	**Limit Used** (in % of risk bearing capacity)*
Credit Risk	Credit Risk (Clients)	33.0%	96,546	46,427	15.9%
Counterparty Risk	Sovereign and Commercial Banks	5.0%	14,628	3,413	1.2 %
Market Risk	Interest Rate Risk	10.0%	29,256	17,984	6.1%
Market Risk	Currency Risk	2.0%	5,851	217	0.1%
Operational Risk	Operational Risk	10.0%	29,256	9,405	3.2%
Resources Available to Cover Risk		**60.0%**	**175,537**	**77,446**	**26.5%**

As at the end of December 2020 the distribution of RAtCR was as follows:

Risk Factor	**Risk Detail**	**Limit** (in %)*	**Limit** (in '000 GEL)*	**Actual** (in '000 GEL)*	**Limit Used** (in % of risk bearing capacity)*
Credit Risk	Credit Risk (Clients)	33.0%	97,197	49,240	16.7%
Counterparty Risk	Sovereign and Commercial Banks	5.0%	14,727	4,677	1.6 %
Market Risk	Interest Rate Risk	10.0%	29,454	21,941	7.4%
Market Risk	Currency Risk	2.0%	5,891	2,466	0.8%
Operational Risk	Operational Risk	10.0%	29,454	9,278	3.2%
Resources Available to Cover Risk		**60.0%**	**176,723**	**87,602**	**29.7%**

* These amounts are unaudited.

(a) Credit risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the Group and Bank. As house bank for small and medium businesses, ProCredit bank is lending institution in which loans to customers dominate statement of financial position Consequently, customer credit risk is the most important risk that the Group and Bank faces.

Credit risk is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit risk from customer credit exposures is based on a thorough implementation of the following lending principles:

- Analysis of the debt capacity of borrowers.
- Documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties.
- Avoidance of over indebting the Group and Bank’s borrowers.
- Building a personal and long term relationship with the client and maintaining regular contact.
- Regular monitoring of borrower's capacity.
- Monitoring of loan repayment, fulfilment of covenants.
- Practising effective arrears management.
- Exercising strict collateral collection in the event of default.
- Investing in well-trained and highly motivated staff implementing carefully designed and well-documented processes.
- Application of the “four-eyes principle”.

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures. The processes are distinguished mainly in terms of segregation of duties; the information collected from the clients, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the borrower. All credit decisions are taken by a credit committee consisting representatives of front and back office staff members.

The granularity of the credit exposure portfolio is an effective credit risk mitigating factor. The core business of the Group and Bank, lending to small and medium enterprises, necessitated a high degree of standardization in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors.

Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 500,000 constitutes a supplementary area of the Group and Bank’s business in terms of its overall strategic focus. Many of these clients are dynamically growing enterprises that have been clients of the Group and Bank for many years.

Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

Overall, the loan portfolio of the Group and Bank includes 394 borrower group credit exposures of more than USD 250,000 (2020: 373 borrower group credit exposures).

The quality of the loan portfolio is monitored on an ongoing basis.

The central element of IFRS 9 Impairment Model approach for the Group and Bank is the expected credit loss model for the recognition and measurement of impairment.

The model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

As such, the model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

Credit risk in the context of the calculation of loan loss provisions is quantified by the expected loss due to client default risk. In general, the expected loss (*EL*) is determined by the exposure at default (*EAD*), the probability of a default (*PD*), and the loss rate (*LGD*):
$ECL = EAD \times PD \times LGD.$

Exposure at default:

- Only a part of the off-balance amount might be used in the case of a default. This is quantified by the credit conversion factors (CCF).
- All or a part of the total exposure might be repaid prematurely within the considered time period. This situation is quantified by the methods for full and partial prepayments.

Probability of default:

- The PDs are specified for the relevant time horizon (one year or lifetime). In particular, there is an adaption for maturities below one year.
- PDs are defined for all risk-relevant sub-portfolios (like business, private, or restructured clients), and depend on several client characteristics (like the risk classification for business clients).
- PDs are specified as point-in-time (PiT) forecasts, that is, they take into account the macroeconomic outlook of the upcoming period, and time trend.
- The uncertainty inherent in the macroeconomic outlook of the upcoming period is addressed by considering several macroeconomic scenarios, using them to derive alternative PiT PD forecasts, and applying a weighted average of them as the final parameter for the LLP calculation.

Loss given default:

- LGDs are specified by client exposure size classes. The estimates are averages of cured and non-cured and of collateralized and non-collateralized loss defaulted exposures.
- As PDs, LGDs are specified as weighted averages of PiT forecasts based on different scenarios of the macroeconomic outlook.

Loans and advances to customers

Loans and advances to customers are recorded when the Group and Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group and Bank classifies loans and advances to customers into AC category.

Impairment allowances are determined based on the forward-looking ECL models. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

<u>Increase of loss allowances</u>

For the recognition of loss allowances, a three-stage model is used based on expected credit losses.

- Stage 1: All financial assets are generally classified as “Stage 1” at initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately within Stage 3. The Group and Bank establishes loss allowances in an amount equivalent to the 12 month expected credit losses, insofar as there has not been a significant increase in credit risk since initial recognition. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.
- Stage 2: If the credit risk increases significantly, then “Stage 2” classification is assigned, and loss allowances are established in an amount equivalent to the lifetime expected credit losses.
- Stage 3: Defaulted financial assets are assigned to “Stage 3” and loss allowances are likewise established in an amount equivalent to the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired). For significant exposures, risk provisioning is determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Stage 3 also includes financial assets which are already impaired at initial recognition (“POCI”). These are measured initially at fair value and without loss allowances. Regardless of future changes in the credit risk, POCI assets remain in Stage 3 until their disposal.

This model outlines three stages based on changes in the exposure’s credit risk since the date of initial recognition.

Stage 1 includes exposures that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date, including those that transfer back from Stage II due to decrease in credit risk. For these exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date.

Stage 1 comprises financial assets for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or 3 allocation apply. Assets are allocated in Stage 1 upon initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately within Stage 3. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12 month ECL) are recognised as expenses. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.

Credit exposures are not considered to have low credit risk simply because of the value of collateral if the loan would not be considered low credit risk without that collateral. Loan contracts are also not considered to have low credit risk simply because they have a lower risk of default than other credit products or relative to the credit risk of the jurisdiction within which an entity operates.

All exposures in this stage consist of the portfolio that does not show any signs of increased credit risk

Stage 2 includes exposures that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) and there is no objective evidence of impairment. For these assets, lifetime expected losses are recognised. Lifetime expected losses are the expected credit losses that result from all possible default events over the expected life - maturity of a loan.

Stage 2 comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).

