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ProCredit Bank

Georgia

Pillar 3 Report 2020

JSC ProCredit Bank Georgia



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1 About the Pillar 3 report

The Pillar 3 report is prepared in full compliance with the internal control processes agreed with the Supervisory Board of ProCredit Bank. The present report meets the requirements of the “Rule about the disclosure of information by commercial banks within the Pillar 3”, stipulated by the National Bank of Georgia. The Pillar 3 Report and the accuracy and reliability of the information contained in this report are confirmed by the Board of Directors of ProCredit Bank.

2 Introduction

ProCredit Bank focuses on small and medium-sized enterprises (SMEs) in Georgia. The business model focuses on the core activities comprising classical banking.

Our corporate strategy and our activities are guided by the objective of making a sustainable contribution to economic, social and environmental development in the country, and in doing so achieving an appropriate return on investment for our shareholders. In this respect, we see good potential in Georgia. ProCredit’s business strategy is based on the formation of long-term relationships with our clients and staff and on careful risk management.

It is the goal of the ProCredit Bank to play a leading role as the “Hausbank” for SMEs. We offer the full range of banking services in terms of financing, account operations, payments and deposit business. Through our long-term support for sound SMEs, we make a contribution to creating jobs, enhancing capacity for innovation, and encouraging investments in ecological and social projects. We focus on innovative companies showing dynamic growth and stable, formalised structures. Furthermore, we place an emphasis on promoting local production.

In addition to serving SMEs, the ProCredit Bank also pursues a Direct Banking strategy for private clients, a completely different banking experience that provides the full package of banking services through electronic media. Simple services, a flat fee, permanent access to banking services with Internet Banking and access to multi-functional 24/7 self-service zones are the main advantages that customers can enjoy with Direct Banking. Thanks to the diversity of remote channels and the investments the bank has made in them, clients can now carry out nearly 99% of banking operations independently, whenever and wherever they like. The bank implemented video identification which gives a possibility to complete the identification process from anywhere and open an account or register for banking services. The bank’s official website has been updated, with its modern, simple design making it more convenient for customers to use. Customers have continuous access to the banking services they need using Internet Banking.

The most prominent component of our support for private clients comprises account management and savings services. We also provide financing to enable such clients to purchase real estate and make other selected investments. We do not actively pursue consumer lending.

Given the developments with regards to the spread of COVID-19, the focus in 2020 was on the security of employees and customers, proactive risk management and customer support. We are confident that the strategic initiatives in the last years, the proactive risk management and the high qualification of our staff formed a good and stable foundation for meeting the challenges that we faced in the previous year. Taking into consideration ongoing pandemic situation, the focus will stay the same in 2021.

All ProCredit clients enjoy a range of innovative service channels centering around user-friendly online banking. In addition, our outlets are equipped with 24-hour self-service areas where the entire package of

payment transactions can be completed. By means of these two channels, nearly all transactions have been fully automated. Our clients have access to personalised advice in our branches and through our contact center.

The ProCredit Bank is a member of the ProCredit (banking) group which is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the Deutsche Bundesbank. ProCredit Holding is responsible for the strategic management, capital adequacy, reporting, risk management and proper business organisation of the ProCredit (banking) group pursuant to Section 25a of the German Banking Act (KWG). The ProCredit Holding shares are traded on the Prime Standard segment of the Frankfurt Stock Exchange.

With this Pillar 3 report, ProCredit Bank complies with the disclosure requirements for the ProCredit Bank as of 31 December 2020, stipulated in the “Rule about the disclosure of information by commercial banks within the Pillar 3” by the National Bank of Georgia, Capital Requirements Regulation (CRR) - (EU) No. 575/2013 and Basel Committee requirements regarding disclosure of information. Legally protected or confidential information is generally excerpted from disclosure.

The information disclosed is based on the audited financial statements of ProCredit Bank and ProCredit Properties LLC as reported in the 2020 report. As a supplement to this Pillar 3 report, information on the ProCredit Bank is available in ProCredit Bank’s 2020 Financial Statements and Independent Auditors’ Report, which is published on the website.

The Pillar 3 report has been approved by the Management of ProCredit Bank.

This report contains summed figures and percent calculations that may, due to rounding, contain minor deviations.

3 Scope of consolidation

This Pillar 3 report is prepared on the basis of the companies in the ProCredit group which have been consolidated under IFRS; this includes ProCredit Properties LLC, an institution which carries out property management activities and over which ProCredit Bank exercises a controlling influence. The reports for regulatory purposes are prepared on standalone bank’s financial data.

Consolidation by entities

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	ProCredit Property	Full Consolidation				x	Georgia, Tbilisi; Real Estate management; Assets - 10 701 741 GEL; Capital - 10 335 474 GEL

Table 1

4 Key ratios

Key metrics		in Lari				
N		31-Dec-20	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19
	Regulatory capital (amounts, GEL)					
	Based on Basel III framework					
1	Common Equity Tier 1 (CET1)	196,294,332	186,847,049	181,115,216	176,282,354	193,010,029
2	Tier 1	196,294,332	186,847,049	181,115,216	176,282,354	193,010,029
3	Total regulatory capital	260,383,217	248,559,560	236,886,967	241,959,514	251,779,916
	Risk-weighted assets (amounts, GEL)					
4	Risk-weighted assets (RWA) (Based on Basel III framework)	1,577,062,877	1,450,200,685	1,269,416,745	1,319,727,082	1,270,169,967
	Capital ratios as a percentage of RWA					
	Based on Basel III framework					
5	Common equity Tier 1 ratio $\geq 5.47120436376842\%$	12.45%	12.88%	14.27%	13.36%	15.20%
6	Tier 1 ratio $\geq 7.29911213855241\%$	12.45%	12.88%	14.27%	13.36%	15.20%
7	Total Regulatory Capital ratio $\geq 11.052846532287\%$	16.51%	17.14%	18.66%	18.33%	19.82%
	Income					
8	Total Interest Income / Average Annual Assets	5.73%	5.68%	5.64%	5.76%	6.04%
9	Total Interest Expense / Average Annual Assets	2.26%	2.33%	2.39%	2.38%	2.61%
10	Earnings from Operations / Average Annual Assets	1.41%	1.99%	2.00%	2.89%	2.29%
11	Net Interest Margin	3.47%	3.35%	3.25%	3.38%	3.43%
12	Return on Average Assets (ROAA)	0.21%	-0.50%	-1.50%	-4.39%	1.54%
13	Return on Average Equity (ROAE)	1.82%	-4.15%	-12.05%	-33.85%	12.40%
	Asset Quality					
14	Non Performed Loans / Total Loans	4.23%	3.80%	3.60%	3.82%	3.49%
15	LLR/Total Loans	5.39%	5.60%	6.04%	6.13%	3.46%
16	FX Loans/Total Loans	77.46%	77.22%	76.31%	76.83%	74.83%
17	FX Assets/Total Assets	74.82%	72.76%	72.10%	74.37%	71.44%
18	Loan Growth-YTD	26.55%	19.98%	4.05%	6.83%	4.45%
	Liquidity					
19	Liquid Assets/Total Assets	26.54%	23.15%	26.35%	25.55%	24.62%
20	FX Liabilities/Total Liabilities	85.66%	83.17%	84.16%	86.34%	83.03%
21	Current & Demand Deposits/Total Assets	34.75%	33.87%	30.57%	30.25%	31.72%
	Liquidity Coverage Ratio***					
22	Total HQLA	499,034,494	398,015,283	413,229,883	402,436,576	367,293,107
23	Net cash outflow	284,796,996	246,679,070	197,082,868	207,652,533	188,731,093
24	LCR ratio (%)	175%	161%	210%	194%	195%

Table 2

* LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.

Liquidity Coverage Ratio *in Lari*

	Total unweighted value (daily average)			Total weighted values according to NBG's methodology* (daily average)			Total weighted values according to Basel methodology (daily average)			
	GEL	FX	Total	GEL	FX	Total	GEL	FX	Total	
High-quality liquid assets										
1	Total HQLA			90,481,452	310,220,533	400,701,985	77,957,067	215,504,064	293,461,131	
Cash outflows										
2	Retail deposits	47,046,810	427,229,592	474,276,401	9,552,269	81,061,615	90,613,885	2,207,973	18,359,239	20,567,212
3	Unsecured wholesale funding	169,816,980	872,637,847	1,042,454,826	41,717,058	105,777,190	147,494,248	38,049,240	97,520,586	135,569,826
4	Secured wholesale funding	4,141,304	-	4,141,304	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	73,085,254	264,006,106	337,091,360	14,144,747	76,473,393	90,618,139	5,172,879	64,665,215	69,838,094
6	Other contractual funding obligations			-			-			-
7	Other contingent funding obligations	9,342,464	16,625,377	25,967,842	4,639,196	5,883,334	10,522,531	4,639,196	5,883,334	10,522,531
8	TOTAL CASH OUTFLOWS	303,432,812	1,580,498,922	1,883,931,734	70,053,270	269,195,532	339,248,802	50,069,288	186,428,375	236,497,663
Cash inflows										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	279,979,165	973,874,869	1,253,854,034	6,202,052	11,523,815	17,725,868	18,726,437	106,366,551	125,092,989
11	Other cash inflows	2,930,455	226,057,349	228,987,804	886,188	55,890,215	56,776,403	886,188	55,890,215	56,776,403
12	TOTAL CASH INFLOWS	282,909,621	1,199,932,218	1,482,841,838	7,088,240	67,414,030	74,502,271	19,612,625	162,256,766	181,869,392
					Total value according to NBG's methodology* (with limits)			Total value according to Basel methodology (with limits)		
13	Total HQLA				90,481,452	310,220,533	400,701,985	77,957,067	215,504,064	293,461,131
14	Net cash outflow				62,965,030	201,781,502	264,746,532	30,456,663	46,607,094	59,124,416
15	Liquidity coverage ratio (%)				143.70%	153.74%	151.35%	255.96%	462.38%	496.35%

