

JSC ProCredit Bank

International Financial Reporting Standards
Consolidated and Separate Financial Statements and
Independent Auditors' Report
31 December 2020

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION	1
CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2
CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY	3
CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS	4

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS	5
2. BUSINESS ENVIRONMENT.....	5
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	6
4. USE OF ESTIMATES AND JUDGEMENTS	18
5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED	19
6. CASH AND BALANCES WITH THE NBG	19
7. DUE FROM BANKS.....	20
8. INVESTMENTS IN DEBT SECURITIES	20
9. INVESTMENTS.....	21
10. LOANS AND ADVANCES TO CUSTOMERS.....	22
11. INVESTMENT PROPERTIES.....	29
12. INTANGIBLE ASSETS	29
13. PROPERTY AND EQUIPMENT.....	30
14. RIGHT-OF-USE ASSETS.....	30
15. OTHER ASSETS	31
16. DUE TO BANKS	31
17. CUSTOMER ACCOUNTS	32
18. OTHER BORROWED FUNDS	34
19. OTHER LIABILITIES	35
20. INCOME TAXES	35
21. SUBORDINATED DEBT	36
22. SHARE CAPITAL AND SHARE PREMIUM	36
23. NET DEBT RECONCILIATION	36
24. NET INTEREST INCOME	37
25. FEE AND COMMISSION INCOME AND EXPENSES.....	38
26. OTHER ADMINISTRATIVE EXPENSES.....	38
27. OTHER OPERATING INCOME AND EXPENSES	39
28. FINANCIAL RISK AND CAPITAL MANAGEMENT.....	39
29. FAIR VALUE OF FINANCIAL INSTRUMENTS.....	62
30. CONTINGENT LIABILITIES AND COMMITMENTS.....	63
31. RELATED PARTY TRANSACTIONS	64
32. EVENTS AFTER THE END OF THE REPORTING PERIOD	65



KPMG Georgia LLC
GMT Plaza
5th Floor, 4, Liberty square
Tbilisi, Georgia 0105
Telephone +995 322 93 5713
Internet www.kpmg.ge

Independent Auditors' Report

To the Shareholders and Management of JSC ProCredit Bank

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 the separate statements of financial position as at 31 December 2020, the consolidated and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 Bank, respectively, as at 31 December 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the consolidated and separate financial statements does not cover the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work performed, we conclude that the Management Report:

- is consistent with the consolidated and separate financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.



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

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS, 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 financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and the 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 auditors' 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 auditors' 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 auditors' 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, including the disclosures, and whether 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan:

A handwritten signature in blue ink, appearing to read 'Karen Safaryan', with a stylized flourish at the end.

KPMG Georgia LLC
6 May 2021


PROCREDIT BANK GROUP

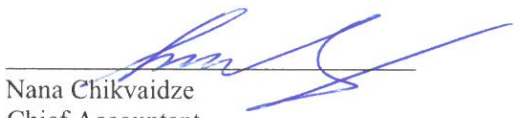
Consolidated and Separate Statements of Financial Position

in '000 GEL

	Notes	Consolidated		Separate	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Assets					
Cash and balances with the NBG	6	199,902	86,983	199,902	86,983
Mandatory reserve deposits with NBG		215,459	175,926	215,459	175,926
Investments in debt securities	8	51,465	21,917	51,465	21,917
Investments in equity securities	9	234	234	234	234
Investments in subsidiary	9	-	-	6,100	6,100
Due from banks	7	31,978	83,489	31,978	83,489
Loans and advances to customers	10	1,354,923	1,070,120	1,354,923	1,070,120
Current tax asset		4,019	1,553	4,019	1,553
Investment properties	11	8,515	8,592	5,395	5,247
Intangible assets	12	781	544	781	544
Property and equipment	13	47,875	50,998	47,875	50,998
Right-of-use assets	14	1,951	2,871	1,951	2,871
Other assets	15	6,256	8,521	5,996	8,201
Total assets		1,923,358	1,511,748	1,926,078	1,514,183
Liabilities					
Due to banks	16	55,717	70,407	55,717	70,407
Financial liabilities at fair value through profit or loss		3,415	1,258	3,415	1,258
Customer accounts	17	977,404	767,297	982,985	771,385
Other borrowed funds	18	582,858	406,707	582,858	406,707
Subordinated debt	21	53,753	45,314	53,753	45,314
Lease liabilities	23	2,300	2,938	2,300	2,938
Other liabilities	19	1,462	1,439	1,097	1,173
Other provisions		721	430	721	430
Deferred tax liability	20	2,639	1,604	2,639	1,604
Total liabilities		1,680,269	1,297,394	1,685,485	1,301,216
Equity					
Share capital	22	100,352	100,352	100,352	100,352
Share premium	22	51,324	51,324	51,324	51,324
Retained earnings		91,413	62,678	88,917	61,291
Total equity		243,089	214,354	240,593	212,967
Total equity and liabilities		1,923,358	1,511,748	1,926,078	1,514,183

Approved for issue and signed on behalf of the Board of Directors on 6 May 2021.


Alex Matua
General Director


Nana Chikvaidze
Chief Accountant

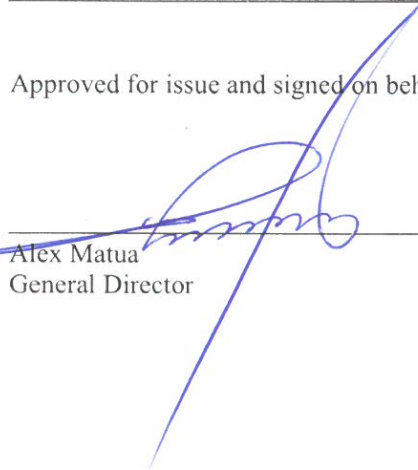
The notes set out on pages 5 to 65 form an integral part of these Financial Statements.

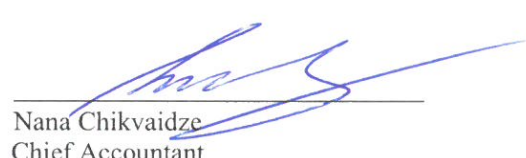
PROCREDIT BANK GROUP

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

in '000 GEL	Notes	Consolidated		Separate	
		2020	2019	2020	2019
Interest income calculated using effective interest rate method		94,796	90,882	94,796	90,882
Interest expense		(42,237)	(42,710)	(42,237)	(42,710)
Net interest income	24	52,559	48,172	52,559	48,172
(Charge)/Reversal of impairment losses on loans	10	(4,868)	2,960	(4,868)	2,960
Net interest income after provision for loan impairment		47,691	51,132	47,691	51,132
Fee and commission income	25	11,835	12,793	11,836	12,793
Fee and commission expenses	25	(7,502)	(7,835)	(7,502)	(7,835)
Net (loss)/gain from trading in foreign currency		(360)	16,579	(360)	16,579
Net foreign exchange translation gain/(loss)		12,142	(2,519)	12,142	(2,519)
Fair value change of derivatives		(2,267)	(1,034)	(2,267)	(1,034)
Personnel expenses		(13,140)	(13,371)	(13,085)	(13,294)
Other administrative expenses	26	(22,524)	(24,577)	(22,470)	(24,510)
Other operating income	27(a)	5,090	5,229	3,862	4,245
Other operating expense	27(b)	(1,168)	(3,261)	(1,159)	(1,965)
Profit before income tax		29,797	33,136	28,688	33,592
Income tax expense	20	(1,062)	(4,721)	(1,062)	(4,721)
Profit and total comprehensive income for the year		28,735	28,415	27,626	28,871

Approved for issue and signed on behalf of the Board of Directors on 6 May 2021.