The significant increase in credit risk is established based on both quantitative and qualitative information

Based on the comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A SICR occurs if the difference in PDs exceeds a pre-defined threshold (the threshold is specified as a separate parameter, predetermined threshold for each risk class is set as 2.5) and the respective asset will be transferred from Stage 1 to Stage 2. Inversely, a transfer from Stage 2 to 1 is possible when the associated credit risk is reduced significantly.

Significant increase in credit risk occurs when at least one of the following events is detected:

- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days
- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- standard or watch restructuring event(s)

After being transferred into Stage 2, the lifetime expected credit loss must be determined.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. For these assets, lifetime expected losses are recognised and interest revenue is calculated on the net carrying amount (gross carrying amount adjusted for the loss allowance).

Stage 3 includes all exposures that are credit impaired as of the reporting date. The respective calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired).

An exposure is considered as credit impaired and transferred to Stage 3 when the following or similar characteristics apply at the reporting date:

- client is in arrears more than 90 days
- qualitative and quantitative criteria based on which the bank considers the clients' unlikeliness to pay in full without realising collateral
- client is assigned to Risk Classification 8
- impaired restructuring event(s)
- bankruptcy procedure is initiated
- the bank has started legal proceedings against the client
- credit fraud event
- other signs of impairment indicating that full repayment from the client cannot be expected.

After being transferred into Stage 3, the lifetime expected credit loss must be determined.

Individually insignificant credit exposures

For individually insignificant credit exposures showing signs of impairment, an individualised impairment test is typically not performed, as the operational costs do not justify an extensive impairment test for each of these clients. Instead, the assessment of expected losses is based on the methodology as defined in the Description of the credit risk model for LLPs. Only in exceptional cases may the bank perform an impairment test for individually insignificant credit exposures through an assessment for specific individual impairment.

Individually significant credit exposures are monitored by the respective Credit Committee and Business Client Adviser or Credit Analyst. For such credit exposures, the committee assesses whether objective evidence of impairment exists, i.e.:

- An impaired restructuring event
- The bank has initiated court procedures.
- Bankruptcy proceedings have been initiated.
- Past due days in arrears of 90 days.
- A credit fraud event.
- A downgrade of risk classification to 8 for all clients with small and medium credit exposures.
- Originated Credit Impairment exposures (POCI) at initial recognition.
- Other signs of impairment.

For individually significant exposures a discounted cash flow approach is applied in order to calculate the respective ECL. Expectations regarding both the timing and the amount of future cash flows are conservative and adequately reflects the uncertainties of the future. In the assessment and measurement of ECL the Group and Bank is using at least two different scenarios based on forward-looking information including macroeconomic factors. This concerns any net expected future payments from the customer and its guarantor (s), as well as expected net recoveries on collateral. The expected direct costs of collateral recoveries is based on actually incurred costs in previous, comparable cases as well as on external standards such as established costs for presenting cases to the court, execution costs as percentages of the collateral value etc. The expected cash inflows from the customer or its guarantor(s) are based on the assessment of the payment capacity of the respective customer or guarantor(s). Additionally, in using multiple scenarios, the client’s payment capacity should be affected by one or several relevant macroeconomic indicators.

In cases where a relevant financial analysis showing the payment capacity of the customer or guarantor(s) is not available, only cash flows from collateral are assumed. The amount that can be recovered on collateral and the expected time until recovery is estimated based on the previous relevant experience of the Bank with collateral enforcement on comparable collateral items and forward looking information formed on projected macroeconomic data and the forecasted collateral price. At least two different scenarios are used for focused cash flows received from collateral sales.

If the Bank’s internal data is not reliable or comparable enough, the Bank uses sufficient and reliable information from external sources that supports the assumptions used for the timing and value of expected future cash flows from collateral.

Risk classification process

The risk classification system for small and medium clients comprises an important part of the process for determining an increase in credit risk and, consequently, the classification of the loan portfolio. Prior to initial disbursement, each credit exposure is assigned one of the risk classes – 1 to 8 (1 being the best and 8 the worst). Assigning a risk class implies an extensive analysis of multiple qualitative and quantitative criteria at client level, which are assessed in regular basis to identify the increase in credit risk through the classes.

ProCredit grants new loan exposures to performing clients. Additional exposures for clients with risk classification 6, 7 or 8 are not allowed.

	Stage 2 loan portfolio	Stage 3 portfolio
At 31 December 2021	**5.8%**	**2.2%**
At 31 December 2020	**5.4%**	**3.0%**

According to the policies of the Bank, usually only short-term credit exposures may be issued without being well collateralised. Credit exposures with a higher risk profile are always covered with solid collateral, typically real estate.

The Group and Bank's policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price via public auction, and any remaining balance after the payment of principal, interest and penalty is credited to the customer's account. Most repossessed property consists of land and buildings. A smaller part is composed of inventory, equipment and vehicles.

The structure of the loan portfolio is regularly reviewed by the Credit Risk Department, in order to identify potential events which could have an impact on large portion of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

The Group and Bank follows a guideline that limits concentration risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) must be approved by the Parent's Credit Risk Committee and Supervisory Board. No single large credit exposure may exceed 25% of the Group and Bank's regulatory capital.

Larger credit exposures are analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Committee. Information about related parties of the borrowers is typically collected prior to lending.

Expected credit loss model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

As such, the model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information. This model outlines three stages based on changes in the exposure's credit risk since the date of initial recognition.

Credit risk from interbank placements and issuer risk

Conceptual risk management framework

The objective of counterparty and issuer risk management is to prevent the Group and Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Group and Bank. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time;
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market;
- settlement risk: the risk of loss due to the failure of a counterparty to honor its obligation to deliver assets as contractually agreed;
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security;
- market price risk: the risk of loss due to the drop of the market value of securities as interest rates increase.

Counterparty and issuer risks evolve especially from the Group and Bank's need to invest its liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. Excess liquidity is placed in the interbank market with short maturities, typically up to three months. Foreign exchange transactions are also concluded with short maturities, typically up to two days. Derivative contracts, which are used to protect the Group and Bank against foreign currency risk, may have maturity of up to one year. Furthermore, as a result of the Group and Bank's efforts to finance its lending activities with retail deposits, there is also an exposure towards the NBG. This is because the NBG requires banks operating in its territory to hold a mandatory reserve on a NBG account, the size of which depends on the amount of deposits taken from customers or other funds used to fund the Group and Bank's operations.

The counterparty and issuer risks are managed according to the Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks and, for local currency business, local banks with a good reputation and financial standing are eligible counterparties. As a general rule, the Group and Bank applies limits of up to 10% of its regulatory capital for exposures to banking groups in non-OECD countries and up to 25% for those in OECD countries with maximum remaining maturity of 3 months. Higher limits and longer maturities are subject to approval by the Parent's General Risk Management Committee.

The Asset Liability Committee (ALCO) ensures that every counterparty is subject to a thorough analysis, typically conducted by the General Risk Unit in collaboration with the Compliance and Anti-Money Laundering (AML) Unit. If the counterparty is approved, a limit for the maximum exposure is set.