Table 3

Capital Adequacy Requirements *in Lari*

	Minimum Requirements	31/12/2020		31/12/2019	
		Ratios	Amounts (GEL)	Ratios	Amounts (GEL)
1	Pillar 1 Requirements				
1.1	Minimum CET1 Requirement	4.50%	70,967,829	4.50%	57,157,649
1.2	Minimum Tier 1 Requirement	6.00%	94,623,773	6.00%	76,210,198
1.3	Minimum Regulatory Capital Requirement	8.00%	126,165,030	8.00%	101,613,597
2	Combined Buffer				
2.1	Capital Conservation Buffer	0.00%	-	2.50%	31,754,249
2.2	Countercyclical Buffer	0.00%	-	0.00%	-
2.3	Systemic Risk Buffer	0.00%	-	0.00%	-
3	Pillar 2 Requirements				
3.1	CET1 Pillar 2 Requirement	0.97%	15,316,503	2.29%	29,144,226
3.2	Tier 1 Pillar2 Requirement	1.30%	20,487,815	3.07%	39,013,054
3.3	Regulatory capital Pillar 2 Requirement	3.05%	48,145,309	5.35%	67,942,442
	Total Requirements				
4	CET1	5.47%	86,284,333	9.30%	118,056,123
5	Tier 1	7.30%	115,111,588	11.60%	146,977,503
6	Total regulatory Capital	11.05%	174,310,340	15.80%	201,310,288

Table 4

Additional factors, which influenced the capital and liquidity level of the bank, are the following:

Given the COVID19 pandemic eruption in the beginning of 2020, National Bank of Georgia has taken emergency measures and approved several mitigation measures in order to respond to the impact of COVID19 on the country's financial sector. The measures relevant for ProCredit Bank are represented as following:

- The planned increase of the burden on Tier 1 from HHI and net Grape buffer was postponed;
- The conservation buffer in volume of 2.5% of the total risk weighted assets has been reduced to 0%;
- Currency Induced Credit Risk (CICR) buffer has been reduced to 25%;

Moreover, National Bank of Georgia performed stress test regarding COVID19 measures, as an outcome of stress testing process NBG obliged banks to create special reserve account amounted 2.7% of total LP. As a result, starting from March 2020, the bank created the special reserve account. The bank was allowed to translate provisions from special account to individual provisions, based on conducted financial monitoring and precise assessment of COVID19 effects. Creation of the above mentioned reserve effected negatively the Tier 1 capital, however still, in 2020 the Tier 1 capital was increased by GEL 3.3 m though the generated profit.

5 Balance sheet

Balance Sheet		31/12/2020			31/12/2019		
N		GEL	FX	Total	GEL	FX	Total
	Assets						
1	Cash	18,069,191	23,960,020	42,029,212	21,513,855	26,375,974	47,889,829
2	Due from NBG	7,430,888	214,983,978	222,414,866	2,871,597	176,169,204	179,040,801
3	Due from Banks	27,524,311	156,720,596	184,244,907	39,105,367	79,684,013	118,789,380
4	Dealing Securities	0	0	0	0	0	0
5	Investment Securities	51,428,813	0	51,428,813	21,916,939	0	21,916,939
6.1	Loans	310,972,442	1,068,399,915	1,379,372,357	274,387,512	815,589,761	1,089,977,273
6.2	Less: Loan Loss Reserves	-15,554,139	-58,816,463	-74,370,602	-7,922,419	-29,796,725	-37,719,144
6	Net Loans	295,418,303	1,009,583,453	1,305,001,755	266,465,093	785,793,036	1,052,258,129
7	Accrued Interest and Dividends Receivable	4,137,992	6,721,457	10,859,448	1,948,169	3,141,512	5,089,681
8	Other Real Estate Owned & Repossessed Assets	185,952	X	185,952	69,554	X	69,554
9	Equity Investments	6,298,572	66,384	6,364,957	6,298,572	52,957	6,351,529
10	Fixed Assets and Intangible Assets	55,700,527	X	55,700,527	59,659,692	X	59,659,692
11	Other Assets	11,420,229	7,143,057	18,563,286	10,593,694	5,677,487	16,271,180
12	Total assets	477,614,777	1,419,178,946	1,896,793,723	430,442,531	1,076,894,183	1,507,336,714
	Liabilities			0			0
13	Due to Banks	0	54,314,550	54,314,550	0	69,632,543	69,632,543
14	Current (Accounts) Deposits	99,793,112	205,651,986	305,445,098	96,486,064	132,319,795	228,805,859
15	Demand Deposits	65,320,218	288,409,256	353,729,474	65,776,405	183,588,970	249,365,375
16	Time Deposits	38,127,131	279,186,936	317,314,067	20,448,738	266,658,371	287,107,109
17	Own Debt Securities			0			0
18	Borrowings	26,240,879	550,602,244	576,843,123	30,614,358	371,826,204	402,440,563
19	Accrued Interest and Dividends Payable	1,740,935	8,732,240	10,473,174	885,013	7,913,143	8,798,156
20	Other Liabilities	11,675,519	10,846,087	22,521,606	7,711,575	9,002,506	16,714,080
21	Subordinated Debentures	0	52,882,500	52,882,500	0	44,724,500	44,724,500
22	Total liabilities	242,897,794	1,450,625,799	1,693,523,592	221,922,153	1,085,666,032	1,307,588,185
	Equity Capital			0			0
23	Common Stock	100,351,375	X	100,351,375	100,351,375	X	100,351,375
24	Preferred Stock	0	X	0	0	X	0
25	Less: Repurchased Shares	0	X	0	0	X	0
26	Share Premium	51,324,299	X	51,324,299	51,324,299	X	51,324,299
27	General Reserves	0	X	0	0	X	0
28	Retained Earnings	51,594,457	X	51,594,457	48,072,855	X	48,072,855
29	Asset Revaluation Reserves	0	X	0	0	X	0
30	Total Equity Capital	203,270,131	X	203,270,131	199,748,529	X	199,748,529
31	Total liabilities and Equity Capital	446,167,924	1,450,625,799	1,896,793,723	421,670,682	1,085,666,032	1,507,336,714

Table 5

Besides the above mentioned factors, the balance sheet reflects the following movements:

- Customer funds increased by GEL 211.2 m.
- Gross loan portfolio increased by GEL 289.4 m.
- Subordinated debts increased by GEL 8.2 m.

6 Income statement

Income statement		31/12/2020			31/12/2019		
N		GEL	FX	Total	GEL	FX	Total
Interest Income							
1	Interest Income from Bank's "Nostro" and Deposit Accounts	2,404,732	-48,501	2,356,231	2,037,468	1,627,946	3,665,414
2	Interest Income from Loans	32,794,822	54,911,001	87,705,823	27,900,955	56,131,852	84,032,807
2.1	from the Interbank Loans	25,697	0	25,697	14,867	0	14,867
2.2	from the Retail or Service Sector Loans	22,790,018	35,489,212	58,279,230	19,795,939	35,228,682	55,024,622
2.3	from the Energy Sector Loans	161,738	86,232	247,970	156,932	112,052	268,984
2.4	from the Agriculture and Forestry Sector Loans	1,491,008	3,059,062	4,550,071	998,025	2,658,796	3,656,821
2.5	from the Construction Sector Loans	4,294,586	3,614,236	7,908,822	3,296,825	3,674,171	6,970,995
2.6	from the Mining and Mineral Processing Sector Loans	216,574	1,239,514	1,456,087	145,351	1,136,054	1,281,405
2.7	from the Transportation or Communications Sector Loans	794,166	1,501,925	2,296,091	646,025	1,341,164	1,987,190
2.8	from Individuals Loans	2,106,334	8,159,671	10,266,005	1,633,158	9,478,521	11,111,679
2.9	from Other Sectors Loans	914,702	1,761,149	2,675,851	1,213,833	2,502,412	3,716,245
3	Fees/penalties income from loans to customers	145,967	405,298	551,265	188,268	706,602	894,870
4	Interest and Discount Income from Securities	3,605,133	0	3,605,133	1,920,147	0	1,920,147
5	Other Interest Income			0			0
6	Total Interest Income	38,950,655	55,267,798	94,218,452	32,046,838	58,466,400	90,513,238
Interest Expense							
7	Interest Paid on Demand Deposits	3,090,981	2,798,951	5,889,933	3,101,150	2,675,922	5,777,072
8	Interest Paid on Time Deposits	2,581,253	10,536,031	13,117,284	1,850,131	9,114,529	10,964,660
9	Interest Paid on Banks Deposits	8,918	167,492	176,410	7,165	1,243,720	1,250,885
10	Interest Paid on Own Debt Securities	0	0	0	0	0	0
11	Interest Paid on Other Borrowings	2,999,517	15,020,148	18,019,666	2,467,152	18,601,006	21,068,158
12	Other Interest Expenses	0	0	0	0	0	0
13	Total Interest Expense	8,680,670	28,522,623	37,203,292	7,425,598	31,635,178	39,060,776
14	Net Interest Income	30,269,985	26,745,175	57,015,160	24,621,240	26,831,222	51,452,462
Non-Interest Income							
15	Net Fee and Commission Income	-896,550	3,525,578	2,629,028	469,810	3,732,438	4,202,248
15.1	Fee and Commission Income	5,436,838	5,156,798	10,593,635	6,045,407	5,788,988	11,834,395
15.2	Fee and Commission Expense	6,333,387	1,631,220	7,964,607	5,575,597	2,056,550	7,632,147
16	Dividend Income	632,376	23,718	656,095	210,792	18,889	229,681
17	Gain (Loss) from Dealing Securities			0			0
18	Gain (Loss) from Investment Securities		0	0		0	0
19	Gain (Loss) from Foreign Exchange Trading	-469,996		-469,996	15,228,235		15,228,235
20	Gain (Loss) from Foreign Exchange Translation	13,743,268		13,743,268	-1,581,617		-1,581,617
21	Gain (Loss) on Sales of Fixed Assets	1,487,646		1,487,646	950,471		950,471
22	Non-Interest Income from other Banking Operations	1,985,266	304,959	2,290,226	2,402,346	563,384	2,965,730
23	Other Non-Interest Income	1,424,610	505,087	1,929,697	1,215,600	776,675	1,992,276
24	Total Non-Interest Income	17,906,621	4,359,343	22,265,963	18,895,637	5,091,387	23,987,024
Non-Interest Expenses							
25	Non-Interest Expenses from other Banking Operations	2,044,624	9,066,206	11,110,830	1,960,242	7,743,122	9,703,365
26	Bank Development, Consultation and Marketing Expenses	2,618,403	3,090,839	5,709,241	4,628,444	2,679,249	7,307,693
27	Personnel Expenses	14,577,976		14,577,976	14,652,591		14,652,591
28	Operating Costs of Fixed Assets	53,148		53,148	78,432		78,432
29	Depreciation Expense	5,627,045		5,627,045	5,811,719		5,811,719
30	Other Non-Interest Expenses	3,722,478	2,570	3,725,048	4,249,706	2,016	4,251,723
31	Total Non-Interest Expenses	28,643,674	12,159,614	40,803,289	31,381,135	10,424,388	41,805,523
32	Net Non-Interest Income	-10,737,054	-7,800,272	-18,537,325	-12,485,499	-5,333,001	-17,818,499
33	Net Income before Provisions	19,532,931	18,944,903	38,477,835	12,135,741	21,498,221	33,633,963
34	Loan Loss Reserve	36,124,517	-968,401	35,156,116	6,617,409	X	6,617,409
35	Provision for Possible Losses on Investments and Securities	0		0	0	X	0
36	Provision for Possible Losses on Other Assets	19,445	528	19,973	254,682	X	254,682
37	Total Provisions for Possible Losses	36,143,962	-967,873	35,176,089	6,872,091	0	6,872,091
38	Net Income before Taxes and Extraordinary Items	-16,611,031	19,912,776	3,301,746	5,263,650	21,498,221	26,761,872
39	Taxation	-232,640		-232,640	3,664,745		3,664,745
40	Net Income after Taxation	-16,378,391	19,912,776	3,534,386	1,598,905	21,498,221	23,097,127
41	Extraordinary Items	0		0	34,116		34,116
42	Net Income	-16,378,391	19,912,776	3,534,386	1,633,021	21,498,221	23,131,243