 Alex Matua
 General Director

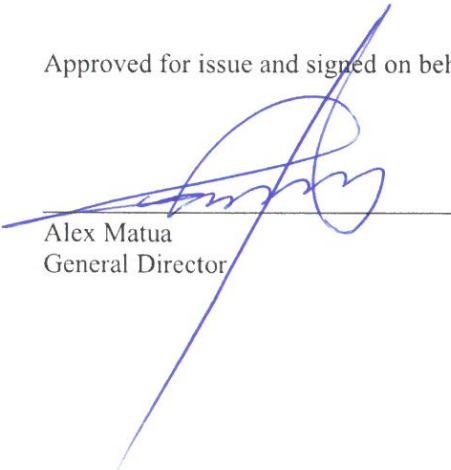

 Nana Chikvaidze
 Chief Accountant

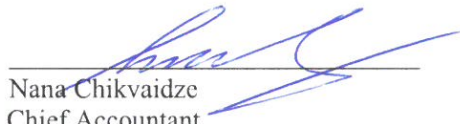
PROCREDIT BANK GROUP

Consolidated and Separate Statements of Changes in Equity

	Notes	Consolidated				Separate			
		Share capital	Share premium	Retained earnings	Total	Share capital	Share premium	Retained earnings	Total
in '000 GEL									
Balance at 1 January 2019		88,915	36,388	60,636	185,939	88,915	36,388	58,793	184,096
Total comprehensive income									
Profit for the year		-	-	28,415	28,415	-	-	28,871	28,871
Total comprehensive income for the year		-	-	28,415	28,415	-	-	28,871	28,871
Transactions with owners, recorded directly in equity									
Dividends declared	22	-	-	(26,373)	(26,373)	-	-	(26,373)	(26,373)
Shares issued	22	11,437	14,936	-	26,373	11,437	14,936	-	26,373
Transactions with owners, recorded directly in equity		11,437	14,936	(26,373)	-	11,437	14,936	(26,373)	-
Balance at 31 December 2019		100,352	51,324	62,678	214,354	100,352	51,324	61,291	212,967
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

Approved for issue and signed on behalf of the Board of Directors on 6 May 2021.


 Alex Matua
 General Director


 Nana Chikvaidze
 Chief Accountant

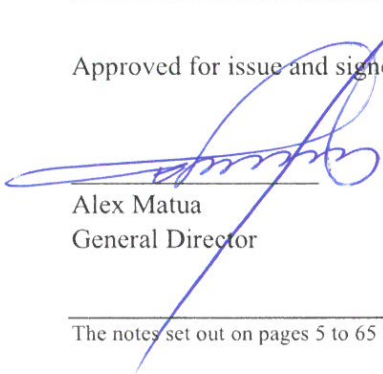
PROCREDIT BANK GROUP

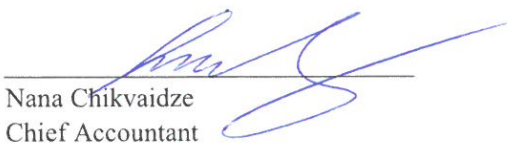
Consolidated and Separate Statements of Cash Flows

in '000 GEL

	Notes	Consolidated		Separate	
		2020	2019	2020	2019
Profit before income tax		29,797	33,136	28,688	33,592
Accrual/(release) of provision for loan impairment	10	4,868	(2,960)	4,868	(2,960)
Depreciation and amortization		5,637	5,837	5,628	5,812
Loss on write off of repossessed property.		-	1,627	-	780
Net foreign exchange translation (gain)/loss		(12,142)	2,519	(12,142)	2,519
Fair value change of derivatives		2,267	1,034	2,267	1,034
Accrual/(reversal) of other provisions		195	38	195	(383)
Gain from disposal of property and equipment		(1,577)	(28)	(1,577)	-
Net interest income		(52,559)	(48,172)	(52,559)	(48,172)
Operating cash flows before changes in operating assets and liabilities		(23,514)	(6,969)	(24,632)	(7,778)
<i>Net change in assets and liabilities from operating activities after non-cash items:</i>					
Mandatory reserve deposit with the NBG		(8,374)	5,667	(8,374)	5,667
Loans and advances to customers		(111,550)	(1,665)	(110,254)	(1,665)
Other assets		2,240	(932)	2,181	(335)
Due to banks		(30,604)	(4,780)	(30,604)	(4,780)
Financial liabilities at fair value through profit or loss		(110)	1,035	(110)	1,035
Customer accounts		105,704	36,580	107,197	37,322
Other liabilities		(90)	-	(192)	(142)
Total net change in assets and liabilities from operating activities after non-cash items		(42,784)	35,905	(40,156)	37,102
Interest received		87,861	95,649	87,861	95,649
Interest paid		(41,394)	(42,066)	(41,394)	(42,066)
Income tax paid		(2,493)	(7,084)	(2,493)	(7,083)
Net cash (used in)/from operating activities		(22,324)	75,435	(20,814)	75,824
Purchase of property and equipment and intangible assets		(2,944)	(2,167)	(2,944)	(2,167)
Proceeds from sale of property and equipment and investment properties		4,363	2,157	2,853	1,769
Purchase of investments in debt securities		(130,651)	(72,700)	(130,651)	(72,700)
Proceeds from sale of investments in debt securities		101,139	80,710	101,139	80,710
Cash flows (used in)/ from investing activities		(28,093)	8,000	(29,603)	7,612
Dividends paid	22	-	(26,373)	-	(26,373)
Shares issued		-	26,373	-	26,373
Payment of lease liabilities		(1,648)	(711)	(1,648)	(711)
Proceeds from other borrowed funds		162,592	169,416	162,592	169,415
Repayments of other borrowed funds		(71,822)	(245,018)	(71,822)	(245,018)
Proceeds of subordinated debts		-	-	-	-
Payments of subordinated debts		-	(43,229)	-	(43,229)
Cash flows from/(used in) financing activities		89,122	(119,542)	89,122	(119,543)
Net increase/(decrease) in cash and cash equivalents		38,705	(36,107)	38,705	(36,107)
Cash and cash equivalents at the beginning of the year		170,472	200,203	170,472	200,203
Effects of exchange rate changes		22,703	6,376	22,703	6,376
Cash and cash equivalents at the end of the year	6	231,880	170,472	231,880	170,472

Approved for issue and signed on behalf of the Board of Directors on 6 May 2021.


Alex Matua
General Director


Nana Chikvaidze
Chief Accountant

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

1. ORGANIZATION AND OPERATIONS

These consolidated and separate financial statements (hereafter the “Financial Statements”) include the financial statements of JSC ProCredit Bank (the Bank) and its subsidiary (together referred to as the Group). The Bank and its subsidiary are joint stock and limited liability companies, respectively, as it is defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia. The Bank was registered by Vake District Court on 04 January 1999, registration number is 204851197.

JSC ProCredit Bank is a development-oriented bank specialized for small and medium enterprises operating on the territory of Georgia. For supervisory purposes the Bank has the general banking licence number 233 issued on 13 May 1999 and is therefore supervised by the National Bank of Georgia (the NBG).

The address of the Bank’s registered office is: 21 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia. The Bank’s head office is located in Tbilisi. The Bank serves its clients through 4 branches, 1 service points and 7 self-service areas in Tbilisi, Kutaisi, Batumi and Zugdidi.

The Bank has one wholly-owned subsidiary, LLC ProCredit Properties, which was formed as a limited liability company under Georgian law on 23 July 2007 with the principal activity of holding and managing movable and immovable properties acquired through auctions resulting from defaults of the Bank’s customers.

The Bank is wholly owned by its immediate and ultimate parent company ProCredit Holding AG & Co. KGaA (the Parent). As of 31 December 2020 and 31 December 2019, the following shareholders directly owned more than 5% of the total outstanding shares of the Parent:

	% of ownership interest held as of	
	31 December	
	2020	2019
Zeitinger Invest GmbH	17	17
KfW - Kreditanstalt für Wiederaufbau	13.2	13.2
DOEN Foundation	12.5	12.5
IFC - International Finance Corporation	10	10
TIAA-CREF - Teachers Insurance and Annuity Association	8.6	8.6
Other	38.7	38.7
Total	100	100

Other shareholders individually owned less than 5% of the outstanding shares. As at 31 December 2020 and 31 December 2019 the Group and Bank had no ultimate controlling party.