According to the Counterparty Risk Management Policy the Group and Bank is not supposed to conduct any speculative trading activities. However, for liquidity management purposes, the Group and Bank is allowed to buy and hold securities (treasury bills and certificates of deposits). The inherent issuer risk is managed by the provisions of the Treasury Policy. Among other requirements, the policy stipulates that the securities in GEL should preferably be issued by the Government of Georgia or the NBG, or in case of foreign currency by international and/or multinational institutions with very high credit ratings (i.e. an international rating of AA- or better).

The following table provides an overview of the types of counterparties and issuers with whom the Group and Bank concludes transactions.

in '000 GEL	31 December 2021	In %	31 December 2020	In %
Banking groups	**15,164**	**5%**	**31,978**	**10%**
OECD banks	-	0%	3,651	1%
Non-OECD banks	15,164	5%	28,327	9%
NBG	**242,679**	**84%**	**242,332**	**79%**
Mandatory reserve	204,717	71%	215,459	70%
Other exposures	37,962	13%	26,873	9%
Government of Georgia	**29,854**	**10%**	**32,256**	**11%**
Treasury bills	29,854	10%	32,256	11%
Total counterparty and issuer exposure	**287,697**	**100%**	**306,566**	**100%**

The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 71% (2020: 70%) of the Group's and Bank's counterparty and issuer exposure. The distribution of the NBG and government exposures across currencies can be seen in the following table:

in '000 GEL **31 December 2021**	GEL	EUR	USD	Total
NBG	**36,926**	**43,675**	**162,078**	**242,679**
Mandatory reserve	-	43,607	161,110	204,717
Balances at NBG excluding mandatory reserves	25,091	68	968	26,127
Certificates of deposits of NBG	11,835	-	-	11,835
Government of Georgia	**29,854**	**-**	**-**	**29,854**
	66,780	**43,675**	**162,078**	**272,533**

in '000 GEL **31 December 2020**	GEL	EUR	USD	Total
NBG	**26,649**	**48,505**	**167,178**	**242,332**
Mandatory reserve	-	48,442	167,017	215,459
Balances at NBG excluding mandatory reserves	7,440	63	161	7,664
Certificates of deposits of NBG	19,209	-	-	19,209
Government of Georgia	**32,256**	**-**	**-**	**32,256**
	58,905	**48,505**	**167,178**	**274,588**

(b) Liquidity risk

"Liquidity risk' is the risk that the Group and Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financials asset. Liquidity risk arise from mismatches in the timing and amounts of cash flows, which is inherent to the Group's and Bank's operations and investments.

The liquidity risk management (LRM) system is tailored to the specific characteristics of the Group and Bank. Portfolio of loans given comprises of large number of short and medium-term exposures to small and medium sized businesses. The majority of the loans are disbursed as annuity term loans and have low default rates. This leads to highly diversified, reliable cash inflows. The usage of financial markets instruments is low. All of these factors limit possible liquidity risk concentrations and warrant a relatively simple and straightforward LRM system.

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Group and Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

The ALCO determines the liquidity strategy of the Group and Bank and sets the liquidity risk limits. The Treasury and Cash Management Unit manage the Group and Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the General Risk Unit.

In addition to the requirements set by the local regulatory authorities, the standards that the Group and Bank applies in this area are guided by the Liquidity Risk Management Policy and the Treasury Policy. Both policies were first implemented by the Group and Bank in 2009 and are updated on an annual basis. These policies are also in line with the Principles for Sound Liquidity Risk Management defined by the Basel Committee on Banking Supervision EU regulation 575/2013 [Capital Requirement Regulation -CRR] and EU directive 2013/36/EU [Capital Requirement Directive - CRD IV]. Limit breaches and exceptions to these policies are subject to decisions of the Parent's ALCO and Parent's General Risk Management Committee.

The Treasury and Cash Management Unit manages liquidity on a daily basis using a cash flow analysis tool. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key tools for measuring liquidity risks includes a forward looking liquidity gap analysis, which shows the contractual maturity structure of assets and liabilities and estimates future funding needs based on certain assumptions.

Starting with the estimation of future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Group and Bank's liquidity situation in adverse scenarios (stress tests). Based on the gap analyses, a set of key liquidity risk indicators and early warning indicators are calculated on daily and monthly basis and are closely monitored.

The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. The indicator must be above 1, which implies that the Group and Bank has sufficient funds to repay the liabilities simulated to be due within the next 30 days. This is complemented by the indicators, which was implemented in 2018 – "survival period", which is the time-period during which the bank can meet all its payments due without needing to generate additional (i.e. still not contracted) funds, i.e. the period within which the bank does not have negative liquidity gaps in any of the time-buckets. The defined minimum survival period limits is at least 90 days on total currency level, as well as on total hard currency level and local currency level.

The Group and Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The respective key indicator is defined as the Liquidity Position. This analysis also takes into account credit lines which can be drawn by the Group and Bank with some time delay, and other assets which take some time to liquidate.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy also defines reporting triggers related to interbank market indicator, negative short-term liquidity gap, deposit concentration and Liquidity Coverage Ratio (set forth under Basel III). If one of the reporting triggers is passed the ALCO and the Parent's ALCO or General Risk Management Committee must be involved in decisions on appropriate measures.

In order to safeguard the liquidity of the Group and Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Group and Bank's liquidity reserve target is determined by the ALCO. The results of these stress tests are also used to determine liquidity standby lines provided by the Parent to the Group and Bank if necessary.

The Group and Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors.

The Group and Bank also minimises its dependency on the interbank market. The Group and Bank's policies stipulate that the total amount of interbank liabilities should not be higher than the minimum of: 4% of total liabilities of the bank / EUR 20m. In addition, total amount of overnight funding should not be higher than the minimum of: 3% of total liabilities / EUR 15m. Higher limits need to be approved by the Parent's ALCO.