Table 6

The comparison of income statements between 2019 and 2020 shows that net income has decreased from 23.1 m to 3.5m.

The main factors which influenced income and expenses are:

- As a result of the growth of the customer loan portfolio, the total interest income increased by 4.1%. The bank's interest income mainly represents financing of medium and small sector loans. At the same time interest expenses decreased by 4.8%. This resulted in the 10.8% increase of the net interest income.

- Net non-interest income decreased by 4%.
- In 2020 net income before provisions was 14.4% higher than in the previous year. However, net income was significantly decreased. Main reason for this was the created reserves (GEL 29.4m) due to COVID19 that was required by NBG. Around 43% of mentioned provisions were translated into individual provisions, respectively, special reserve decreased down to GEL 16.85 as of end of last year. Worth to mention, that the process is still ongoing, however the bank does not expect that the total amount will be redistributed in individual provisions.

7 Corporate governance

7.1 Shareholder structure

ProCredit Holding AG & Co. KGaA owns 100% of ProCredit Bank's shares.

ProCredit Holding AG & Co. KGaA, the superordinated company of the ProCredit group, has the legal form of a partnership limited by shares. ProCredit Holding is managed by the members of the Management Board of ProCredit General Partner AG. The Management Board of the general partner is responsible for managing ProCredit Holding in accordance with the requirements established in the law, in the Articles of Association and in the internal rules of procedure for ProCredit General Partner AG, as defined by its Supervisory Board.

The General Meeting of Shareholders is the highest authority in decision-making.

The rights, tasks and responsibilities of the management authorities are stipulated in the charter of the bank, final amendments to which are approved at the Shareholders' meeting on 21 May 2020.

The shareholders of the bank carry out their execution rights and decision-making on the General Meeting of Shareholders. The General Meeting of Shareholders reviews and discusses reports about the bank's activities provided by the Supervisory Board of the bank, approves the audited annual financial statements of the bank, makes decisions regarding profit distribution, provisioning, capital increase/decrease and selling of assets.

The General Meeting of Shareholders is authorized to free the members of the Supervisory Board of the bank with simple majority of votes.

List of Shareholders owning 1% and more of issued capital, indicating Shares	
1 ProCredit Holding AG & Co. KGaA	100%
List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares	
1 Zeitinger Invest GmbH	17.0%
2 KfW - Kreditanstalt für Wiederaufbau	13.2%
3 DOEN Participaties BV	12.5%
4 IFC - International Finance Corporation	10.0%
5 TIAA-Teachers Insurance and Annuity Association	8.6%

Table 7

7.2 Supervisory Board of ProCredit Holding

The bank's immediate and ultimate parent company is ProCredit Holding AG & Co. KGaA.

ProCredit Holding AG & Co. KGaA ("ProCredit Holding") is a company listed on the Frankfurt Stock Exchange, which places emphasis on transparent corporate governance and open communication with all stakeholders. This approach and its development-oriented mission are supported by its international shareholders. The values upon which we have successfully built the ProCredit group include personal integrity and commitment, social responsibility and tolerance, open communication and transparency, as well as high professional standards. These principles pervade all aspects of how the ProCredit group is governed. Corporate Governance is an important chapter in the ProCredit Holding 2020 Impact Report, which is available on the ProCredit Holding website (https://procredit-holding.com/wp-content/uploads/2021/03/ProCredit_Impact_Report_2020_L.pdf).

The Supervisory Board of ProCredit Holding (the "Supervisory Board") has six members. The responsibilities of the Supervisory Board are defined in the German Stock Corporation Act (Aktiengesetz – "AktG") and German Banking Law (specifically Kreditwesengesetz – KWG § 25d). In addition, ProCredit Holding complies with the German Corporate Governance Code, except in circumstances outlined in the holding's Corporate Governance Report, which can be found in the ProCredit Holding Annual Report which is available on the ProCredit Holding website.

The main function of the Supervisory Board is the supervision of the management of ProCredit Holding, provided by ProCredit General Partner AG ("General Partner"). The General Partner also has a supervisory board made up of the same individuals as the Supervisory Board of ProCredit Holding.

With regard to the independence of its supervisory board members, ProCredit Holding follows the definition and provisions set out in Articles 5.4.1 and 5.4.2 of the German Corporate Governance Code.

Currently, all Supervisory Board members fulfil the Corporate Governance Code's definition of independence.

The composition of the Supervisory Board and its Internal Rules of Procedure generally reflect the requirements of Article 25d of the German Banking Act (Kreditwesengesetz – "KWG") and the relevant provisions of the German Corporate Governance Code (apart from the recommendation to have a regular limit to Supervisory Board members' term of office).

The Supervisory Board has determined that the composition of the Supervisory Board should duly represent members who apart from good knowledge of banking have:

- a good understanding of and interest in the group's focus region of operations
- the time and interest to travel to the region to understand and assess the operations of ProCredit subsidiaries, and ideally a seat on at least one supervisory board of a subsidiary
- a good understanding of and interest in development finance and sustainability aspects.

The Supervisory Board believes that it complies with the specified concrete objectives regarding its composition.

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. One member of the six-person Supervisory Board is a woman. The ProCredit Holding Disclosure Report (https://procredit-holding.com/wp-content/uploads/2021/03/2020_PCH_EN_Disclosure_Report_L.pdf) outlines how members of the Supervisory Board are appointed by the Annual General Meeting of Shareholders, with consideration given

to the balanced and comprehensive knowledge, skills and experience of all Supervisory Board members and taking account of the requirements established in Section 25d KWG.

The Supervisory Board of ProCredit Holding typically takes no decisions which relate directly and specifically to ProCredit Bank Georgia. The role of the Supervisory Board is to supervise the Management of ProCredit Holding in the context of the overall performance and risk profile of the ProCredit Group. At the group level, Management reports to the Supervisory Board on the business and risk strategies of the group at least once per year and routinely reports on the status of implementation of the strategies. The Supervisory Board receives at least quarterly a Group Risk Report and a Group Audit Report. All ProCredit banks operate within the tight business and risk management framework thereby set by ProCredit Holding.

In the fiscal year 2020, the Supervisory Board held one routine in-person meeting, while five meetings were conducted as video conferences due to COVID19 restrictions. In addition, two meetings were held by telephone as well as by means of one written note. Attendance and details of discussions in each meeting can be found in the Supervisory Board Report, published in the ProCredit Holding Annual Report.

The Supervisory Board examines the efficiency and effectiveness of its activities on a regular basis, and at least once in every calendar year.

7.3 Supervisory Board of the bank

The bank's business activities are supervised by the Supervisory Board, whose members are appointed by the General Meeting of Shareholders. For good reason, members of the Supervisory Board may be freed at any time by the General Meeting of Shareholders. Members of the Supervisory Board may not be at the same time bank's employees.

Based on $\frac{3}{4}$ of present votes, the Supervisory Board defines the bank's business strategy, approves policy guidelines, approves the annual business plan (including the annual operating budget) presented by the Board of Directors of the bank, discusses and approves the business operations report presented by the Board of Directors during the financial year and prepares the bank's annual report for submitting to the Shareholders' General Meeting.

Based on its discretionary right, the Supervisory Board appoints and releases the members of the Board of Directors of the bank at any time. The Supervisory Board appoints and dismisses the members of the Audit Committee.

The Supervisory Board makes decisions on sources for refinancing of the bank, issuance of bonds, loans from international financial institutions. The Supervisory Board delegates the relevant decisions regarding the borrowings to the Board of Directors of the bank.

The Supervisory Board approves the policy on conflict of interests and changes in policy. The Supervisory Board approves any transaction, which is permitted by the Georgian legislation, between the bank and a member of the Board of Directors or a member of the Supervisory Board. Members of Supervisory Board of PCB Georgia are presented in the table below as of December 2020.

Members of Supervisory Board	
1	Marcel Sebastian Zeitingner
2	Jovanka Joleska Popovska
3	Maia Khachidze
4	Rainer Peter Ottenstein
5	Sandrine Massiani

Table 8¹

The term of membership of the Bank's Supervisory Board is fixed for a period of 4 years or a shorter-term which is determined by the General Meeting of Shareholders. It is possible to re-appoint a member of the Supervisory Board. However, the termination is only in force when a new candidate is appointed. Upon the dismissal of a member of the Supervisory Board, the candidate shall be appointed before the next meeting of the Supervisory Board.

The Supervisory Board appoints the chairperson from its members by a simple majority of votes. The chairperson is appointed for the same term as a member of the Supervisory Board. The Chairman of the Supervisory Board can be re-elected.

The Supervisory Board meetings are held at least once a quarter. At the Supervisory Board meeting, the quorum is composed of at least two thirds of the Supervisory Board members. Decisions on the Supervisory Board meetings are considered by a simple majority of votes presented. The decisions made by the Supervisory Board shall be summarized by a bank representative or a member of the Supervisory Board, which is signed by the Chairman of the Supervisory Board after consideration. The minutes of the Supervisory Board meetings are available to the shareholders for a review.