Refer to Note 31 for related party transactions.

2. BUSINESS ENVIRONMENT

The Group’s and Bank’s operations are located in Georgia. Consequently, the Group and Bank are exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated and separate financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group and Bank. The future business environment may differ from management’s assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The Financial Statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss (FVTPL). Group and Bank accounts for derivative (foreign currency contracts) as fair value through profit or loss and investment in equity shares of as fair value through other comprehensive income.

Basis of consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s and Bank’s policies.

Subsidiaries

Subsidiaries are investees controlled by the Group and Bank. The Group and Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Bank accounts for its investments in subsidiaries at cost and consistently applies same accounting policies for each category of investments. Investments in subsidiaries is measured at acquisition cost less impairment losses.

The Bank accounts for investment in subsidiaries from the date that control effectively commences until the date that control effectively ceases.

Financial instruments - key measurement terms

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

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

Financial instruments – initial recognition

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group and/or Bank becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets – classification and subsequent measurement – measurement categories

The Group and Bank classifies financial assets in the following measurement categories: Fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) and amortised cost (“AC”). The classification and subsequent measurement of debt financial assets depends on: (i) the Group’s and Bank’s model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group and Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group and Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, and how risks are assessed and managed. Refer to Note 4 for critical judgements applied by the Group and Bank in determining the business models for its financial assets.

On initial recognition of an equity investment that is not held for trading, the Group/Bank may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis. The Group/Bank has elected to account as such Investments in equity securities.

Financial assets – classification and subsequent measurement – cash flow characteristics

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

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

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

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 recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

The 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 derecognises 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 recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The 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 recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the 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 recognised 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 derecognised 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 recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

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 recognised amounts and there is an intention to settle on a net basis, or realise 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 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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").

Reposessed collateral

Reposessed collateral represents financial and non-financial assets acquired by the Group and Bank in settlement of overdue loans. The Group and Bank recognises reposessed 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 reposessed 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 reposessed 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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%
- 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 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 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 recognised 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 authorising a third party to draw drafts on the Group and Bank up to a stipulated amount under specific terms and conditions, are collateralised 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 authorisations 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 shareholders and other international financial institutions 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 Bank'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 2020.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 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.
- 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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2020 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 consolidated 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).
- IFRS 17 *Insurance Contracts and amendments to IFRS 17 Insurance Contracts*.

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 2020	31 December 2019
Cash on hand	38,625	46,722
Balances at the NBG excluding mandatory reserves	7,664	4,396
Nostro accounts other than with NBG	153,618	35,868
Loss allowance for balances with NBG and Nostro accounts	(5)	(3)
Total cash and balances with the NBG in the statement of financial position	199,902	86,983

In 2020, 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 positive outlook (2019: 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 2020	31 December 2019
Cash and balances with NBG, net	199,902	86,983
Due from banks with a maturity up to three months (Note 7)	31,978	83,489
Total cash and cash equivalents in the consolidated and separate statement of cash flows	231,880	170,472

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020 the Group and Bank has one bank (2019: one bank), whose balance exceeds 10% of equity. The gross amount of the balance as at 2020 was GEL 139,129 thousand (2019: GEL 33,018 thousand).

As at 31 December 2020 the Group and Bank had 1 related party bank, whose balance of GEL 139,129 thousand (including Nostro accounts and deposits) exceeded 10% of equity. As at 31 December 2019 the Group and Bank had 1 related party bank, whose balance of GEL 34,904 thousand exceeded 10% of equity.

As at 31 December 2020 the Group and Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2019: Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. DUE FROM BANKS

Consolidated and Separate

in '000 GEL	31 December 2020	31 December 2019
Due from Banks in OECD* countries	3,651	43,370
Due from Banks in non-OECD countries	28,328	40,120
Loss allowance for loans to banks	(1)	(1)
Total due from banks	31,978	83,489

* 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	AA-	A-	BBB	BB-	B-	B+	B	Total
Neither past due nor impaired								
31 December 2020	-	-	3,652	17,004		10,002	1,320	31,978
31 December 2019	28,646	14,324	479		500		39,540	83,489

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 2020	31 December 2019
Certificates of deposit of the NBG	19,209	16,993
Treasury bills issued by the Government of Georgia	32,256	4,924
Total investments in debt securities	51,465	21,917

No investment in debt securities are past due or impaired. As at 31 December 2020 the Group and Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2019: Stage 1). Management estimates that ECL is immaterial at reporting dates.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020	Investment as at 31 December 2020 ('000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

Subsidiary	Country of incorporation	Ownership as at 31 December 2019	Investment as at 31 December 2019 ('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 2020 net assets of the Subsidiary is GEL 10,335 thousand (2019: GEL 9,443 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 2020	Ownership interest	Amount At 31 December 2019
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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 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 trade loans				
loan size up to USD 50,000	25,994	(1,130)	24,864	1.84%
loan size USD 50,000 to USD 250,000	166,833	(4,293)	162,540	12.00%
loan size more than USD 250,000	250,865	(1,954)	248,911	18.37%
Total wholesale and trade loans	443,692	(7,377)	436,315	32.20%
Agricultural, forestry and fishing loans				
loan size up to USD 50,000	3,707	(46)	3,661	0.27%
loan size USD 50,000 to USD 250,000	19,649	(552)	19,097	1.41%
loan size more than USD 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 USD 50,000	11,671	(650)	11,021	0.81%
loan size USD 50,000 to USD 250,000	77,439	(3,875)	73,564	5.43%
loan size more than USD 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 USD 50,000	2,977	(40)	2,937	0.22%
loan size USD 50,000 to USD 250,000	17,939	(131)	17,808	1.31%
loan size more than USD 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 USD 50,000	27,522	(805)	26,717	1.97%
loan size USD 50,000 to USD 250,000	147,389	(8,013)	139,376	10.29%
loan size more than USD 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 USD 50,000	31,926	(1,096)	30,830	2.28%
loan size USD 50,000 to USD 250,000	79,100	(2,720)	76,380	5.64%
loan size more than USD 250,000	3,441	(70)	3,371	0.25%
Total housing loans	114,467	(3,886)	110,581	8.16%
Investment loans				
loan size up to USD 50,000	3,390	(89)	3,301	0.24%
loan size USD 50,000 to USD 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%

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2019:

in '000 GEL (except for number of outstanding loans and loan sizes) At 31 December 2019	Gross amount	ECL allowance for impairment	Net amount	Share of total portfolio
Wholesale and trade loans				
loan size up to USD 50,000	24,050	(1,235)	22,815	2.13%
loan size USD 50,000 to USD 250,000	136,278	(2,499)	133,779	12.50%
loan size more than USD 250,000	181,180	(1,471)	179,709	16.79%
Total wholesale and trade loans	341,508	(5,205)	336,303	31.43%
Agricultural, forestry and fishing loans				
loan size up to USD 50,000	3,020	(35)	2,985	0.28%
loan size USD 50,000 to USD 250,000	16,944	(463)	16,481	1.54%
loan size more than USD 250,000	18,629	(120)	18,509	1.73%
Total agricultural, forestry and fishing loans	38,593	(618)	37,975	3.55%
Production loans				
loan size up to USD 50,000	11,220	(370)	10,850	1.01%
loan size USD 50,000 to USD 250,000	60,433	(2,694)	57,739	5.40%
loan size more than USD 250,000	81,338	(1,411)	79,927	7.47%
Total production loans	152,991	(4,475)	148,516	13.88%
Transportation and storage loans				
loan size up to USD 50,000	2,769	(217)	2,552	0.24%
loan size USD 50,000 to USD 250,000	12,047	(159)	11,888	1.11%
loan size more than USD 250,000	7,186	(31)	7,155	0.67%
Total transportation and storage loans	22,002	(407)	21,595	2.02%
Other economic activities				
loan size up to USD 50,000	26,493	(571)	25,922	2.42%
loan size USD 50,000 to USD 250,000	132,138	(4,586)	127,552	11.92%
loan size more than USD 250,000	272,475	(4,472)	268,003	25.04%
Total other economic activities loans	431,106	(9,629)	421,477	39.39%
Total Business loans	986,200	(20,334)	965,866	90.26%
Housing loans				
loan size up to USD 50,000	33,385	(774)	32,611	3.05%
loan size USD 50,000 to USD 250,000	67,980	(2,337)	65,643	6.13%
loan size more than USD 250,000	2,432	(17)	2,415	0.23%
Total housing loans	103,797	(3,128)	100,669	9.41%
Investment loans				
loan size USD 50,000 to USD 250,000	3,203	(91)	3,112	0.29%
loan size more than USD 250,000	351	(2)	349	0.03%
Total investment loans	3,554	(93)	3,461	0.32%
Other loans	129	(5)	124	0.01%
Total Private loans	107,480	(3,226)	104,254	9.74%
Total	1,093,680	(23,560)	1,070,120	100.00%

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

As at 31 December 2020 and 2019 the Group and the Bank had no borrowers or groups of connected borrowers whose loan balances exceeded 10% of equity.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 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

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2019	997,060	23,986	28,768	-	1,049,814
New financial assets originated	439,790	-	-	1,148	440,938
Modification of contractual cash flows of financial assets	157	(33)	54	-	178
Derecognitions	(212,202)	(4,013)	(10,991)	-	(227,206)
Write-offs	-	-	(9,492)	-	(9,492)
Changes in interest accrual	1,681	272	975	29	2,957
Repayments	(199,892)	(6,870)	(4,303)	(42)	(211,107)
Transfer from Stage 1 to Stage 2	(54,269)	54,269	-	-	-
Transfer from Stage 1 to Stage 3	(10,398)	-	10,398	-	-
Transfer from Stage 2 to Stage 1	17,708	(17,708)	-	-	-
Transfer from Stage 2 to Stage 3	-	(15,926)	15,926	-	-
Transfer from Stage 3 to Stage 2	-	1,156	(1,156)	-	-
Transfer from Stage 3 to Stage 1	67	-	(67)	-	-
Foreign exchange and other movements	45,916	1,300	380	2	47,598
Gross outstanding amount as at 31 December 2019	1,025,618	36,433	30,492	1,137	1,093,680

The total amount of loans recoveries of amounts previously written off during the year 2020 was GEL 6,441 thousand (2019: GEL 7,690 thousand).

Further analysis of loans is detailed in Note 28.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 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)

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2019	(8,683)	(2,690)	(15,183)	-	(26,556)
New financial assets originated	(3,732)	-	-	-	(3,732)
Release due to derecognition	2,208	1,676	6,362	-	10,246
Transfer from Stage 1 to Stage 2	455	(455)	-	-	-
Transfer from Stage 1 to Stage 3	76	-	(76)	-	-
Transfer from Stage 2 to Stage 1	(177)	177	-	-	-
Transfer from Stage 2 to Stage 3	-	2,060	(2,060)	-	-
Transfer from Stage 3 to Stage 2	-	(175)	175	-	-
Transfer from Stage 3 to Stage 1	(1)	-	1	-	-
Increase in PDs/LGDs/EaDs	(1,637)	(6,358)	(15,128)	(97)	(23,220)
Decrease in PDs/LGDs/EaDs	5,462	5,022	3,653	-	14,137
Usage of allowance	-	-	9,492	-	9,492
Increase due to modification without derecognition	(51)	(455)	(2,013)	-	(2,519)
Decrease due to modification without derecognition	66	49	13	-	128
Foreign exchange and other movements	(305)	(418)	(813)	-	(1,536)
Balance at 31 December 2019	(6,319)	(1,567)	(15,577)	(97)	(23,560)

Amount of recoveries of written of loans for 2020 is GEL 6,440 thousand (2019: 7,690 thousand)

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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
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

Analysis by credit quality of loans outstanding at 31 December 2019 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	323,801	37,026	136,536	21,073	402,362	98,004	3,299	122	1,022,223
- less than 30 days overdue	63	48	591	465	1,702	521	4	1	3,395
Total Stage 1 loans	323,864	37,074	137,127	21,538	404,064	98,525	3,303	123	1,025,618
Stage 2									
Not in Arrears	10,390	1,105	6,564	39	11,721	1,119	41	-	30,979
- less than 30 days overdue	938	-	344	-	664	-	110	-	2,056
- 31 to 90 days overdue	199	-	1,487	-	1,019	676	16	1	3,398
Total Stage 2 loans	11,527	1,105	8,395	39	13,404	1,795	167	1	36,433
Stage 3									
Not in Arrears	1,883	52	5,137	-	1,430	907	24	4	9,437
- less than 30 days overdue	254	-	139	17	-	544	-	-	954
- 31 to 90 days overdue	1,844	-	-	224	3,235	822	-	-	6,125
- over 90 days overdue	2,135	360	2,193	184	7,837	1,204	62	1	13,976
Total Stage 3 loans	6,116	412	7,469	425	12,502	3,477	86	5	30,492

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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	-	2	-	-	-	-	-	-	2
- over 90 days overdue	-	-	-	-	1,135	-	-	-	1,135
Total POCI loans	-	2	-	-	1,135	-	-	-	1,137
Less impairment provisions	(5,205)	(618)	(4,475)	(407)	(9,628)	(3,128)	(95)	(4)	(23,560)
Total loans and advances to customers	336,302	37,975	148,516	21,595	421,477	100,669	3,461	125	1,070,120

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's credit exposure is mainly towards medium sized business and exposure to the hospitality sector is rather limited. 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. As result of the response to the first wave of pandemic the Bank provided moratorium on a loan portfolio with the gross carrying amount of GEL 397 million including restructuring in amount of GEL 41 million, out of the above amount as at 31 December 2020 the remaining amount of gross book value of portfolio under moratorium is GEL 74 million including GEL 28 million restructuring. Total amount of expected credit loss balance on a portfolio that remains under moratorium including restructuring as at 31 December 2020 is GEL 3.3 million.

During 2020 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.

Key assumptions and judgments for estimating allowance for loan impairment

Key assumptions used by the Group and Bank in estimation of the expected credit loss on loans to customers are as follows:

- Probability of default(PD)
- Loss given default (LGD)

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

Change in these estimates by 10% increase/decrease could affect the expected credit loss on loans to customers for 2020 by GEL 3,779 thousand. (2019: GEL 2,356 thousand)

Expected credit loss calculation for stage 3 loans that are assessed individually assume only cash flow recoveries from collateral.

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 was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group and Bank does not necessarily update the valuation of collateral as at each reporting date.