The following tables show the remaining contractual maturities of the undiscounted financial assets and financial liabilities. The remaining contractual maturity is defined as the period between the reporting date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

in '000 GEL **At 31 December 2021**	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 -5 years**	**More than 5 years**	**Total gross amount inflow (outflow)**	**Carrying amount**
Non-derivative Financial Assets							
Cash and balances with the NBG (including mandatory reserve)	318,891	9,354	30,639	20,750	11,685	391,319	391,319
Due from banks	15,164	-	-	-	-	15,164	15,164
Loans and advances to customers	41,533	104,910	418,947	763,951	321,478	1,650,820	1,329,729
Investments in debt securities	105	13,295	7,869	8,511	25,553	55,334	41,690
Other financial assets	1,948	-	-	-	-	1,948	1,948
Derivative Assets							
- Inflow	49,202	49,478	-	-	-	98,681	1,306
- Outflow	(48,479)	(48,926)	-	-	-	(97,405)	(100)
Total Financial Assets	**378,364**	**128,111**	**457,455**	**793,212**	**358,716**	**2,115,861**	**1,781,056**
Non-derivative Financial Liabilities							
Due to banks	1,103	-	-	-	-	1,103	1,103
Customer accounts	662,303	46,832	153,391	103,884	58,500	1,024,909	1,011,729
Other borrowed funds	9,427	21,235	53,645	415,829	39,507	539,642	514,936
Other financial liabilities	6,090	394	379	101	-	6,964	6,964
Lease liability	82	79	227	1,523	336	2,247	1,886
Subordinated debt	-	-	1,145	14,026	19,354	34,526	25,400
Total Financial Liabilities	**679,005**	**68,540**	**208,787**	**535,363**	**117,697**	**1,609,391**	**1,562,018**
Liquidity Gap	**(300,641)**	**59,571**	**248,668**	**257,849**	**241,019**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(300,641)**	**(241,070)**	**7,598**	**265,447**	**506,466**		
Credit related commitments and guarantees	**(178,414)**	**-**	**-**	**-**	**-**	**(178,414)**	

in '000 GEL **At 31 December 2020**	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 -5 years**	**More than 5 years**	**Total gross amount inflow (outflow)**	**Carrying Amount**
Non-derivative assets Financial Assets							
Cash and balances with the NBG (including mandatory reserve)	342,837	7,960	32,679	22,532	9,353	415,361	415,361
Due from banks	31,986	-	-	-	-	31,986	31,978
Loans and advances to customers	51,580	84,946	417,239	698,098	350,856	1,602,719	1,354,923
Investments in debt securities	6,002	20,561	5,177	8,511	26,797	67,048	51,465
Other financial assets	1,657	-	-	-	-	1,657	1,657
Total Financial Assets	**434,062**	**113,467**	**455,095**	**729,141**	**387,006**	**2,118,771**	**1,855,384**
Non-derivative Financial Liabilities							
Due to banks	29,455	-	26,346	-	-	55,801	55,717
Customer accounts	669,311	37,275	153,024	105,513	43,795	1,008,918	977,404
Other borrowed funds	4,755	22,985	55,184	478,621	66,388	627,933	582,858
Other financial liabilities	1,003	-	-	-	-	1,003	1,003
Lease liability	46	142	346	1,670	594	2,798	2,300
Subordinated debt	-	-	3,905	47,601	23,524	75,030	53,753
Derivative liabilities							
- Inflow	404	54,083	81,683	-	-	136,170	3,415
- Outflow	(404)	(54,505)	(84,785)	-	-	(139,694)	
Total Financial Liabilities	**704,570**	**59,980**	**235,703**	**633,405**	**134,301**	**1,767,959**	**1,676,450**
Liquidity Gap	**(270,508)**	**53,487**	**219,392**	**95,736**	**252,705**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(270,508)**	**(217,021)**	**2,371**	**98,107**	**350,812**		
Credit related commitments and guarantees	**(161,839)**	**-**	**-**	**-**	**-**	**(161,839)**	

The Group/Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

As at 31 December 2021, total current accounts within 'Customer accounts' amounted to GEL 280,200 thousand (2020: GEL 300,628 thousand). Within amounts of the customer accounts for the period of the preceding three years on a monthly basis, current accounts end-of-month balances have not fallen below GEL 166,320 thousand. Significant part of total current accounts represents current accounts from legal entities (around 73%) which historically are of long-term nature.

The Parent's financial risk management team together with the Group/Bank' risk management conducts historical analysis, annually to determine cash flow behavior of customer accounts. Based on the result of this analysis, the outflow rates are applied on customer accounts. The Group/Bank performs regular estimation and stress test analysis of liquidity position for all financial assets and liabilities including customer accounts. Based on expected liquidity analysis Bank maintains robust liquidity position for next 12 months from the date these Financial Statements are authorized for issues. The longer-term liquidity and funding needs are covered in the 5-year business plan.

As at 31 December 2021, the Group and Bank was in compliance with the sufficient liquidity indicator limit set at 1 according to the Liquidity Risk Management Policy as well, as with "survival period" limit set at 90 days.

As mentioned above, the Group and Bank also performs stress test calculations in order to safeguard its liquidity. The result is analysed and the Group and Bank's liquidity reserve target is determined by ALCO. The results of the stress tests are also used to determine liquidity stand-by lines provided by the Parent to the Group and Bank if necessary.

The Group and Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), such as the CEB, OeEB, EIB and EBRD which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In order to further diversify its sources of funds, the Group and Bank also maintains relationships with other banks, especially for short-term liquidity lines. In addition, the Parent and also ProCredit Bank Germany provide short- and long-term funding.

In order to maintain a high level of diversification among its customer deposits, the Group and Bank has implemented a deposit concentration indicator, which is the share of deposits of 5 largest non-financial customer depositors or of all non-financial customer depositors having more than 1% share in the total non-financial customer deposit portfolio which can be withdrawn in the next 30 days in the total non-financial customer deposits. Customers excluding financial institutional clients include all private individuals and legal entities, excluding financial institutional clients. Financial institutional clients are the ones which are assigned to the client category "Institutional" and sub-category "Financial and insurance activities".

The table below shows the approximate distribution of funding sources as at 31 December 2021 and 2020. It shows that, as mentioned above, customer deposits are by far the largest source of funds. Other main sources of funding are liabilities to the companies under Parent's control and IFIs.

In %	**31 December 2021**	**31 December 2020**
Customer deposits	65.9%	58.6%
Liabilities to the companies under Parent's control	9.7%	17.2%
Liabilities to IFIs	23.9%	24.3%
Other liabilities	0.5%	0.1%

Overall, the Group and Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the funds are provided by a large number of customer deposits.

I. Funding risk

The business plan, which is reviewed annually, serves as the basis for determining medium-term funding needs in regard to both equity and debt financing for the Group and Bank. In order to ensure sufficient liquidity at all times, the Parent holds a liquidity reserve, which can be tapped in case of emergency.

The Group and Bank still considers funding risk to be low due to strong reliance on customer deposits as well as the fact that the Group and Bank continues to access funding from various international sources.

(c) Market risk

Market price risk for the Group and Bank is defined as currency risk (i) and interest rate risk (ii).

i. Currency risk

The assets and liabilities of the Group and Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Group and Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Due to the still developing financial market, a history of high inflation and exchange rate fluctuations a considerable part of private savings in Georgia is held in USD or EUR. Also, loans in USD and EUR which are available at (nominally) lower interest rates and have longer maturities (as compared to GEL loans) still play an important role in the financing of many of the country's businesses. As a result, foreign currencies play a major role in the Group and Bank's operations.

Currency risk management is guided by the Foreign Currency Risk Management Policy. This policy was first implemented by the Group and Bank in 2009 and is updated on an annual basis. Its adherence to this policy is constantly monitored by the Parent's financial risk team at the group level, and amendments as well as exceptions to this policy are decided by the Parent's ALCO or General Risk Management Committee.