At the Supervisory Board meetings, the Board of Directors present and discuss pre-agreed issues, including but not limited to: loan portfolio development and customer funds, other funding sources, loan portfolio quality and other key risk indicators, key financial indicators, overview of banking products and market trends.

7.4 Board of Directors of the bank

The Board of Directors of the bank leads and performs activities related to the daily functioning of the bank in accordance with the business strategy defined by the Supervisory Board. The members of the Board of Directors are appointed and dismissed by the Supervisory Board at any time by its discretion.

The Board of Directors of the bank is represented by 3 (three) Directors. The number of directors must be at least three in accordance with the charter of the bank. The Board of Directors shall make decisions by a simple majority of votes presented. The Board of Directors shall be appointed for a maximum period of four years or a shorter term which the Supervisory Board defines, with the right to re-appointment. Members of Board Directors of PCB Georgia are presented in the table below as of December 2020.

Members of Board of Directors	
1	Alex Matua
2	Natia Tkhlaiashvili
3	Zeinab Lomashvili

Table 9²³

Members of the Board of Directors meet the requirements of the Law of Georgia on "Activities of Commercial Banks" (Criteria for the Shareholders and Administrators of Commercial Banks) as well as the

¹ In the first quarter of 2021 one member of the Supervisory Board was replaced, instead of Jovanka Joleska Popovska the member of the Supervisory Board of ProCredit Bank Georgia is Gian Marco Felice.

² Additional information about the members of the Board of Directors of ProCredit bank is presented on the bank's web site: www.procreditbank.ge.

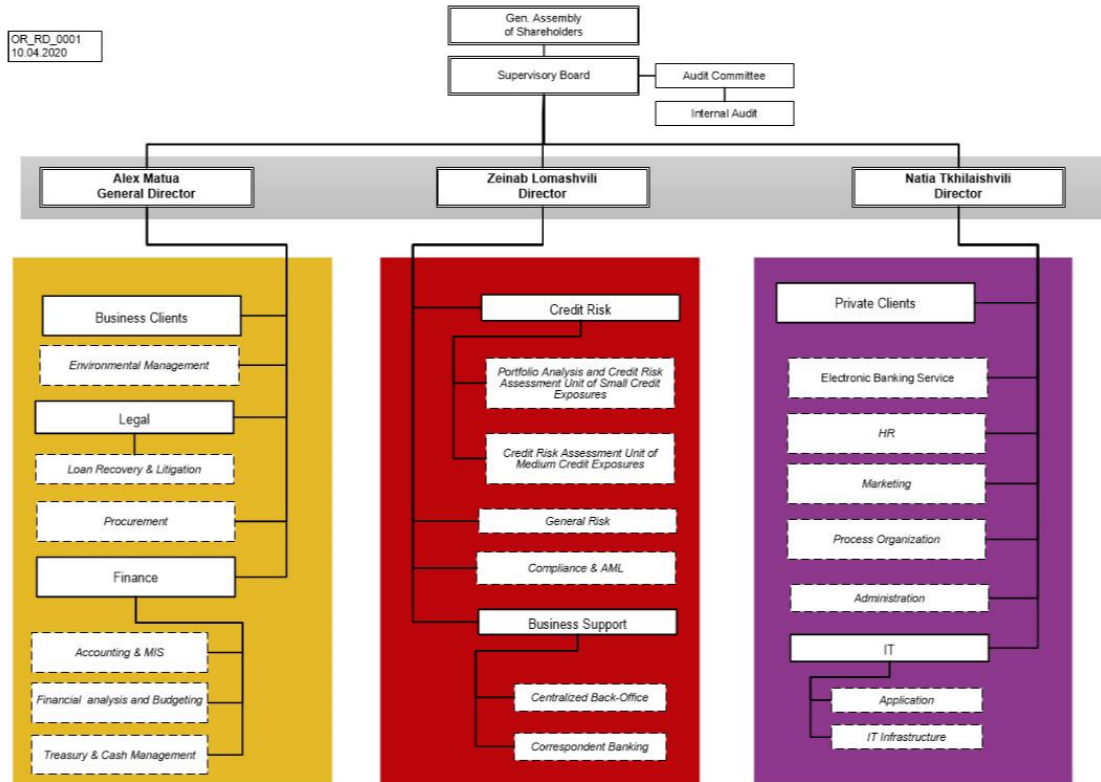
³ In the first quarter of 2021 one member of Board of Directors was changed, instead of Natia Tkhlaiashvili the member of Board of Directors of ProCredit Bank Georgia is Grigol Saliashvili.

requirements set in the order of the President of the National Bank of Georgia 50/04 "Requirements for Administrators of Commercial Bank" (the Criteria for the Administrators of Commercial Banks). The members of the Board of Directors have many years of experience working in various departments in the bank. Each director has completed a full course of ProCredit Academy Management (Furth, Germany).

The Board of Directors delegates fulfillment of certain tasks within the scope of its competence, taking into consideration allocation of liability to the Bank's employees, if this does not contradict the legislation of Georgia.

The bank operates a system of responsibility delegation, which is regularly monitored through the committees operating in the bank. At least 2 members of the Board of Directors are present at the committees. Attendance of the member of the Board of Directors which is responsible for the specific field is obligatory.

Members of the board of directors of the bank are responsible for the specific areas of their education and professional experience. Tables below represent the information as of December 2020 and March 2021



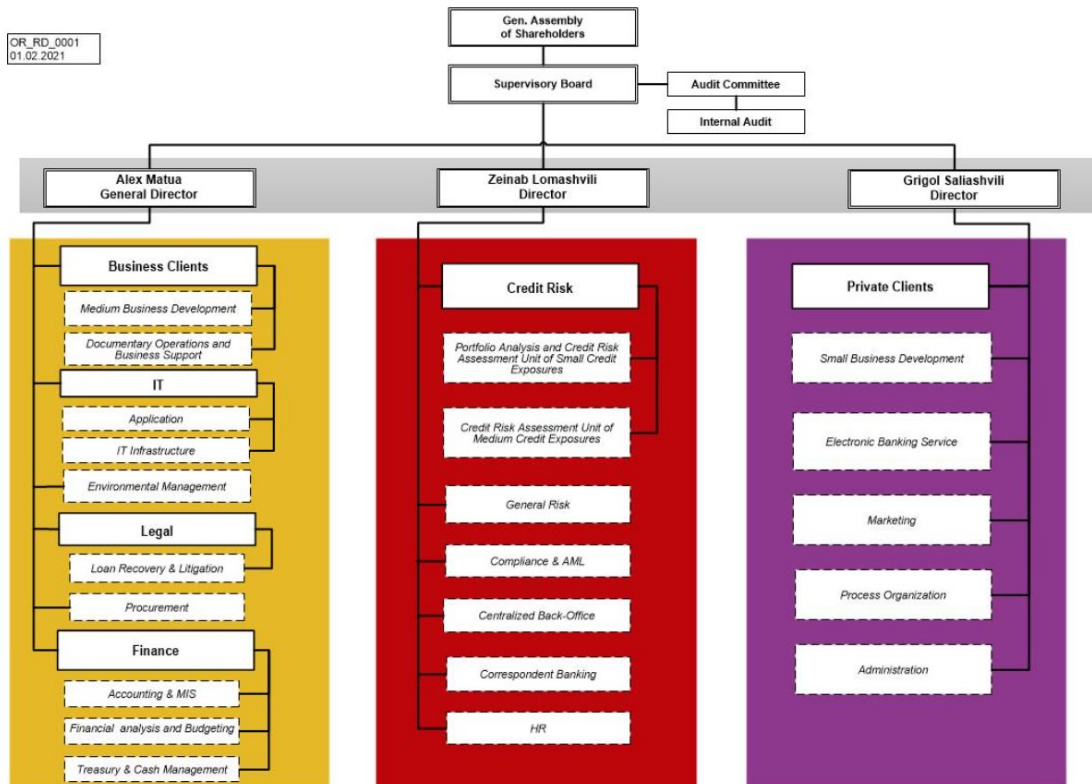


Table 10

7.5 Flow of information concerning risk

The Management of the bank is provided with regular daily, monthly and quarterly risk reports in a timely manner after the respective reporting date. Furthermore, escalation mechanisms and ad-hoc reporting are implemented in the event of new risks, non-compliance with existing limits or, for known risks, in case of a significant increase in the probability of occurrence or the loss amount.

The Management of ProCredit Bank works closely together with the Supervisory Board to achieve the goals of the company. The Management reports to the Supervisory Board in a regular, timely and complete manner concerning all matters which are of particular significance for the bank. This includes all relevant issues in regard to planning, business development, the risk situation, risk management and compliance. Information which is of material importance from a risk point of view is provided without delay to the Supervisory Board, independent of the regular quarterly reports on the risk situation. The Management of the bank and the Supervisory Board determine the strategic orientation of the company in consultation and discuss at regular intervals regarding the implementation status of the strategy. The Supervisory Board must be informed of any changes in the management of risk control function, in the internal audit function or in the compliance officer position.

8 Risk management

8.1 Risk strategy

The ProCredit Bank's risk strategy and business strategy are updated annually. While the business strategy lists the objectives of the bank for all material business activities and presents measures to be taken to achieve them, the bank's risk strategy addresses the material risks arising from the implementation of the

business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the bank. Both the risk strategy and business strategy are approved by the Management of ProCredit Bank following discussions with the Supervisory Board.

An informed and transparent approach to risk management is a central component of ProCredit's socially responsible business model. This is also reflected in our risk culture, resulting in decision-making processes that are well-balanced from a risk point of view. The Code of Conduct, which is binding for all staff, plays a key role in this respect as it describes these principles.

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the bank continues to be appropriate at all times no matter if external conditions are volatile, as well as to achieve steady results.