The following tables provide information on collateral securing loans and advances to customers by type of collateral as at 31 December 2020 and 2019:

in '000 GEL	Real	Financial	Cash			No	
At 31 December 2020	estate	guarantees *	collateral	Other	Guarantors	collateral	Total
Wholesale and trade	367,848	34,193	-	7,952	25,508	814	436,315
Agriculture, forestry and fishing	38,857	1,431	-	355	39	275	40,956
Production	165,739	10,875	276	20,898	9,534	754	208,075
Transportation and storage	28,199	2,518	-	13,099	430	1,407	45,652
Other economic activities	479,130	7,704	562	21,867	-	-	509,267
Housing	110,368	-	133	80	-	-	110,581
Investment loans	1,323	-	560	-	5	2,101	3,989
Other	-	-	-	-	-	89	89
Total	1,191,464	56,721	1,531	64,251	35,516	5,436	1,354,923

in '000 GEL	Real	Financial*	Cash			No	
At 31 December 2019	estate	guarantees	collateral	Other	Guarantors	collateral	Total
Wholesale and trade	312,099	10,273	332	8,268	4,342	989	336,303
Agriculture, forestry and fishing	34,657	880	724	704	150	861	37,976
Production	118,133	9,480	911	17,253	2,599	141	148,517
Transportation and storage	17,055	459	-	3,827	151	103	21,595
Other economic activities	392,846	6,848	828	12,841	7,066	1,048	421,477
Housing	100,604	-	65	-	-	-	100,669
Investment loans	1,500	-	576	-	154	1,229	3,459
Other	1	-	-	-	-	123	124
Total	976,895	27,940	3,436	42,893	14,462	4,494	1,070,120

*From international financial institutions.

As at 31 December 2020 and 2019 '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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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	2020	2019
Net book value at 1 January	8,592	9,875
Additions	1,596	1,004
Disposals	(1,586)	(2,168)
Depreciation for the year	(164)	(179)
Disposal of depreciation	77	60
Net book value at 31 December	8,515	8,592
Total acquisition costs	9,703	9,693
Accumulated depreciation	(1,188)	(1,101)
Net book value at 31 December	8,515	8,592

Rental income in 2020 under operating leases was GEL 1,308 thousand (2019: GEL 1,238 thousand).

Separate

in '000 GEL	2020	2019
Net book value at 1 January	5,247	5,401
Additions	301	-
Depreciation for the year	(153)	(154)
Net book value at 31 December	5,395	5,247
Total acquisition costs	6,582	6,281
Accumulated depreciation	(1,187)	(1,034)
Net book value at 31 December	5,395	5,247

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	2020	2019
Net book value as at 1 January	544	1,287
Additions	869	600
Disposal	-	(5,904)
Amortisation for the year	(632)	(563)
Disposal of amortisation	-	5,124
Net book value as at 31 December	781	544
Total acquisition costs as at 31 December	5,441	4,572
Accumulated amortisation as at 31 December	(4,660)	(4,028)
Net book value as at 31 December	781	544

In 2019, the Group and Bank had written off unused Microsoft licenses in amount of GEL 5,904 thousand.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2019	44,433	11,158	55,591
Additions	280	1,446	1,726
Disposals - at cost	(2,245)	(1,916)	(4,161)
Depreciation for the year	(1,116)	(3,330)	(4,446)
Disposals - accumulated depreciation	385	1,903	2,288
Net book value at 31 December 2019	41,737	9,261	50,998
Total acquisition costs	49,962	31,211	81,173
Accumulated depreciation	(8,225)	(21,950)	(30,175)
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 31 December 2020	39,792	8,083	47,875

14. RIGHT-OF-USE ASSETS

Consolidated and Separate

Right-of-use assets

in '000 GEL	2020	2019
Net book value at 1 January	2,871	1,778
Additions	217	1,940
Disposals	(1,224)	(329)
Depreciation for the year	(669)	(650)
Disposals - accumulated depreciation	756	132
Net book value at 31 December 2020	1,951	2,871

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

15. OTHER ASSETS

At 31 December 2020 and 2019, other assets were as follows:

Consolidated

in '000 GEL	31 December 2020	31 December 2019
Accounts receivable from credit card and online payment system companies and money transfer agencies	971	3,914
Security deposit	593	514
Other	166	138
Loss allowance for account receivables	(73)	(48)
Total other financial assets	1,657	4,518
<i>Non-current</i>		
Prepayments for court fees and charges, net of provision	963	892
Prepayments for fixed assets	473	476
Other	-	127
<i>Current</i>		
Prepayments for various services	2,783	2,134
Inventory and other	380	374
Total other non-financial assets	4,599	4,003
Total	6,256	8,521

Separate

in '000 GEL	31 December 2020	31 December 2019
Accounts receivable from credit card and online payment system companies and money transfer agencies	851	3,730
Security deposit	593	514
Other	167	138
Loss allowance for account receivables	(73)	(48)
Total other financial assets	1,538	4,334
<i>Non-current</i>		
Prepayments for court fees and charges, net of provision	963	892
Prepayments for fixed assets	473	476
Other	-	127
<i>Current</i>		
Prepayments for various services	2,644	2,000
Inventory and other	378	372
Total other non-financial assets	4,458	3,867
Total	5,996	8,201

The Group and Bank allocates other financial assets under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2019: 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.

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 2020	31 December 2019
Banks in OECD countries	54,594	69,801
Banks in non-OECD countries	1,123	606
Total	55,717	70,407

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020	31 December 2019
Current accounts	300,628	224,775
- private individuals	87,509	56,399
- legal entities	213,119	168,376
Savings accounts	354,934	249,314
- private individuals	197,093	158,694
- legal entities	157,841	90,620
Term deposit accounts	321,616	289,152
- private individuals	227,539	234,817
- legal entities	94,077	54,335
Other liabilities to customers	226	4,056
Total	977,404	767,297

Separate

in '000 GEL	31 December 2020	31 December 2019
Current accounts	306,210	228,864
- private individuals	87,509	56,399
- legal entities	218,701	172,465
Savings accounts	354,934	249,313
- private individuals	197,093	158,693
- legal entities	157,841	90,620
Term deposit accounts	321,616	289,152
- private individuals	227,539	234,817
- legal entities	94,077	54,335
Other liabilities to customers	225	4,056
Total	982,985	771,385

At 31 December 2020, the Group and Bank had included pending client transfers of GEL 226 thousand (2019: GEL 4,056 thousand) in other liabilities to customers.

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

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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

Consolidated

in '000 GEL	31 December 2020	31 December 2019
Private individuals	512,141	449,909
Trade and services	307,116	222,703
Transportation and communications	50,799	29,809
Construction	35,790	25,144
Manufacture	26,350	14,281
Government	22,456	-
Agriculture and forestry	15,260	12,045
Mining and mineral processing	3,083	832
Other	4,409	12,574
Total	977,404	767,297

Separate

in '000 GEL	31 December 2020	31 December 2019
Private individuals	512,141	449,909
Trade and services	312,697	226,792
Transportation and communications	50,799	29,809
Construction	35,790	25,144
Manufacture	26,350	14,281
Government	22,456	-
Agriculture and forestry	15,260	12,045
Mining and mineral processing	3,083	832
Other	4,409	12,573
Total	982,985	771,385

At 31 December 2020, the Group and Bank had 134 customers (2019: 91 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 435,341 thousand (2019: GEL 263,390 thousand) or 44 % (2019: 34 %) of total customer accounts.

At 31 December 2020, customer accounts included deposits of GEL 1,531 thousand (2019: GEL 3,436 thousand) held as collateral for on-balance exposures and GEL 4,258 thousand (2019: GEL 5,691 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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020	31 December 2019
Ministry of Finance of Georgia	December 2026	2,198	2,044
European Investment Bank (EIB)	March 2023	20,371	24,831
European Investment Bank (EIB)	April 2024	17,225	19,281
European Investment Bank (EIB)	July 2022	13,410	17,513
European Investment Bank (EIB)	October 2024	17,355	16,999
European Investment Bank (EIB)	February 2024	4,227	4,732
European Investment Bank (EIB)	April 2022	2,639	3,829
Council of Europe Development Bank (CEB)	August 2022	7,114	9,291
Council of Europe Development Bank (CEB)	April 2027	50,505	-
European Bank for Reconstruction and Development (EBRD)	August 2024	60,303	-
ProCredit Holding AG & Co. KGaA	May 2024	63,370	50,336
ProCredit Holding AG & Co. KGaA	April 2024	-	14,539
ProCredit Holding AG & Co. KGaA	April 2024	18,238	14,538
ProCredit Holding AG & Co. KGaA	August 2027	-	14,533
ProCredit Holding AG & Co. KGaA	August 2027	-	14,533
ProCredit Bank AG, Frankfurt am Main	June 2021	6,594	11,489
ProCredit Bank AG, Frankfurt am Main	August 2027	34,727	-
ProCredit Bank AG, Frankfurt am Main	April 2024	17,946	-
Total liabilities with fixed interest rates		336,222	218,488
Liabilities with variable interest rates			
European Bank for Reconstruction and Development(EBRD)	February 2024	57,481	49,791
European Bank for Reconstruction and Development(EBRD)	September 2023	26,409	30,813
GREEN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2025	40,383	-
ProCredit Bank AG, Frankfurt am Main	July 2024	36,590	29,183
Council of Europe Development Bank (CEB)	August 2021	3,530	6,162
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	42,384	37,242
Oesterreichische Entwicklungsbank AG(OEeB)	February 2024	39,859	35,028
Total liabilities with variable interest rates		246,636	188,219
Total liabilities		582,858	406,707

Below table shows maturity analysis of other borrowed funds as at 31 December 2020 and 31 December 2019 based on carrying amount.