The Treasury and Cash Management Unit is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury and Cash Management Unit also manages the currency positions of the Group and Bank on a daily basis. As a general principle, all currency positions should be kept as low as possible at end-of-day; long or short positions for speculative purposes are not permitted. According to the Treasury Policy, derivatives may only be used for hedging purposes to close positions of the Group and Bank as well as for liquidity purposes. Permissible foreign exchange derivatives are currency forwards (including non-deliverable forwards) and currency swaps. The Group and Bank's foreign currency exposures are monitored and controlled on a daily basis by the Treasury back office and General Risk Unit.

Developments in the foreign exchange markets and the currency positions are regularly reported to the ALCO, which is authorised to take strategic decisions with regard to Treasury activities. In cases where exceptions to the Group and Bank's policy may be necessary or violations to the limits may have occurred, the General Risk Unit reports to the Parent's ALCO or General Risk Management Committee and proposes appropriate measures.

The Group and Bank aims to keep currency positions as low as possible and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Group and Bank has established two levels of control: early warning indicators and limits. In cases where the positions cannot be brought back below 5% of the CRR capital for a single currency, or 7.5% for the aggregate of all currencies, the bank's ALCO and the Parent's ALCO have to be informed and appropriate measures taken. This mechanism helps to ensure that the Group and Bank's total Open currency position (OCP) does not exceed 10% of CRR capital. Exemptions from the limit or strategic positions are subject to approval by the Parent's ALCO or General Risk Management Committee.

The Group's OCPs were within the aforementioned limits as at 31 December 2021.

The following significant exchange rates applied during the year:

in GEL	**Average rate 2021**	**Average rate 2020**	**Reporting date spot rate 31 December 2021**	**Reporting date spot rate 31 December 2020**
USD 1	3.2192	3.1137	3.0924	3.2902
EUR 1	3.8079	3.5551	3.5025	4.0374

The following tables show the distribution of financial monetary assets and liabilities across its material operating currencies:

in '000 GEL **As at 31 December 2021**	**EUR**	**USD**	**Other currencies**	**GEL**	**Total**
Assets					
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	95,282	253,618	1,731	40,688	**391,319**
Due from banks	102	57	-	15,005	**15,164**
Investments in debt securities	-	-	-	41,690	**41,690**
Loans and advances to customers	503,610	446,666	-	379,453	**1,329,729**
Other financial assets	291	996	-	661	**1,948**
Total financial assets	**599,285**	**701,337**	**1,731**	**477,497**	**1,779,850**
Liabilities					
Due to banks	-	1,103	-	-	**1,103**
Customer accounts	175,700	624,095	1,204	210,730	**1,011,729**
Other borrowed funds	314,936	165,046	-	34,954	**514,936**
Other financial liabilities	4,200	782	-	1,982	**6,964**
Lease liability	37	1,812	-	37	**1,886**
Subordinated debt	17,518	7,882	-	-	**25,400**
Total financial liabilities	**512,391**	**800,720**	**1,204**	**247,703**	**1,562,018**
Net position	**86,894**	**(99,383)**	**527**	**229,794**	**217,832**
The effect of derivatives	**(85,218)**	**98,681**	**(247)**	**(11,941)**	**1,276**
Net position after derivatives	**1,676**	**(702)**	**280**	**217,853**	**219,108**

in '000 GEL **As at 31 December 2020**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and balances with the NBG (including mandatory reserve)	110,936	279,118	1,409	23,898	**415,361**
Due from banks	3,953	1,020	-	27,005	**31,978**
Investments in debt securities	-	-	-	51,465	**51,465**
Loans and advances to customers	583,956	463,520	-	307,447	**1,354,923**
Other financial assets	106	678	-	873	**1,657**
Total financial assets	**698,951**	**744,336**	**1,409**	**410,688**	**1,855,384**
Liabilities					
Due to banks	54,593	1,124	-	-	**55,717**
Customer accounts	163,796	614,612	486	198,510	**977,404**
Other borrowed funds	323,797	232,567	-	26,494	**582,858**
Other financial liabilities	170	31	-	802	**1,003**
Lease liability	113	2,187	-	-	**2,300**
Subordinated debt	20,194	33,559	-	-	**53,753**
Total financial liabilities	**562,663**	**884,080**	**486**	**225,806**	**1,673,035**
Net position	**136,288**	**(139,744)**	**923**	**184,882**	**182,349**
The effect of derivatives	**(138,887)**	**135,362**	**-**	**-**	**(3,525)**
Net position after derivatives	**(2,599)**	**(4,382)**	**923**	**184,882**	**178,824**

In order to identify maximum expected losses associated with currency fluctuations (USD and EUR), seven years of historical currency movements are statistically analyzed and considered to be reasonably possible at the reporting date. Historical rate of fluctuation is used to stress the net foreign currency position subject to 99% and 95% confidence levels. 1-year holding period are applied to current currency positions:

in '000 GEL

As at 31 December 2021	**95% confidence**	**99% confidence**
Maximum loss (VaR)	181	214
Average loss in case confidence interval is exceeded	124	148

in '000 GEL

As at 31 December 2020	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(1,708)	(1,921)
Average loss in case confidence interval is exceeded	(1,175)	(1,325)

During 2021, the local currency appreciated by 13.2% to EUR and 6.0% to USD that was the significant fluctuation. However, since the Bank maintain its “closed-positions” policy, any fluctuations on the foreign currency markets will have a minor effect on the Bank’s financial results.

ii. Interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the Bank’s economic value and its interest earnings and eventually capital. Interest rate risk arises from structural differences between the maturities of assets and those of liabilities. The average maturity of loans typically exceeds that of customer deposits, thus exposing the Group to interest rate risk as described above. In order to keep the interest rate risk at acceptable level, the most of the Group’s short-term loans are offered at fixed interest rates while loans with longer maturities are disbursed with floating interest rates. Given that financial instruments to mitigate interest rate risks (hedges) are only available for hard currencies such as EUR and USD, this requires the Group to closely monitor interest rate risk.

The Group’s and Bank’s approach to measuring and managing interest rate risk is guided by the Interest Rate Risk Management Policy.

There are two indicators, which the bank uses for managing interest rate risk: economic value impact and interest earnings indicator.

Economic value risk

The economic value of the Bank is the net present value of all future expected cash flows, i.e. the present value of expected cash inflows from assets minus the present value of expected cash outflows from liabilities. The present value of expected cash flows that depend on interest rates from the Bank’s off-balance sheet items is also considered. Economic value risk is the risk that the net present value of expected cash flows from already contracted interest rate sensitive assets and liabilities will decrease.