The principles of our business activity, as listed below, provide the foundation for our risk management. The consistent application of these principles significantly reduces the risks to which the bank is exposed.

i. Focus on core business

The ProCredit Bank focuses on the provision of financial services to small and medium-sized businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the bank's other operations are performed mainly in support of the core business. ProCredit Bank assumes mainly credit risk, currency risk, interest rate risk, liquidity risk and operational risk in the course of its day-to-day operations.

ii. High degree of transparency, simplicity and diversification

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. In terms of client groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is an integral part of the bank's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients with simple, easily understandable services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and our simple, transparent services and processes result in a significant reduction of the bank's risk profile.

iii. Careful staff selection and intensive training

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. This is why we select our staff very carefully and have invested heavily in staff training over many years. Besides high levels of technical professionalism, the result of our training efforts is above all an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the ProCredit Bank takes account of the respective regulations of the National Bank of Georgia, of the "Minimum Requirements for Risk Management" (MaRisk) stipulated by the German

regulator, of relevant publications by national and international regulatory authorities and of our knowledge of the market acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their appropriateness and effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in the ProCredit Bank are presented below.

- ProCredit Bank applies a single common risk management framework, which is based on group-wide minimum standards and incorporates requirements set by the National Bank of Georgia. The risk management policies and standards are approved by the Management of ProCredit Bank and are updated at least annually. These specify the responsibilities and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the bank.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- All new or significantly changed services undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed and all necessary preparations and tests are completed prior to implementation.

These key elements of risk management in the ProCredit Bank are based on the substantial experience we have gained over the past 22 years in the country and on a precise understanding of both our clients and the risks we assume. Although the overall operating environment in the country has improved, it is still characterised by relatively volatile macroeconomic and geopolitical environments. The diversification of our business activities, combined with our comprehensive experience, provide a solid foundation for us to manage these risks.

8.2 Organisation of risk management and risk reporting

Risk management in the ProCredit Bank is the overall responsibility of the Management of the Bank, which regularly analyses the risk profile of the bank and decides on appropriate measures.

The Management of ProCredit Bank is supported by various committees.

- The Credit Risk Management Committees⁴ monitor the credit risk profile of the bank. This includes the monitoring of individual risk positions, limit compliance, and the internal and regulatory requirements regarding the credit risk.

⁴ Credit Risk and Business Committee, Loan Loss Provisions Committee, Portfolio Management and Analysis Committee, Arrears Committee, Litigation Committee.

- The Risk Committee (Risk Committee at the Supervisory Board level) discusses all risk strategies on both - an aggregated basis and by type of risk, and makes recommendations to the Supervisory Board thereon, and on the bank's overall current and future risk appetite. The committee reports on the state of risk culture in the bank to the Supervisory Board and reviews the bank's risk policies at least annually, provides recommendations to the Supervisory board regarding the risk strategies and effectiveness of the policies, including distribution and keeping adequate level of capital for identified risks. In order to ensure adequacy with risk appetite, the committee monitors the strategies for capital and liquidity management as well as all other types of risks including credit, market, operational and reputational risks.
- The General Risk Management Committee monitors the overall risk profile of the bank, limit compliance and the internal and regulatory capital adequacy. The committee defines the risk tolerance limits within the limits set by the group-wide risk management framework and the National Bank of Georgia. It supports and advises the Management in connection with market risks, operational risks including fraud prevention and information security risk.
- The Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity reserve and liquidity management of the bank, for setting interest rates on loans and deposits, co-ordinating measures aimed at securing funding for the ProCredit Bank and reporting on material developments in financial markets.
- Compliance and AML Committee supports and advises the Management in connection with the ongoing monitoring of the bank's risk profile regarding money laundering and compliance, as well as in the adoption of suitable measures to prevent AML risks. The committee is a forum for evaluating compliance risks, discussing the impact of changes in legal regulations and prioritising identified compliance risks.
- The Audit Committee supports and advises the Management in the approval of annual internal audit plans and in monitoring the timely implementation of measures to resolve the findings of internal and external auditors. Moreover, this body aims to achieve ongoing improvement in the Internal Audit Policy.
- The HR Committee is responsible for the approval of annual staffing and training plan, analyzing the development of the staff structure, staff turnover and the recruitment process, monitoring the staff assessment process and taking the appropriate action based on the results, annually reviewing the salaries and deciding on changes, approving staff transfers, changes of position, promotions, calls to attention, warning letters and periodically reviewing the bank's remuneration practice.
- The Eco Committee supports and advises the Management in connection with environmental impact improvement/mitigation resulted from lending activity, positioning of the bank as environmentally responsible organization and strengthening its reputation, increasing the level of the bank energy efficiency and encouraging rational use of natural resources, hereby reduction of costs, mitigation of risks resulted from negative environmental impact, raising awareness and the level of knowledge about environmental and energy efficiency topics among the bank staff and clients.

The bank has an effective compliance management system which is supported by our Code of Conduct and our approach to staff selection and training. Compliance with the Code of Conduct is compulsory for all staff members. The compliance and risk management functions which bear responsibility for adhering to national banking regulations report regularly and on an ad-hoc basis to the Management of the bank and to the Group's responsible departments. Any conduct, which is inconsistent with the established rules, can be reported anonymously to an e-mail address established for the bank.

Internal Audit is an independent functional area within the bank who functionally reports to the Supervisory Board of the bank via an Audit Committee, which is subordinate to and appointed by the Supervisory Board. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the bank. Once per year, the internal audit department of the ProCredit Bank carries out risk assessment of bank's activities in order to arrive at a risk-based annual audit plan. The Group Audit team monitors the quality of the audits conducted in ProCredit bank and provides technical guidance.

The Internal Audit Department audits and assesses the following:

1. The viability, effectiveness, efficiency and suitability of the internal control systems;
2. The application, viability, effectiveness and suitability of the risk management and control systems, the reporting and information systems and the financial and accounting systems;
3. The observance of existing legal and banking supervisory provisions as well as other regulations;
4. Compliance with operational guidelines, instructions and rules;
5. Compliance of all operational and business procedures with legal requirements and generally accepted standards and principles; the rules observed and the precautions taken to protect assets.

In principle, the Internal Audit Department is looking at the full set of processes, using a risk-based approach to identify review priorities.

Ad hoc audits might be undertaken as and when deemed appropriate by the Internal Audit Department.

In accordance with the banking legislation, the bank undergoes an external audit on an annual basis. The selection of external auditor is performed through the tender procedure. Based on the recommendations prepared by the Tender Committee, the Supervisory Board takes the final decision on appointing an external auditor.

The external audit process is always performed by so-called "Big 4" audit firms. However, in order to maintain impartiality of auditors, the bank consistently follows the practice of rotating audit firms.

In 2020 GEL 266 thousand direct fees incurred for audit services. The bank did not receive other professional services from Auditor/Auditor firms as defined in the law of Georgia on Accounting, Reporting and Auditing.

In the bank, adequate processes and procedures for an effective internal control system are in place. The system is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.

Risk management and risk controlling function of the bank is designed to define, measure, and monitor the risks in the operations of the bank, organise and coordinate the processes designed to control these risks in cooperation with the respective subdivisions of the bank. The main tasks are:

1. Analysis of existing and potential risks with the purpose of developing measures, methods and procedures for evaluating, controlling and monitoring them; definition of the degree of the bank's vulnerability to these risks;
2. Measurement of the current risks facing the bank;
3. Conducting market risk analysis based on the stress testing/scenario and gap analysis;

4. Ensuring the adequate design of the early warning system if required by internal/external regulations and/or bank's Management;
5. Monitoring of risks by preparing reports for the committees, the Management and the Supervisory Board of the bank;
6. Drafting decisions aimed at mitigation of risks for further consideration and approval by the Board of Directors and/or the respective committees of the bank;
7. Preparation and implementation of the measures for Heads of the bank departments/units with the purpose of improving the risk management efficiency within the field of their responsibilities, and increasing the awareness of the bank's management and employees about the banking risks threatening their activities;
8. Checking compliance of branches/service centres with operational rules and procedures by conducting on-site monitoring of branches/service centres and preparing reports.

Risk positions are analysed regularly, discussed intensively and documented in standardised reports. Each month ProCredit Bank prepares risk reports for the Group Risk Management Committee / bank's ALCO; on a quarterly basis, risk reports are delivered to the Supervisory Board of the bank, Audit Committee and bank's Risk Management Committees. Monitoring of risk situation and the overall risk profile of the bank is carried out through a review of these reports and of additional information generated by the responsible staff. If necessary, additional topic-specific ad hoc reporting occurs. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

The risk department of the bank reports regularly to the different risk functions at ProCredit Holding, and the respective supervisory board is informed on at least a quarterly basis about all risk-relevant developments.

8.3 Risk statement and risk profile

The risk management processes of the ProCredit Bank have been designed in a suitable manner considering the nature, scale, complexity and riskiness of the business activities as well as the business strategy and the risk strategy of the bank. MaRisk, Basel Committee standards and relevant publications of national and international regulatory authorities are taken into account at all times during this process.

The processes for risk management take account of all material risks defined in the risk inventory; these processes were found to be appropriate and approved by the Management of the bank, and are subject to ongoing further development. As the business strategy of the ProCredit Bank focuses on SMEs, the credit risk associated with serving this client group constitutes the material item in the bank's risk profile.

A comprehensive set of early warning indicators (reporting triggers) and limits is used to measure, manage and limit risks. The limit system is the operational counterpart of the principles established in the risk policies, and it represents the risk tolerance level (risk appetite) defined by the Management. In addition to the limits for specific types of risk, e.g. limits for each borrower, limits for all material risks are set in the framework of the internal capital adequacy calculation. Ongoing monitoring is performed in order to identify potential concentrations within risk categories or between risk types; if necessary, decisions are taken on measures to reduce any risk concentrations.

Key risk indicators, which provide a comprehensive overview of the risk profile of the bank, are presented in the individual sections of the Pillar 3 report on the material risks and in the explanations regarding capital adequacy.

9 Credit risk

The ProCredit Bank defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations at all, not in full or not on time. Within overall credit risk we distinguish between customer credit risk and counterparty risk (including issuer risk). Credit risk is the most significant risk facing the ProCredit Bank, and customer credit exposures account for the largest share of that risk.