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
As at 31 December 2019 (in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	43,338	311,329	52,040	406,707

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

19. OTHER LIABILITIES

Consolidated and Separate

in '000 GEL	31 December 2020	31 December 2019
Accounts payable	538	963
Other	465	182
Total other financial liabilities	1,003	1,145
Received prepayments and deferred fees from guarantees issued	459	294
Total other liabilities	1,462	1,439

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 2020 and 2019.

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	2020	2019
Current tax charge	27	3,756
Deferred tax charge	1,035	965
Income tax expense for the year	1,062	4,721

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

in '000 GEL	2020	2019
Profit before tax	29,797	33,136
Theoretical tax charge at statutory rate of 15%	4,470	4,970
Tax effect of items which are not deductible:		
– Non-tax deductible expenses/(income)/ effects of change of tax legislation	(3,408)	(249)
Income tax expense for the year	1,062	4,721

The tax effect of the movements in the temporary differences is detailed below and is recorded at the rate of 15% (2019:15%).

in '000 GEL	31 December 2020	Charge to profit or loss	31 December 2019	Credit to profit or loss	1 January 2019
Deferred tax on:					
Allowances for losses on loans and advances to customers	2,637	1,202	1,435	655	780
Other temporary differences	2	(167)	169	310	(141)
Total deferred tax liability	2,639	1,035	1,604	965	639

There are no material unrecognised deferred tax assets or liabilities, or any taxes recognised 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 2020 and 2019.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

21. SUBORDINATED DEBT

Consolidated and Separate

The subordinated debt can be broken down as follows:

in '000 GEL	Due	31 December 2020	31 December 2019
Subordinated debt with fixed interest rates			
ProCredit Holding AG & Co. KGaA	April 2025	25,169	21,913
ProCredit Holding AG & Co. KGaA	April 2025	8,390	7,305
ProCredit Holding AG & Co. KGaA	September 2028	20,194	16,096
Total		53,753	45,314

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.

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 2020			31 December 2019		
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%	20,070,275	100,352	100%	20,070,275	100,352
Total	100%	20,070,275	100,352	100%	20,070,275	100,352

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2019	20,070,275	100,352	51,324
At 31 December 2020	20,070,275	100,352	51,324

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 2020 dividend were not declared and paid (2019: GEL 26,373 thousand, GEL 1.3 per share).

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

	Liabilities from financing activities			Total
	Other borrowed funds	Subordinated debt	Lease Liabilities	
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

	Liabilities from financing activities			Total
	Other borrowed funds	Subordinated debt	Lease Liabilities	
Balance at 1 January 2019	457,234	82,978	1,778	541,990
Proceeds	169,416	-	-	169,416
Repayments	(245,018)	(43,229)	(711)	(288,958)
Total changes from financing cash flows	(75,602)	(43,229)	(711)	(119,542)
The effect of changes in foreign exchange rates	25,205	5,692	-	30,897
Other changes				
Interest expense	19,427	5,427	103	24,957
New lease liability	-	-	1,768	1,768
Interest paid	(19,557)	(5,554)	-	(25,111)
Balance at 31 December 2019	406,707	45,314	2,938	454,959

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	2020	2019
Loans and advances to customers	88,809	85,282
Investment in debt securities	3,605	1,920
Cash and cash equivalents and due from banks	2,382	3,680
Total interest income calculated using effective interest rate method	94,796	90,882
Interest and similar expenses		
Customer accounts	(19,309)	(17,018)
Other borrowed funds	(19,084)	(19,427)
Subordinated debt	(3,569)	(5,427)
Lease liabilities	(150)	(103)
Due to banks	(125)	(735)
Total interest expenses	(42,237)	(42,710)
Net interest income	52,559	48,172

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

25. FEE AND COMMISSION INCOME AND EXPENSES

Consolidated and Separate

in '000 GEL

Fee and commission income	2020	2019
Payment transfers and cash transactions	3,723	4,074
Account maintenance fee	3,472	3,708
Debit/credit card service fee	2,701	3,327
Letters of credit and guarantees	1,823	1,551
Internet bank fee	21	24
SMS service fee	5	6
Other fee and commission income	90	103
Total fee and commission income	11,835	12,793
Fee and commission expenses		
Debit/credit card service fee	(5,533)	(5,989)
Account maintenance fee	(1,249)	(1,248)
Letters of credit and guarantees	(524)	(367)
Payment transfers and transactions	(103)	(112)
Service fee	(93)	(119)
Total fee and commission expenses	(7,502)	(7,835)
Net fee and commission income	4,333	4,958

26. OTHER ADMINISTRATIVE EXPENSES

Consolidated and Separate

Other administrative expenses include the following items:

in '000 GEL	2020	2019
Communication and IT expenses	5,553	4,706
Depreciation and amortization	5,473	5,658
Consulting services	3,035	2,544
Personnel recruitment, training and other staff-related expenses	2,399	2,916
Consulting and legal services	849	775
Utilities and electricity	761	790
Marketing, advertising and entertainment	649	1,831
Repair and maintenance	490	436
Insurances	363	318
Transport	337	879
Audit and other financial services	266	512
Office rent	116	135
Security service	96	293
Taxes other than on income	1,753	1,657
Other	384	1,127
Total	22,524	24,577

Administrative expenses above includes GEL 266 thousand (2019: GEL 512 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 812 thousand were incurred on staff training and related activities during 2020 (2019: GEL 1,741 Thousand).

In 2020 the monthly average number of persons employed by the Group and Bank was 361 people (2019: 341).

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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

	2020	2019
Senior Management	3	3
Middle Management	21	22
Other staff	251	242
Service contractors	86	74
Total	361	341

27. OTHER OPERATING INCOME AND EXPENSES

Consolidated

(a) Other operating income

in '000 GEL	2020	2019
Gain from disposal of property, and equipment	1,577	1,769
Rental income from investment properties	1,308	1,239
Income from sale of repossessed properties	787	819
Other operating income	1,418	1,402
Total	5,090	5,229

(b) Other operating expenses

in '000 GEL	2020	2019
Loss related to write/sale off of repossessed property	-	1,268
Expenses related for deposit insurance fund	488	333
Expenses from disposal of property and equipment	3	227
Other operating expense	677	1,433
Total	1,168	3,261

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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 2020 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 2019 (Pillar I + Pillar II)	2020	2019
Tier 1 Capital /RWA (required to be above 7.30%)	12.45%	15.20%
Tier 1 + Tier 2 Capital /RWA (required to be above 11.05%)	16.51%	19.82%

NBG introduced Pillar II buffers which were to be maintained from December 2017. As of 31 December 2020, the minimum requirements including set buffers for Tier 1 equals to 7.30% and for Regulatory capital 11.05% 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 decreased compared to December 2019 and this reflects the decision of the National Bank of Georgia regarding capital during pandemics.