The economic value risk is measured by the economic value impact which represents the change in present value of the bank’s future cash flows which would result in the case of an interest rate shock. The economic value risk has a longer term perspective and therefore identifies the risk arising from long term re-pricing. The size of the economic value impact depends on the repricing structure and characteristics of interest sensitive assets and liabilities, as well as on the assumed interest rate change

Interest earnings risk

Interest earnings risk considers how changes in interest rate could affect the Bank’s profitability over a defined time horizon given its current re-pricing structure. The interest earnings risk has a short term perspective (up to one year) and identifies the risk arising from shorter term re-pricing mismatches. It is measured by the interest earnings impact, factoring in also the effect of fair-value change of financial instruments.

For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven deviations from the Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Parent's General Risk Management Committee.

The Group's interest rate risk position is monitored by the General Risk Management Committee. The indicators are also reported to the Parent's General Risk Management Committee.

Beyond monitoring and limiting interest rate risk in the sense of re-pricing risk, the Group also aims to align the maturities of its assets and liabilities which generate interest earnings and interest expenses.

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

in '000 GEL **As at 31 December 2021**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -12 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	281,998	-	-	-	-	-	109,321	**391,319**
Due from banks	15,000	-	-	-	-	-	164	**15,164**
Investments in debt securities	-	13,065	6,229	-	22,370	-	26	**41,690**
Loans and advances to customers	249,913	142,116	198,352	236,876	439,565	53,404	9,503	**1,329,729**
Other financial assets	-	-	-	-	-	-	1,948	**1,948**
Total financial assets	**546,911**	**155,181**	**204,581**	**236,876**	**461,935**	**53,404**	**120,962**	**1,779,85**
Liabilities								
Due to banks	-	-	-	-	-	-	1,103	**1,103**
Customer accounts	385,671	44,076	44,262	105,250	107,443	39,941	285,086	**1,011,729**
Other borrowed funds	115,442	60,632	5,298	81,683	210,743	38,528	2,610	**514,936**
Other financial liabilities	-	-	-	-	-	-	6,964	**6,964**
Lease liability	-	-	-	-	-	-	1,886	**1,886**
Subordinated debt	-	-	-	-	7,731	17,512	157	**25,400**
Total liabilities	**501,113**	**104,708**	**49,560**	**186,933**	**325,917**	**95,981**	**297,806**	**1,562,01**
Net interest sensitivity gap	**45,798**	**50,473**	**155,021**	**49,943**	**136,018**	**(42,577)**		

in '000 GEL **As at 31 December 2020**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -12 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and balances with the NBG (including mandatory reserve)	286,849	-	-	-	-	-	128,512	**415,361**
Due from banks	27,005	-	-	-	-	-	4,973	**31,978**
Investment securities available-for-sale	4,949	20,222	-	3,866	-	22,370	58	**51,465**
Loans and advances to customers	158,267	145,642	229,277	252,791	448,290	107,010	13,646	**1,354,923**
Other financial assets	-	-	-	-	-	-	1,657	**1,657**
Total financial assets	**477,070**	**165,864**	**229,277**	**256,657**	**448,290**	**129,380**	**148,846**	**1,855,384**
Liabilities								
Due to banks	28,307	-	26,265	-	-	-	1,145	**55,717**
Customer accounts	371,559	34,662	55,858	92,080	83,644	36,248	303,353	**977,404**
Other borrowed funds	85,516	92,166	52,583	53,317	240,402	54,870	4,004	**582,858**
Other financial liabilities	-	-	-	-	-	-	1,003	**1,003**
Lease liability	-	-	-	-	-	-	2,300	**2,300**
Subordinated debt	-	-	-	32,902	20,187	-	664	**53,753**
Total liabilities	**485,382**	**126,828**	**134,706**	**178,299**	**344,233**	**91,118**	**312,469**	**1,673,035**
Net interest sensitivity gap	**(8,312)**	**39,036**	**98,437**	**74,492**	**104,057**	**38,262**		

In quantitative terms, the risks associated with interest rate fluctuations are currently limited by stipulating that the interest rate risk exposure (economic value impact in present value) of the Group and the Bank following an interest rate shock of +/- 200 bps on EUR/USD and historical worst case for local currency, may not exceed 15% of total capital for all currencies. As at 31 December 2021, the Group and the Bank were in compliance with these requirements. According to new model, positive effects are considered as zero. Cumulative interest earnings impact for 12 months shows the following figures as at 31 December 2021:

in '000 GEL	**Impact on profit or loss (equals impact on equity)**			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
EUR	-	(901)	-	(984)
USD	-	-	-	-
GEL	-	(4,347)	-	(10,779)
	-	**(5,248)**	**-**	**(11,763)**

As at 31 December 2020, the impact of cumulative interest earnings was as follows:

in '000 GEL	**Impact on profit or loss (equals impact on equity)**			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
EUR	(2,589)	2,589	(6,475)	6,475
USD	(1,977)	1,977	(4,945)	4,945
GEL	(2,922)	2,922	(7,304)	7,304
	(7,488)	**7,488**	**(18,725)**	**18,725**

The scenarios for interest rate sensitivity calculations are taken from Basel regulations.

The Group and Bank monitors interest rates for its financial instruments by each major currency. The table below summarizes average interest rates based on reports reviewed by key management personnel:

At 31 December 2021

in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	-	-	10.50
Loans and advances to customers	5.03	6.16	13.51
Financial liabilities			
Due to other banks	-	-	-
Customer accounts	0.52	1.85	3.56
Other borrowed funds	1.74	2.01	9.60
Subordinated debt	5.94	7.90	-

At 31 December 2020

in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	(0.51)	-	8.02
Loans and advances to customers	5.16	6.60	11.37
Financial liabilities			
Due to other banks	0.91	-	-
Customer accounts	0.57	1.94	3.31
Other borrowed funds	1.91	2.91	9.24
Subordinated debt	5.94	7.90	-

iii. Country risk

Country risk is defined as the risk that the Group and the Bank may not be able to enforce rights over certain assets in a foreign country (expropriation risk) or that a counterparty in a foreign country is unable to perform an obligation because specific political, economic or social risks prevailing in that country have an adverse effect on the credit exposures (transfer and convertibility risk). Given the nature of the Group's and the Bank's business and the environment in which it operates, the Group/Bank defines country risk more broadly to refer to the possible adverse impact that significant country-specific external macroeconomic, socio-political or regulatory factors can have on the Group's/Bank's earnings, capital or liquidity. In particular, it includes the risk of direct or indirect government intervention in the business operations of the Group/Bank in the form of nationalization or seizure of assets, or significant market or regulatory intervention.

The Group's/Bank's business strategy is to focus on meeting the demand for credit exhibited by small and medium businesses in the local market. Therefore, it does not normally enter into cross-border transactions or incur country risks. However, as stated above, for the purpose of financial risk management the Group/Bank may need to enter into cross-border transactions, e.g. for the purpose of investing excess liquidity in bond exposures to highly rated international or multinational institutions.