9.1 Customer credit risk

9.1.1 Strategy and principles

The key objectives of our credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. For our lending operations with clients, we apply the following principles:

- intensively analysing the debt capacity of credit clients (the bank doesn't apply any scoring model)
- carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties
- strictly avoiding over-indebtedness of bank's clients
- building a personal and long-term client relationship and maintaining regular contact
- strictly monitoring the repayment of credit exposures
- customer-oriented, intensified loan management in the event of past due loans
- collateral collection in the event of insolvency

The bank's framework for managing customer credit risk is presented in the relevant policies and standards. The policies define, among other things, the responsibilities for managing credit risk at the bank level, the principles for organising lending business, the principles of granting loans, and the framework for evaluating loan collateral. The standards contain detailed explanations of the bank's lending operations with business clients and private clients and of the range of credit facilities offered. They also set forth rules for restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The ProCredit group divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Small exposures are typically between EUR 50,000 and EUR 500,000, and medium exposures are above EUR 500,000. The largest portion of loan portfolio (according to the number of clients) is attributed to the clients with exposures between EUR 50,000 and EUR 500,000. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front- and back-office functions up to the management level is applied for risk-relevant credit exposures.

The experience of the ProCredit Bank has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions of the ProCredit Bank are therefore based on an analysis of the client's financial situation and creditworthiness. Regular on-site visits are performed for all clients to ensure an adequate consideration of their specific features and needs.

All credit decisions in the ProCredit Bank are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on Small and Medium credit exposures are taken by credit committee at bank's head office. If the exposures are particularly significant for the bank, due to its size, the decision is made by Supervisory Board of the bank, usually following a positive vote issued by the responsible team at ProCredit Holding.

Setting appropriate credit limits, deciding which services correspond to the financial needs of clients and determining the proper structure of the credit exposure form an integral part of the discussion process within the credit committee. In this context, the following general principles apply: the lower the amount of the credit exposure, the more meaningful the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the account turnover of the client with the bank, the lower the collateral requirements will be.

The bank's credit risk management policies limit the possibility for unsecured credit operations. Depending on the riskiness and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with collateral security, mostly through mortgages.

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in a fast and efficient assessment of the degree of financial difficulty faced by clients. The respective indicators are developed and implemented for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. The responsible member of staff checks whether there are indications of increased risk of default, and, if necessary, ensures that additional steps are taken in accordance with the policies. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to the respective units at group level. The early warning indicators and the close monitoring of clients allow for appropriate tracking of increases in credit risk related to individual credit exposures (migration risk).

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of the client's business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

When a loan is classified as a problem credit exposure, recovery officers take over responsibility for dealings with the client. The bank generally considers an exposure to be problematic when there is strong doubt that the client will be able to meet his/her contractual obligations, e.g. in the case of bankruptcy or arrears exceeding 90 days. If necessary, the recovery officers are supported by litigation officers (legal department) and/or specialists in the sale of assets or collateral.

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past due portfolio) and concentration risk. For the ProCredit Bank, important indicators of loan portfolio quality are the shares of the portfolio that are past due by more than 30 days (PAR>30) or more than 90 days (PAR>90). We also track the degree to which credit exposures past due by more than 30 days and 90 days are covered with loan loss provisions, as an indicator of the adequate

provisioning of our loan portfolio. The portfolio of restructured credit exposures, the corresponding provisions and the level of write offs are also closely monitored.

In addition, three asset quality indicators have been introduced, on the basis of which the bank's loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on a risk classification system and on additional risk characteristics of the exposures (e.g. whether a loan has been restructured, number of overdue days). The indicators allow for a clear overview of the quality of the bank's portfolio and provide support for the credit risk management process.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium-sized businesses in various economic sectors and regions. In addition, the ProCredit Bank limits the concentration risk of loan portfolio by means of the following requirements: Large credit exposures (those exceeding 10 % of regulatory capital of the bank) require the approval of the Group Risk Management Committee. No individual large credit exposure may exceed 25 % of regulatory capital of the bank, and the sum of all large credit exposures of the bank may not exceed 150 % of its regulatory capital.

Due to financial difficulties caused by Covid-19, the bank granted moratoriums on the repayments with period of up to 9 month. Portfolio under moratoria as of March 2021, stands at 9.2% of total LP. Modification requests are mainly related with HoReCa⁵ sector and real estate management. Performance after the end of the credit holidays is quiet strong, as DPD⁶>30 after expire moratoria stands at 0.6%, while DPD>90 at 0.4%. More information can be seen in the quarterly report (<http://www.procreditbank.ge/sites/default/files/pe1-bpc-qg-20210331.pdf>).

9.2 Counterparty risk, including issuer risk

The ProCredit Bank defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the ProCredit Bank mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards the National Bank of Georgia in the form of mandatory minimum reserves.

Counterparty risk is managed according to the principle that our liquidity must be placed securely and in a manner which is as diversified as possible. While the bank tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, we only work with carefully selected, reliable banks which normally have high credit ratings, we typically place our money for short terms (up to one month, but typically shorter) and we use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. The ProCredit Bank is prohibited from engaging in speculative trading. As a matter of principle, only highly liquid papers are bought, typically with a maximum maturity of one year. Liquidity in local currency is predominantly invested in the papers of the NBG or bonds issued by the Ministry of Finance of Georgia. EUR or USD, on the other hand, are generally placed with banks in the OECD countries. The impact of market price changes on the bank is limited. The reasons are that the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

⁵ HoReCa - Hotels, Restaurants, Cafes

⁶ DPD – Days Past Due

Typically, our counterparties are the National Bank of Georgia, the Georgian State and commercial banks. The main types of exposure are account balances, short-maturity term deposits, highly liquid securities, and, on a limited scale, simple derivative instruments for liquidity management and hedging purposes (particularly foreign currency swaps).

We effectively limit counterparty and issuer risk through our conservative investment strategy. Due to mandatory minimum reserves, a concentration exists with regard to exposures towards the National Bank of Georgia. Since 2010 the ProCredit group has insured the mandatory reserves in foreign currency with guarantees from the Multilateral Investment Guarantee Agency (MIGA).

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit Bank concludes transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit towards a non-OECD bank or banking group may not exceed 10 % of the ProCredit Bank's CRR capital without prior additional approval from Group ALCO or the Group Risk Management Committee. For an OECD bank, the threshold is 25 %. The typical maximum maturity of our term deposits is one month; longer maturities than 3 months must be approved by Group ALCO or the Group Risk Management Committee. Approval is likewise required before any investments in securities, except for NBG papers in the local currency with a remaining maturity of up to three months.

In order to avoid risk concentrations, an additional maximum limit towards each banking group and each state group (total exposure towards central bank, government and state-owned entities) exists.

2020 was the year of challenges due to pandemics, which affected not only our local market, but international players with whom bank has had long-term relationship. Despite this situation and not clear expectations in the beginning of 2020, during this year, the bank managed to keep counterparty and issuer risk at low level. This is the result of the bank's thorough politics towards assessment of counterparties, working with clearly defined limits and diversifying between highly trusted partners. The main counterparties stayed the same. The average maturity remains short and the bank continues to have exposures only with carefully selected counterparties/issuers.

9.3 Default risk arising from derivative positions

In the ProCredit Bank, derivatives are utilised to an extremely limited extent. They are only used to hedge foreign currency; the bank may not be engaged in for the purposes of proprietary or speculative trading. The following derivatives are relevant for the ProCredit Bank:

- FX swaps

For derivative exposures, the same risk classification, limit-setting and monitoring processes apply as for counterparty risk. The bank conducts FX swaps only with ProCredit Bank Germany.

Due to the type of counterparty and low volume of derivatives in the ProCredit Bank, possible correlations between counterparty/issuer risk and market risks are negligible.

9.4 Use of external ratings and credit risk mitigation techniques in the credit risk standardised approach

The ProCredit Bank exclusively uses the standardised approach to determine its exposure to credit risk. The bank has nominated the rating agency Fitch Ratings for the exposure classes "central governments or central banks", "institutions" and "institutions and corporates with a short-term credit assessment". Since

our customers are usually not rated, ProCredit Bank does not use ratings for the exposure class “corporates” and “retail”.

For exposures where an external credit assessment is available, risk weighting is determined on the basis of that external rating. For unrated exposures, risk weighting of the respective parent company is taken. In all other cases, the exposure is treated as unrated.

10 Market risks

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for ProCredit Bank are foreign currency risk and interest rate risk in the banking book. ProCredit Bank manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the bank’s risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes; foreign currency derivatives and interest rate derivatives may only be used for hedging purposes or to obtain liquidity. ProCredit bank is strictly a non-trading book institution.

10.1 Foreign currency risk

We define foreign currency risk as the risk that an institution incurs losses or is negatively affected by exchange rate fluctuations. Foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios.

Results are impacted negatively when the volume of its assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably (depreciation of the local currency). The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). The total OCP is limited to 10 % of the bank’s CRR capital, unless deviation from this limit has been approved by the Group ALCO or Group Risk Management Committee. A threshold of 7.5 % of a ProCredit bank’s CRR capital has been defined as an early warning indicator for the total OCP, and ± 5 % for each individual currency OCP.

Foreign currency risk can reduce regulatory capital ratios as the capital of the bank is held in the local currency while many of the assets it supports are denominated in foreign currency. In that case, local currency depreciation can result in a significant deterioration of capital adequacy if the foreign currency assets appreciate (from a local perspective) and the bank therefore has higher risk-weighted assets but the capital remains unchanged. To mitigate this risk, the bank aims to increase the share of assets in the local currency. At least quarterly, currency risk stress tests are performed within the capital adequacy forecasting process that depict the effects of unfavourable exchange rate developments on the bank’s capital ratios.

In 2020 the overall currency risk of the bank continued to be low considering that the bank has a policy to avoid having significant open currency positions. However, due to very volatile and stressed market situation in 2020, which was accelerated by COVID19, the bank considers foreign currency risk to be important to closely look at.

10.2 Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses driven by changes in market interest rates and arises from structural differences between the repricing maturities of assets and liabilities. It is measured on a regular basis, at least quarterly.

In order to manage interest rate risk, ProCredit Bank focuses on issuing variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, the bank uses a publicly available interest rate as a benchmark when adjusting the interest rates (LIBOR, EUROBOR, the NBG refinancing rate). Financial instruments to mitigate interest rate risk (hedged) are not available in local currency.

The bank's approach used to measure, monitor and limit interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contractual agreements. The bank measures the interest rate risk based on two indicators: EVI – economic value impact, a longer-term perspective, and IEI – interest earnings indicator, 12 months perspective.