In March of 2020, the National Bank of Georgia has taken emergency measures and approved certain mitigation measures in order to respond to the impact of COVID-19 on the country's financial sector. This plan considered the following:

- The planned increasing of the burden on Tier 1 from HHI and net GRAPE buffer **postponed**;
- The conservation buffer in volume of 2.5% of the total risk weighted assets has been **reduced to 0%**;
- currency induced credit risk buffer (CICR buffer) has been **reduced by 2/3**.

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	2020*	2019*
Tier 1 Capital / RWA	17.86%	18.57%
Tier 1 + Tier 2 Capital / RWA	21.05%	22.64%

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

in '000 GEL

As at 31 December	2020*	2019*
Ordinary share capital	100,352	100,352
Share premium	51,324	51,324
Prior period retained earnings	62,678	60,636
Profit for first nine months	22,975	19,040
Less other adjustments	(3)	(23)
Less dividends budgeted for the next year	-	(26,373)
Less intangible assets	(781)	(544)
Tier I capital	236,543	204,412
Adjusted Tier I capital	236,543	204,412
Subordinated loans	48,170	44,737
Tier II capital	48,170	44,737
Total regulatory capital	284,713	249,149

in '000 GEL

As at 31 December	2020*	2019*
RWA on balance	1,165,362	954,145
RWA off balance	35,185	24,424
RWA from open currency position	7,828	1
RWA from operational risk	115,978	121,776
Total RWA	1,324,353	1,100,346

* 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 2020 and 2019 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 295 million as at 31 December 2020 (2019: GEL 259 million). The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential, i.e. GEL 177 million, unaudited for 2020 (2019: GEL 155 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 calculated by determining the 12-months interest earnings at a standard interest rate shock for EUR/USD (two percentage points, Basel interest rate shock) and higher (historical) shock levels for local currency;
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

The volume of economic capital to cover credit risk stayed stable as at 31 December 2020 and 2019. 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 2020. The economic capital required to cover operational risk is calculated according to the Basel II standard approach.

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)	(Clients)	33.0%	97,197	49,240	16.7%
Counterparty Risk	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%

As at the end of December 2019 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)	(Clients)	33.0%	85,373	48,199	18.6%
Counterparty Risk	Commercial Banks	5.0%	12,935	2,689	1.0%
Market Risk	Interest Rate Risk	10.0%	25,871	14,462	5.6%
Market Risk	Currency Risk	2.0%	5,174	294	0.1%
Operational Risk	Operational Risk	10.0%	25,871	9,742	3.8%
Resources Available to Cover Risk		60.0%	155,224	75,386	29.1%

* These amounts are unaudited.

Management of individual risks

In 2020, the Group and Bank further developed and strengthened processes for the management of:

- (a) Credit risk
- (b) Liquidity risk.
- (c) Market risk.
- (d) Operational risk
- (e) Anti-money laundering activities

The Group and Bank places emphasis on a general understanding of the factors driving risk and an ongoing analysis and group-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely and managed appropriately. This includes, for example, ensuring that no products or services are offered unless they are thoroughly understood by all parties and can be properly managed.

Deviations from limits used for individual risks within which the Group and Bank positions its own risk strategies are only allowed upon approval of the Parent's General Risk Management Committee, but under consideration of being in compliance with stricter limits (e.g. in cases where such limits are stipulated by local regulations).

(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 banks are lending institutions 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.

The following table shows the maximum exposure to credit risk:

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 of 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 standardisation 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 373 borrower group credit exposures of more than USD 250,000 (2019: 355 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.¹
- 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.

Increase of loss allowances

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 BANK GROUP

Notes to the financial statements - 31 December 2020

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

	Underperforming loan portfolio	Default loan portfolio
At 31 December 2020	5.4%	3.0%
At 31 December 2019	3.3%	2.8%

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 honour its obligation to deliver assets as contractually agreed;

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

- 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 of systemic importance 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 2020	In %	31 December 2019	In %
Banking groups	31,978	10%	83,489	29%
OECD banks	3,651	1%	43,370	15%
Non-OECD banks	28,327	9%	40,119	14%
NBG	242,332	79%	197,315	69%
Mandatory reserve	215,459	70%	175,926	62%
Other exposures	26,873	9%	21,389	7%
Government of Georgia	32,256	11%	4,924	2%
Treasury bills	32,256	11%	4,924	2%
Total counterparty and issuer exposure	306,566	100%	285,728	100%

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 70% (2019: 62%) 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 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

in '000 GEL

31 December 2019	GEL	EUR	USD	Total
NBG	21,274	44,380	131,661	197,315
Mandatory reserve	-	44,331	131,595	175,926
Balances at NBG excluding mandatory reserves	4,281	49	66	4,396
Certificates of deposits of NBG	16,993	-	-	16,993
Government of Georgia	4,924	-	-	4,924
	26,198	44,380	131,661	202,239

(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 financial asset. Liquidity risk arises 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 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	
- Outflow	(404)	(54,505)	(84,785)	-	-	(139,694)	3,415
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 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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

in '000 GEL At 31 December 2019	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)	196,263	7,043	33,056	23,070	3,477	262,909	262,909
Due from banks	83,489	-	-	-	-	83,489	83,489
Loans and advances to customers	32,686	74,340	315,232	622,205	251,396	1,295,859	1,070,120
Investments in debt securities	17,000	-	5,007	-	-	22,007	21,917
Other financial assets	4,518	-	-	-	-	4,518	4,518
Total Financial Assets	333,956	81,383	353,295	645,275	254,873	1,668,782	1,442,953
Non-derivative Financial Liabilities							
Due to banks	1,218	69,189	-	-	-	70,407	70,407
Customer accounts	492,590	31,745	149,003	103,992	15,666	792,996	767,297
Other borrowed funds	4,550	6,732	41,552	347,697	57,504	458,035	406,707
Other financial liabilities	977	168	-	-	-	1,145	1,145
Lease liability	48	-	236	1,221	1,585	3,090	2,938
Subordinated debt	-	-	3,849	13,060	49,509	66,418	45,314
Derivative liabilities							
- Inflow	-	142,646	-	-	-	142,646	
- Outflow	-	(143,205)	-	-	-	(143,205)	1,258
Total Financial Liabilities	499,383	107,275	194,640	465,970	124,264	1,391,532	1,295,066
Liquidity Gap	(165,427)	(25,892)	158,655	179,305	130,609		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees							
	(165,427)	(191,319)	(32,664)	146,641	277,250		
Credit related commitments and guarantees							
	(97,422)	-	-	-	-	(97,422)	

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 2020, total current accounts within 'Customer accounts' amounted to GEL 300,628 thousand (2019: GEL 224,775 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 117,312 thousand. Significant part of total current accounts represents current accounts from legal entities (around 70%) 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 2020, 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 2020 and 2019. 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 2020	31 December 2019
Customer deposits	58.6%	59.3%
Liabilities to the companies under Parent’s control	17.2%	20.5%
Liabilities to IFIs	24.3%	19.9%
Other liabilities	0.1%	0.3%

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 regulatory 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 regulatory 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 2020.