Broader country risk issues are addressed by, and inherent in the Group's/Bank's policies and methodologies for the management of credit, market, liquidity, counterparty/issuer and operational risk. As cross-border exposures are controlled by the Group's/Bank's and the Parent's risk management functions, the Group/Bank is exposed to country risk only to a limited degree.

(d) Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes fraud risk, IT and information security risks, legal risk, reputational risk and outsourcing risk. Policies on operational risk management have been implemented since 2009; they have been approved by the Management of the bank and are updated annually. The principles set forth in the policies are in compliance with the requirements for the standardized approach for operational risk pursuant to CRR, the operational risk management regulations of the National Bank of Georgia, the cybersecurity framework of the National Bank of Georgia and international best practices.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence of loss events. The main tools utilized are the group-wide Risk Event Database (RED), the annual risk assessments of operational and fraud risks, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

The Risk Event Database was developed to ensure that all operational risk events identified in the ProCredit group are documented, analyzed and communicated effectively. All ProCredit banks document their risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, annual risk assessments are systematically performed in order to identify and evaluate key risks and assess the adequacy of the control environment. These two tools complement each other and provide an overall picture of the operational risk profile for ProCredit Bank.

Risk indicators are also used to identify elevated fraud risk in specific areas of banking operations or specific outlets that could be used by potential fraudsters. These indicators are analyzed regularly and where needed preventive measures are agreed on.

To complete the management of operational risk, all new services need to be analyzed to identify and manage potential risks before implementation (NRA process).

In order to limit IT risks, the ProCredit group has defined standards for IT infrastructure, business continuity and information security. At bank level, ProCredit Bank incorporates the requirements from the National Bank of Georgia into the IT/information security risk management framework. Regular controls of information security and business continuity are part of existing processes and procedures. The bank carries out a classification of its information assets and conducts an annual risk assessment on its critical information assets. The business continuity framework implemented in the bank ensures that these risks are understood by all members of staff that critical processes are identified and that resources are allocated to restore operations, in line with the prioritization of processes.

(e) Anti-money laundering activities

ProCredit Bank attaches great importance to providing transparent and socially responsible banking services. The Group's/Bank's code of conduct and the exclusion list, together form a binding frame of reference for all of our staff members by documenting ProCredit's refusal to enter into business relationships with individuals or companies whose activities are incompatible with the ProCredit group's and the Bank's ethical values.

ProCredit Bank adheres to the uniform policy framework of the Group/Bank Anti-Money Laundering Policy (Group AML Policy) and accompanying group standards and guidelines, all of which are in compliance with German and EU regulatory requirements as well as the guidelines issued by the Basel Committee on Banking Supervision (BCBS) and the Financial Action Task Force (FATF). In addition to applying international standards and best practice in the area of AML, ProCredit Bank complies with national rules and regulations.

The Group/Bank AML framework includes the following central elements:

•The Group/Bank AML team at ProCredit Holding acts as the central unit for the prevention of money laundering, terrorism financing and fraud throughout the ProCredit group. Besides providing the group policy framework and performing AML training measures, Group AML conducts regular controls in ProCredit banks to monitor the implementation of the Group AML Policy.

•The Bank appoints an AML Officer who regularly reports to the Management Board (or the Supervisory Board, if required) of the Bank and to the Group Anti-Money Laundering Officer at ProCredit Holding.

•Constant AML trainings for all Bank employees are conducted, both when staff enter the Bank and on an ongoing basis within the framework of the Bank's training plan, in accordance with the Group AML Policy.

•In accordance with the Group Customer Due Diligence (CDD) Standard, ProCredit Bank applies strict Know Your Customer (KYC) rules in its customer due diligence procedures.

•The bank maintains a risk classification system for its customers and applies due diligence and monitoring procedures accordingly.

•All customers and transactions of the bank are screened against relevant international sanctions and embargos as well as national and internal lists of politically exposed persons (PEP).

•The risk of money laundering, terrorism financing, fraud and other financial crime is assessed on an annual basis for the whole ProCredit group, allowing identified risks to be addressed and mitigated through specific measures.

•The bank co-operates with criminal investigation authorities in the country. All activities raising suspicion of money laundering, terrorism financing or financial crime are reported to the responsible Financial Intelligence Units (FIU) as well as to the Group Anti-Money Laundering Officer. On group level, the Group AML Officer co-operates with criminal investigation and law enforcement agencies in Germany and abroad.

ProCredit Bank has established the compliance function, which bears responsibility for adhering to national banking regulations and reports regularly and ad-hoc basis to the Management of the Bank and to the Group Compliance officer.

The Bank is in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorism financing. Moreover, the Bank has implemented the group wide guidelines on the prevention of money laundering and terrorism financing, which in many respects are stricter than the legal requirements prevailing in the country.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of accounting policies and disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group and Bank estimates the fair value of all financial assets and liabilities as at 31 December 2021 and 2020. Results are provided in the following table:

in '000 GEL		**2021**		**2020**	
	Level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets					
Cash and cash equivalents	Level 2	186,602	186,602	199,902	199,902
Mandatory reserve deposits with NBG	Level 2	204,717	204,717	215,459	215,459
Due from other banks	Level 2	15,164	15,164	31,978	31,978
Financial Assets at fair value through profit or loss	Level 2	1,306	1,306	-	-
Investments in debt securities	Level 2	41,690	41,899	51,465	53,616
Loans and advances to customers	Level 3	1,329,729	1,317,326	1,354,923	1,338,729
Other financial assets	Level 3	1,948	1,948	1,657	1,657
Total financial assets		**1,781,156**	**1,768,962**	**1,855,384**	**1,841,341**

in '000 GEL	Level	2021 Carrying Value	2021 Fair value	2020 Carrying value	2020 Fair value
Financial liabilities					
Due to other banks	Level 2	1,103	1,103	55,717	55,717
Customer accounts					
Current accounts	Level 2	280,200	280,200	300,628	300,628
Savings accounts	Level 2	370,631	370,631	354,934	354,934
Term accounts	Level 3	359,121	356,914	321,616	329,389
Other liabilities to customers	Level 2	1,777	1,777	225	225
Financial liabilities at fair value	Level 2	100	100	3,415	3,415
Other borrowed funds	Level 3	514,936	520,096	582,858	592,718
Other financial liabilities	Level 3	6,964	6,964	1,003	1,003
Subordinated debt	Level 3	25,400	25,973	53,753	53,753
Total financial liabilities		**1,560,232**	**1,563,758**	**1,674,149**	**1,691,782**

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. In case observable market rates are not available to determine the fair value of financial liabilities measured at amortized cost, rates from Parent’s treasury are used as an input for a discounted cash flow model. The Parent’s Treasury rates are determined considering the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. These internal rates are regularly compared to those applied for third party transactions.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using the Group’s own fair value model, such as the discounted cash flow technique. Input using the valuation technique includes expected lifetime credit losses, interest rates and prepayment rates. The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