We assume a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for local currency the magnitude of the shock is derived on the basis of a historical analysis. Sight deposits and savings accounts are included in the gap analyses according to their expected repricing maturities. These maturities are derived from an analysis of historical developments. The economic value impact (EVI) when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies must not exceed 15 % of the bank's CRR capital, unless approved by the Group Risk Management Committee; the early warning indicator for each currency is set at 10 % (non-netted in each case). The P&L effect is deemed significant if it exceeds 5% of the bank's CRR capital (early warning indicator). The P&L effect must not exceed 10 % of the bank's CRR capital (non-netted in each case).

11 Liquidity risks

11.1 Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit Bank's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

In general, liquidity and funding risk is limited in the bank by the fact that we primarily issue instalment loans with monthly repayments, financed largely by customer deposits. Our deposit-taking operations focus on our target group of business clients and savers, with whom we establish strong relationships. The financial crisis and pandemics in 2020 has shown that our customer deposits are a stable and reliable source of funding. As of end-December 2020, the largest funding source was customer deposits.

We measure our short-term liquidity risk using a liquidity gap analysis, among other instruments, and monitor the risk based on a 30-day liquidity indicator (Sufficient Liquidity Indicator - SLI) and 90-days Survival Period, as well as in accordance with the minimum liquidity ratios stipulated by the National Bank of Georgia (NBG Liquidity Coverage Ratio, LCR) and CRR (CRR Liquidity Coverage Ratio, LCR). The SLI measures whether the institution has sufficient liquidity for the expected inflows and outflows of funds in the next 30 days. The calculation applies outflows derived from historical analyses of deposit movements in the banks. Liquidity Coverage Ratios indicate whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. Additionally, the bank conducts regular analysis of the liquidity needs for longer stress periods (up to 3 months) and maintains respective limits.

In addition, early warning indicators are defined and monitored. A key indicator in this respect is the deposit concentration indicator, which ensures that the bank holds sufficient highly liquid assets at all times to be able to pay out deposits of a higher volume.

Market-related, combined and longer-term stress tests are conducted monthly and ad hoc to make sure that ProCredit Bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, the bank has a liquidity contingency plan. If unexpected circumstances arise and the bank proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a “lender of last resort”. ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

The liquidity of the bank is managed on a daily basis by the treasury department based on cash flow projections which are approved by the ALCO and monitored by the risk management department on a daily basis.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at significantly higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through retail customer deposits, supplemented by long-term funds from international financial institutions (IFIs). We make little use of interbank and financial markets.

ProCredit Bank manages, measures and limits funding risk through business planning, maturity gap analysis and relevant indicators. The funding needs of the bank, identified in the business planning process, are monitored and regularly reviewed at group level, as well. Group ALCO and bank’s ALCO monitor the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank Germany also offer bridge financing in the event that a funding project is delayed. Two indicators additionally restrict the level of funding from the interbank market to a low level.

In the past year, the financial system faced difficulties due to COVID19, in the beginning of pandemics the bank considered certain possible stress regarding liquidity, especially taking into consideration planned and executed loan moratoria. Moreover, because of restrictions for business clients, there were expectations of higher deposit withdrawals. However, PCB Georgia managed to keep stable liquidity in parallel with all credit risk measures taken and positive business results in 2020.

11.2 Encumbered and unencumbered assets

Assets are deemed to be encumbered when they have been pledged or are committed to collateral agreements or agreements to improve the credit assessment of on- or off-balance sheet transactions and it is not possible to withdraw these assets from the terms of such agreements (e.g. pledges for funding purposes).

The ProCredit Bank has a limited amount of encumbered assets, as the bank largely funds its activities through deposits. The encumbered assets comprise primarily assets in local currency which are committed to collateral agreements with the National Bank of Georgia in case the bank will take 7-days refinancing loan from the NBG. In order to be pledged with the NBG, these assets shall comply with certain criteria which are stipulated in the respective decree of the National Bank of Georgia.

12 Operational risk

In line with CRR, we define operational risk 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 standardised approach for operational risk pursuant to CRR, the operational risk management regulations 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 utilised 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, analysed 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 analysed regularly and where needed preventive measures are agreed on.

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

In order to limit IT risks, the ProCredit group has defined standards for IT infrastructure, business continuity and information security. At bank level, ProCredit Bank incorporates the requirements of Cyber Security Framework imposed by 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 prioritisation of processes.

Information about historical operational losses		<i>in Lari</i>		
		31/12/2020	31/12/2019	31/12/2018
1	Total amount of losses	32,060	533,268	202,113
2	Total amount of losses, exceeding GEL 10,000	-	481,679	149,651
3	Number of events with losses exceeding GEL 10,000	-	5	4
4	Total amount of 5 biggest losses	14,860	481,679	158,448

Table 11

In the beginning of the previous year, 2020 was expected to be quite challenging due to pandemics. However, since the early stages of COVID19, the bank took several measures in order to minimize operational risks without interrupting or burdening bank's business operations, like: ensuring necessary equipment for most of the employees to work from home, setting up safe and secure ways for connecting corporate environment, distributing necessary safety information to the employees, introducing additional policies and rules in response to COVID19 and new working set up, etc.

All above-mentioned measures resulted in low operational risk events, even in as challenging environment as it was in 2020.

13 Risks arising from money laundering, terrorist financing and other acts punishable by law

The prevention of money laundering and terrorist financing is a key function of the bank. The business ethics and strong corporate values of the ProCredit group and of ProCredit bank play a key role in this regard. PCBG consistently applies the Know Your Customer (KYC) principle to all customers. Furthermore, in addition to complying with national rules and regulations, ProCredit Group and ProCredit Bank implement the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level.

In order to consistently monitor accounts and transactions, the bank uses specialized software to detect conspicuous activities and identify business relationships involving money from dubious sources. The system brings conspicuous activity to the attention of the AML Officer of the bank, who then researches the background of the respective transaction or business relationship.

The AML framework of the bank ensures that:

- the bank appoints an AML Officer who regularly reports to the Management Board as well as to the Group AML Officer at ProCredit Holding
- the bank applies a strict Know Your Customer and Know Your Correspondent approach in its customer due diligence and correspondent banking procedures
- Group AML and the bank annually assesses the risk of money laundering and terrorist financing throughout the ProCredit group on the basis of a distinct risk model.
- the bank staff members receive AML training when they first join the institution and thereafter on an ongoing basis within the framework of the training plan
- the bank maintains a risk classification of its customers to prevent money laundering and terrorist financing and applies due diligence and monitoring procedures accordingly
- The bank applies consistent standards for data and transaction monitoring and adheres to international sanctions and embargoes.

14 Capital adequacy

14.1 Capital management

Capital management in the ProCredit group is guided by the principle that neither a ProCredit bank nor the ProCredit group as a whole may at any time incur greater risks than they are able to bear. This principle is monitored using different indicators for which early warning indicators and limits have been established. The indicators for ProCredit bank include, in addition to regulatory standards of the National Bank of Georgia, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and an internal capital adequacy assessment.

The capital management framework has the following objectives:

- compliance with regulatory capital requirements
- ensuring internal capital adequacy
- compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure the bank's capacity to act
- support for the bank in implementing its plans for continued growth

Whereas the Pillar 1 capital requirements for the ProCredit group are imposed and monitored by BaFin and by the Supervisory College pursuant to Section 8a KWG, the ProCredit Bank is subject to the requirements imposed by the national supervisory authority.

In Georgia, the implementation of the new combined regulation based on Basel II and Basel III came into force in 2014. On 28 October 2013, the National Bank of Georgia (NBG) published the "Regulation on Capital Adequacy Requirements for Commercial Banks" (Decree N100/04 of the President of the National Bank of Georgia), which is in turn based on the three Pillars as defined by the internationally accepted capital adequacy framework of the Basel Committee on Banking Supervision, Capital Requirements Regulation – (EU) 575/2013 (CRR) and Capital Requirements Directive 2013/36/EUR (CRD IV).

In April 2020, the National Bank of Georgia, in connection to the COVID-19, has developed a temporary supervisory plan, which included capital requirements decrease. The National bank of Georgia has given the banks the possibility to use the biggest part of the capital buffers.

A high level of capitalization of the bank is insured with a conservative, proactive capital adequacy management, which considers stressed factors, as well.

The current report is based on the financial statements as of December 2020.

The changes of April 2020, made by NBG, are reflected in the reports of 2020 and 2021 Q1 (<http://www.procreditbank.ge/ge/%E1%83%99%E1%83%95%E1%83%90%E1%83%A0%E1%83%A2%E1%83%90%E1%83%9A%E1%83%A3%E1%83%A0%E1%83%98?mid=1104>).

14.2 Pillar 1 and combined buffer

According to the "Regulation on Capital Adequacy Requirements for Commercial Banks", commercial banks are required to provide regulatory capital that is at all times more than or equal to the following minimum capital requirements: Common Equity Tier 1 Capital to Risk Weighted Exposures should be no less than 4.5% of the risk weighted exposures; Tier 1 Capital no less than 6%; Regulatory Capital no less than 8%.. JSC ProCredit Bank, Georgia is required to hold own funds, which are at all times greater than or equal to the above mentioned capital requirements.

Furthermore, banks are required to hold additional combined buffer through Common Equity Tier 1. The combined buffer consists of the conservation, the countercyclical and the systemic buffers. The rate for the conservation buffer has been set at 2.5 % of risk-weighted assets, while a rate of 0 % has been set for the countercyclical buffer for all banks. The countercyclical buffer can vary within the range from 0 % to 2.5 % and shall be reviewed periodically, based on the financial and macroeconomic environment. For systemically important commercial banks, the systemic buffer has been introduced. PCB Georgia is not considered a systemic bank; therefore, 0 % for systemic buffers is required from the bank.

14.3 Pillar 2

In accordance with Basel III framework, commercial banks within the framework of Pillar 2, should hold capital adequacy buffers for those risks that aren't sufficiently covered under Pillar 1. With the objective to formalize and establish this framework National Bank of Georgia introduced "Rule on Additional Capital Buffer Requirements for Commercial Banks within of Pillar 2".

Pillar 2 framework determines capital buffers for unhedged currency induced credit risk, credit portfolio concentration risk (single name as well as sectoral concentration risk), net stress-test buffer based on supervisory stress-test results and net GRAPE buffer set determined through the supervisory process - General Risk Assessment Program (GRAPE) by NBG.

It's important to note, that capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 4.5%, Tier 1 capital 6% and Total Regulatory Capital 8%). Therefore, 56 % of capital required under Pillar 2 should be held through Common Equity Tier 1, while 75% through Tier 1 capital instruments (table 12).