The following significant exchange rates applied during the year:

in GEL	Average rate 2020	Average rate 2019	Reporting date spot rate 31 December 2020	Reporting date spot rate 31 December 2019
USD 1	3.1137	2.8168	3.2902	2.8646
EUR 1	3.5551	3.1535	4.0374	3.2181

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

in '000 GEL	EUR	USD	Other currencies	GEL	Total
As at 31 December 2020					
Assets					
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	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

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

in '000 GEL					
As at 31 December 2019	EUR	USD	Other currencies	Local currency	Total
Assets					
Cash and balances with the NBG (including mandatory reserve)	66,175	171,044	1,074	24,616	262,909
Due from banks	632	43,845	-	39,012	83,489
Investments in debt securities	-	-	-	21,917	21,917
Loans and advances to customers	403,164	395,345	-	271,611	1,070,120
Other financial assets	1,202	1,979	-	1,337	4,518
Total financial assets	471,173	612,213	1,074	358,493	1,442,953
Liabilities					
Due to banks	69,834	573	-	-	70,407
Customer accounts	132,595	454,336	475	179,891	767,297
Other borrowed funds	109,718	266,078	-	30,911	406,707
Other financial liabilities	360	88	-	697	1,145
Lease liability	194	2,717	-	27	2,938
Subordinated debt	16,096	29,218	-	-	45,314
Total financial liabilities	328,797	753,010	475	211,526	1,293,808
Net position	142,376	(140,797)	599	146,967	149,145
The effect of derivatives	(143,205)	142,546	100	-	(559)
Net position after derivatives	(829)	1,749	699	146,967	148,586

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

in '000 GEL		
As at 31 December 2019	95% confidence	99% confidence
Maximum loss (VaR)	(125)	(113)
Average loss in case confidence interval is exceeded	(61)	(57)

During 2020, the local currency depreciated by 25.5% to EUR and 14 % 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.

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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 given its current re-pricing structure. The earnings risk has a near term perspective (up to one year) and therefore identifies the risk arising from shorter term re-pricing mismatches. It is analyzed via a profit and loss (P/L) analysis of interest earnings.

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

in '000 GEL	Up to	1 - 3	3 - 6	6 -12	1 -5	More than	Non-	
As at 31 December 2020	1 month	months	months	months	years	5 years	interest bearing	Total
Assets								
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	286,849	-	-	-	-	-	128,512	415,361
Due from banks	27,005	-	-	-	-	-	4,973	31,978
Investments in debt securities	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 '000 GEL	Up to	1 - 3	3 - 6	6 -12	1 -5	More than	Non-	
As at 31 December 2019	1 month	months	months	months	years	5 years	interest bearing	Total
Assets								
Cash and balances with the NBG (including mandatory reserve)	215,657	-	-	-	-	-	47,252	262,909
Due from banks	81,969	-	-	-	-	-	1,520	83,489
Investment securities available-for-sale	16,993	-	4,924	-	-	-	-	21,917
Loans and advances to customers	109,759	111,162	206,908	170,267	352,336	114,767	4,921	1,070,120
Other financial assets	-	-	-	-	-	-	4,518	4,518
Total financial assets	424,378	111,162	211,832	170,267	352,336	114,767	58,211	1,442,953

Liabilities								
Due to banks	-	69,235	-	-	-	-	1,172	70,407
Customer accounts	268,030	27,360	42,168	116,817	71,968	12,266	228,688	767,297
Other borrowed funds	74,493	91,081	8,760	43,744	155,137	29,229	4,263	406,707
Other financial liabilities	-	-	-	-	-	-	1,145	1,145
Lease liability	-	-	-	-	-	-	2,938	2,938
Subordinated debt	-	-	-	-	-	44,736	578	45,314
Total liabilities	342,523	187,676	50,928	160,561	227,105	86,231	238,784	1,293,808
Net interest sensitivity gap	81,855	(76,514)	160,904	9,706	125,231	28,536		

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 regulatory capital for all currencies. As at 31 December 2020, the Group and the Bank were in compliance with these requirements. Cumulative interest earnings impact for 12 months shows the following figures as at 31 December 2020:

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

As at 31 December 2019, the impact of cumulative interest earnings was as follows:

Impact on profit or loss (equals impact on equity)			
Probable adverse case scenario		Stress scenario	
2%	-2%	5%	-5%
(3,859)	3,859	(9,647)	9,647
(70)	70	(176)	176
(2,607)	2,607	(6,517)	6,517
(6,536)	6,536	(16,340)	16,340

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 summarises average interest rates based on reports reviewed by key management personnel:

At 31 December 2020

in % p.a.	EUR	USD	GEL
Financial assets			
Due from banks	(0.51)	0.00	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	-

At 31 December 2019

in % p.a.	EUR	USD	GEL
Financial assets			
Due from banks	(0.2)	0.59	5.03
Loans and advances to customers	5.35	7.24	11.10
Financial liabilities			
Due to other banks	0.63	-	2.50
Customer accounts	0.57	2.60	2.72
Other borrowed funds	2.71	3.38	8.24
Subordinated debt	5.94	8.41	-

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 nationalisation 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).

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020 and 2019. Results are provided in the following table:

in '000 GEL		2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
	Level				
Financial assets					
Cash and cash equivalents	Level 2	199,902	199,902	86,983	86,983
Mandatory reserve deposits with NBG	Level 2	215,459	215,459	175,926	175,926
Due from other banks	Level 2	31,978	31,978	83,489	83,489
Investments in debt securities	Level 2	51,465	53,616	21,917	21,917
Loans and advances to customers	Level 3	1,354,923	1,338,729	1,070,120	1,053,398
Other financial assets	Level 3	1,657	1,657	4,518	4,518
Total financial assets		1,855,384	1,841,341	1,442,953	1,426,231
in '000 GEL					
	Level				
Financial liabilities					
Due to other banks	Level 2	55,717	55,717	70,407	70,407
Customer accounts					
Current accounts	Level 2	300,628	300,628	224,775	224,775
Savings accounts	Level 2	354,934	354,934	249,314	249,290
Term accounts	Level 3	321,616	329,389	289,152	294,580
Other liabilities to customers	Level 2	225	225	4,056	4,056
Financial liabilities at fair value	Level 3	3,415	3,415	1,258	1,258
Other borrowed funds	Level 3	582,858	592,718	406,707	404,146
Other financial liabilities	Level 3	1,003	1,003	1,145	1,145
Subordinated debt	Level 3	53,753	53,753	45,314	45,314
Total financial liabilities		1,674,149	1,691,782	1,292,128	1,294,971

PROCREDIT BANK GROUP

Notes to the financial statements - 31 December 2020

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	2020	2019
Financial guarantees and stand-by letters of credit	21,245	12,850
Performance guarantees	52,842	35,613
Commitments to extend credit:		
- Original term to maturity of one year or less	86,822	28,603
- Original term to maturity of more than one year	930	20,356
Total	161,839	97,422

As at 31 December 2020 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 2019: Stage 1 and 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.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

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 2020 and 2019 with related parties:

in '000 GEL	Contractual		
As at 31 December	interest rate, p.a.	2020	2019
Assets			
Due from banks and cash			
- Entities under common control	(0.75%) to 0.05 %	140,451	36,013
Loans and advance to customers			
- Key management	12 %	17	6
Due to banks			
- Entities under common control	(0.45) to 0.94%	55,717	70,407
Customer accounts			
- Key management	0.0%-5.0%	99	186
Other borrowed funds			
- Parent	2.78%-2.84%	81,608	108,479
- entities under common control	2.6%-4.3%	95,857	40,672
Subordinated debt			
- Parent	5.9%-8.4%	53,753	45,314

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2020

Included in the profit or loss for the year ended 31 December 2020 and 2019 are the following amounts which arose due to transactions with related parties:

in '000 GEL	2020	2019
Interest expense		
- Parent	10,622	10,919
- entities under common control	2,190	1,943
- key management	2	5
Fees and commission expenses		
- entities under common control	2,152	2,073
Other operating income		
- Parent	-	-
Personnel expenses		
- Key management	706	874
Other administrative expenses		
- Parent	3,035	2,544
- entities under common control	3,328	3,851

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 2020 and 2019 with it subsidiary:

in '000 GEL	2020	2019
As at 31 December		
Assets		
Investment in Subsidiaries		
- Subsidiary	6,100	6,100
Liability		
Customer accounts		
Subsidiary	5,582	4,089

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant event took place in 2021 up to the date when this financial statements are authorized for issue.