30. CONTINGENT LIABILITIES AND COMMITMENTS

The Group/Bank has outstanding commitments to extend credit. These commitments take the form of approved loans limits and overdraft facilities. The Group/Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group/Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans and advances to customers.

in '000 GEL

As at 31 December	2021	2020
Financial guarantees and stand-by letters of credit	14,288	21,245
Performance guarantees	59,969	52,842
Commitments to extend credit:		
- Original term to maturity of one year or less	101,907	86,822
- Original term to maturity of more than one year	2,250	930
Total	**178,414**	**161,839**

As at 31 December 2021 the Group/Bank allocates commitments to extend credit, financial guarantees and stand-by letters of credit in Stage 1 and 2 (major part of this exposures are in stage 1) for the purposes of identifying expected credit loss under IFRS 9 (1 January 2020: Stage 1and 2). The Group/Bank calculates provision of performance guarantees according to IAS 37. Management estimates that ECL is immaterial at reporting dates. The table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. The management believes that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements.

Tax legislation

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation

In the ordinary course of business, the Group/Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group/Bank.

31. RELATED PARTY TRANSACTIONS

The Group and Bank's immediate parent company is ProCredit Holding AG & Co. KGaA, which produces publicly available financial statements.

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. The key management personnel include the executive directors of the Group and Bank and their close family members.

The Group and Bank had the following balances outstanding as at 31 December 2021 and 2020 with related parties:

in '000 GEL **As at 31 December**	**Contractual interest rate, p.a.**	**2021**	**2020**
Assets			
Due from banks and cash			
- Entities under common control	(0.75%) to 0.05 %	116,087	140,451
Loans and advance to customers			
- Key management	5%-12 %	464	17
Due to banks			
- Entities under common control		1,103	55,717
Customer accounts			
- Key management	0.0%-4.5%	178	99
Other borrowed funds			
- Parent	2.78%-2.84%	69,831	81,608
- entities under common control	2.28%-3.2%	77,666	95,857
Subordinated debt			
- Parent	5.9%-7.9%	25,400	53,753

Included in the profit or loss for the year ended 31 December 2021 and 2020 are the following amounts which arose due to transactions with related parties:

in '000 GEL	**2021**	**2020**
Interest expense		
- Parent	5,571	6,334
- entities under common control	2,695	2,190
- key management	3	2
Fees and commission expenses		
- Parent	4,339	4,288
- entities under common control	2,046	2,152
Other operating income		
- Parent	-	-
Personnel expenses		
- Key management	767	706
Other administrative expenses		
- Parent	3,603	3,035
- entities under common control	4,740	3,328

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavorable features.

The Bank had the following balances outstanding as at 31 December 2021 and 2020 with it subsidiary:

in '000 GEL **As at 31 December**	**2021**	**2020**
Assets		
Investment in Subsidiaries		
- Subsidiary	6,100	6,100
Liability		
Customer accounts		
- Subsidiary	6,326	5,582

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

Interest Rate Benchmark Reform

It is officially announced that LIBOR (London Interbank Offered Rate) will step by step be phased out as a reference rate across the global financial markets. The Financial Conduct Authority of the United Kingdom announced the dates after which representative LIBOR rates are no longer available:

- Dec. 31, 2021, for all pound sterling, euro, Swiss franc, and Japanese yen settings, and the one-week and two-month U.S. dollar settings; and
- June 30, 2023, for all other USD settings (including the most commonly used three-month and six-month settings).

The Group has currently assets and liabilities that are linked to three-month or six-month LIBOR rate. The Group is planning to offer USD loan products linked to variable rate in the future as well. The transition process from LIBOR to a new rate has already started. In regards to newly issued loans, the Group is planning to move to Term SOFR published by the Chicago Mercantile Exchange (CME Group). Term SOFR is forward-looking, calculated and published on each business day for a range of tenors including one, three, six, and 12 months. Therefore, borrowers and lenders will know the applicable interest rate well in advance of the interest payment date, much like LIBOR. From the perspective of the Group, it means that no major technical development will be needed for this transition. The Group has already implemented software adjustments necessary to use the new reference rate and also updated legal terms of the agreements with clients consequently. Currently the implementation of the new rate is in a testing process, so that no loans linked to the new reference rate have been issued yet. Initially the Group is planning to use only 1 month and 3-month Term SOFR rates. Agreements of existing loans have the legal clause of the transition to the new rate in case of the market disruption or unavailability of the indicated reference rate and the amendments will be performed in line with that clause gradually before June 2023.

According to the publication of IFC form Feb 8, 2022, Term SOFR is assumed to become the preferred SOFR benchmark for USD-based global commercial lending, including in emerging markets. Same is expected to happen on the Georgian Market as well. The Group doesn’t have any client funds that are linked to the variable rate, consequently, in this respect no effect in regards of ceasing the publication of LIBOR is expected. In regards of Long-Term funding, the Group has only thee loans denominated in USD and linked to the LIBOR rate. The amount of the liability to be payable after June 2023 is immaterial. The discussion with the IFI-s regarding the amendment of those loan agreements is in process.

Russia-Ukraine War

At the end of February 2022, The Russian military launched a full-scale invasion of Ukraine, which is ongoing as of the date of the issue of the financial statements. The Russian Federation’s invasion of Ukraine and the subsequent global response to those military actions may have a financial effects on many entities. These include entities with physical operations in Ukraine, Russia and Belarus, as well as indirect interests (e.g. suppliers and customers, investments and lenders). Sanctions placed on the Russian government, Russian entities and Russian individuals by many jurisdictions may also affect entities, such as a loss of access to financial resources and trade, as well as the consequential effects of sanctions on worldwide prices (e.g. oil, natural gas and other petroleum products).

The Group and Bank does not have a complication of functionality and going operations without interruption. Due to the very dynamic overall situation in Ukraine, the impact of this non-adjusting event on the group and Bank cannot be estimated precisely at the present time. As at 31 December 2021 and the date of these financial statements, the Group and Bank has no significant operations and balances with the companies/individuals effected by the war. The bank with prudent actions maintains solid financial position.

The Group’s and Bank’s loan portfolio with the dependency on Russia, Ukraine and Belarus is EUR 30.7 mln, 45 client , 8% of total LP. Out of which very high dependency on Russian economy-EUR 18.8 mln, 32 clients, 4.9% of total LP. High dependency –EUR 11.8 mln, 13 clients, 3.1% of total LP. Based on the above analytics of the company dependency on Russian, Ukrainian and Belarusian Economy, does not have such an impact as to pose a threat on Group’s and Bank’s going concern.

Change in Board of Directors of the Bank

From March 2022 the Bank has new director Marita Sheshaberidze and from April 2022 director Grigol Saliashvili has resigned.