		Common Equity Tier 1	Tier 1	Total Regulatory Capital
Pillar 1	Basel III min requirements	4.50%	6.00%	8.00%
	Conservation buffer	2.50%	2.50%	2.50%
	Countercyclical buffer	[0%-2.5%]	[0%-2.5%]	[0%-2.5%]
	Systemic buffers	n%	n%	n%
Pillar 2	Unhedged currency induced credit risk buffer	n x (min)56%	n x (min)75%	n%
	Name concentration risk buffer	n x (min)56%	n x (min)75%	n%
	Sectoral concentration risk buffer	n x (min)56%	n x (min)75%	n%
	Net stress-test buffer	n x (min)56%	n x (min)75%	n%
	Net GRAPE buffer	n x (min)56%	n x (min)75%	n%

Table 12⁷

For the purpose of complying with these requirements commercial banks have been given appropriate timeframes, which was changed by NBG due to pandemics and the banks were given additional time for complying with the requirements shown below.

⁷ The table represents the requirements before COVID19 reduced requirements. The information about reduced requirements can be seen in the chapter 4.

Concentration buffer and GRAPE buffer distribution among capital elements	31/01/2018	31/12/2018	31/03/2021	31/03/2022	31/03/2023 and after
Common Equity Tier 1	0%	15%	30%	45%	56%
Tier 1	0%	20%	40%	60%	75%
Total Regulatory Capital	100%	100%	100%	100%	100%

Table 13

As a result of the amendments to capital adequacy requirements, when a commercial bank breaches new total capital requirement it will be considered that combined buffer requirement is breached first. In such case, in accordance with updated "Regulation on Capital Adequacy Requirements for Commercial Banks" distribution of own equity instruments, including distributions of dividends, are prohibited.

14.4 Regulatory capital

Common Equity Tier 1 represents the main portion of bank's Regulatory Capital (GEL 196m after the regulatory adjustments). The bank does not have the Additional Tier 1 capital. Tier 2 capital is also part of the Regulatory Capital, which consists of subordinated debts and general reserves (GEL 64m).

Regulatory capital		in Lari
1	Common Equity Tier 1 capital before regulatory adjustments	203,270,131
2	Common shares that comply with the criteria for Common Equity Tier 1	100,351,375
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	51,324,299
4	Accumulated other comprehensive income	-
5	Other disclosed reserves	-
6	Retained earnings (loss)	51,594,457
7	Regulatory Adjustments of Common Equity Tier 1 capital	6,975,799
8	Revaluation reserves on assets	-
9	Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	-
10	Intangible assets	781,227
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	-
12	Investments in own shares	-
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	-
14	Cash flow hedge reserve	-
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	-
16	Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	-
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	6,194,572
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	-
19	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	-
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	-
23	Common Equity Tier 1	196,294,332
24	Additional tier 1 capital before regulatory adjustments	-
25	Instruments that comply with the criteria for Additional tier 1 capital	-
26	Including: instruments classified as equity under the relevant accounting standards	-
27	Including: instruments classified as liabilities under the relevant accounting standards	-
28	Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	-
29	Regulatory Adjustments of Additional Tier 1 capital	-
30	Investments in own Additional Tier 1 instruments	-
31	Reciprocal cross-holdings in Additional Tier 1 instruments	-
32	Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
33	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
34	Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	-
35	Additional Tier 1 Capital	-
36	Tier 2 capital before regulatory adjustments	64,088,885
37	Instruments that comply with the criteria for Tier 2 capital	46,329,300
38	Stock surplus (share premium) that meet the criteria for Tier 2 capital	-
39	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	17,759,585
40	Regulatory Adjustments of Tier 2 Capital	-
41	Investments in own shares that meet the criteria for Tier 2 capital	-
42	Reciprocal cross-holdings in Tier 2 capital	-
43	Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
44	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
45	Tier 2 Capital	64,088,885

Table 14

Common Equity Tier 1 is subject to regulatory adjustments. Intangible assets and equity and other participations constituting more than 10% of the share capital of other commercial entities are deducted from Common Equity.

General reserves, which form Tier 2 capital, are limited to a maximum of 1.25% of the bank's credit risk-weighted exposures. As of December 2020, the bank's total general reserves exceed the 1.25% of credit risk-weighted exposures and, as the results, the reserves in volume of GEL 17.8 m, which are included into Tier 2 capital, represent 1.25% of credit risk-weighted exposures.

Table below shows the reconciliation of balance sheet to regulatory capital.

Reconciliation of balance sheet to regulatory capital			<i>in Lari</i>
N	On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per local accounting rules	linkage to capital table
1	Cash	42,029,212	
2	Due from NBG	222,414,866	
3	Due from Banks	184,244,907	
4	Dealing Securities	0	
5	Investment Securities	51,428,813	
6.1	Loans	1,379,372,357	
6.2	Less: Loan Loss Reserves	-74,370,602	
6.2.1	<i>Of which general loan loss reserves</i>	-17,759,585	Table 9 (Capital), N39
6.2.1	<i>Of which COVID 19 related general loan loss reserves</i>	-16,865,292	
6	Net Loans	1,305,001,755	
7	Accrued Interest and Dividends Receivable	10,859,448	
8	Other Real Estate Owned & Repossessed Assets	185,952	
9	Equity Investments	6,364,957	
9.1	<i>Of which above 10% equity holdings in financial institutions</i>	6,194,572	Table 9 (Capital), N17
9.2	<i>Of which significant investments subject to limited recognition</i>		
9.3	<i>Of which below 10% equity holdings subject to limited recognition</i>		
10	Fixed Assets and Intangible Assets	55,700,527	
10.1	<i>Of which intangible assets</i>	781,227	Table 9 (Capital), N10
11	Other Assets	18,563,286	
12	Total assets	1,896,793,723	
13	Due to Banks	54,314,550	
14	Current (Accounts) Deposits	305,445,098	
15	Demand Deposits	353,729,474	
16	Time Deposits	317,314,067	
17	Own Debt Securities	0	
18	Borrowings	576,843,123	
19	Accrued Interest and Dividends Payable	10,473,174	
20	Other Liabilities	22,521,606	
20.1	<i>Of which general reserves on off-balance items</i>	1,642,987	
21	Subordinated Debentures	52,882,500	
21.1	<i>Of which tier II capital qualifying instruments</i>	46,329,300	Table 9 (Capital), N37
22	Total liabilities	1,693,523,592	
23	Common Stock	100,351,375	Table 9 (Capital), N2
24	Preferred Stock	0	
25	Less: Repurchased Shares	0	
26	Share Premium	51,324,299	Table 9 (Capital), N3
27	General Reserves	0	
28	Retained Earnings	51,594,457	Table 9 (Capital), N6
29	Asset Revaluation Reserves	0	
30	Total Equity Capital	203,270,131	

Table 15

14.5 Risk weighted assets

The total risk weighted assets consists of risk weighted assets for credit risk, market risk and for operational risk.

Risk weighted assets for credit risk includes as on-balance, as well off-balance elements and counterparty credit risk.

Table below shows the linkages between financial statement assets and balance sheet items subject to credit risk weighting.

Linkages between financial statement assets and balance sheet items subject to credit risk weighting *in Lari*

	Account name of standardized supervisory balance sheet item	Carrying values as reported in published stand-alone financial statements per local accounting rules	Carrying values of items	
			Not subject to capital requirements or subject to deduction from capital	Subject to credit risk weighting
1	Cash	42,029,212		42,029,212
2	Due from NBG	222,414,866		222,414,866
3	Due from Banks	184,244,907		184,244,907
4	Dealing Securities	0		
5	Investment Securities	51,428,813		51,428,813
6.1	Loans	1,379,372,357		1,379,372,357
6.2	Less: Loan Loss Reserves	-74,370,602		-74,370,602
6	Net Loans	1,305,001,755		1,305,001,755
7	Accrued Interest and Dividends Receivable	10,859,448		10,859,448
8	Other Real Estate Owned & Repossessed Assets	185,952		185,952
9	Equity Investments	6,364,957	6,194,572	170,384
10	Fixed Assets and Intangible Assets	55,700,527	781,227	54,919,300
11	Other Assets	18,563,286		18,563,286
	Total exposures subject to credit risk weighting before adjustments	1,896,793,723	6,975,799	1,889,817,924

Table 16

6.2m GEL represents investments in equities, particularly in ProCredit Properties LLC and Creditinfo Georgia JSC, out of which 6.1m GEL is investment in ProCredit Properties LLC (the bank owns 100% of its shares). This amount is deducted from Common Equity Tier 1 during the regulatory adjustments. Accordingly, this amount is not subject to weighting for credit risk.

Additionally, the amount of intangible assets, which also is deducted from Common Equity Tier 1, does not participate in weighting for credit risk.

Off-balance elements' volume is reduced by the special reserve – through the credit-converse factor.

The following table will describe the off-balance sheet items per standardized regulatory report:

N		31/12/2020			31/12/2019		
		GEL	FX	Total	GEL	FX	Total
1	Contingent Liabilities and Commitments	80,506,393	81,017,048	161,523,441	55,590,795	41,830,807	97,421,602
1.1	Guarantees Issued	45,680,394	21,127,297	66,807,691	33,373,149	14,991,504	48,364,653
1.2	Letters of credit Issued	0	7,168,587	7,168,587	0	98,974	98,974
1.3	Undrawn loan commitments	34,825,999	52,721,164	87,547,163	22,217,646	26,740,329	48,957,976
1.4	Other Contingent Liabilities	0	0	0	0	0	0
2	Guarantees received as security for liabilities of the bank	30,614,358	462,561,843	493,176,201	30,614,358	308,003,454	338,617,813
3	Assets pledged as security for liabilities of the bank	11,505,000	0	11,505,000	6,902,000	0	6,902,000
3.1	Financial assets of the bank	11,505,000	0	11,505,000	6,902,000	0	6,902,000
3.2	Non-financial assets of the bank	0	0	0	0	0	0
4	Guarantees received as security for receivables of the bank	251,652,578	572,062,351	823,714,929	126,885,749	491,445,640	618,331,389
4.1	Surety, joint liability	199,720,685	484,113,118	683,833,802	96,271,391	183,442,185	279,713,576
4.2	Guarantees	51,931,894	87,949,233	139,881,127	30,614,358	308,003,455	338,617,813
5	Assets pledged as security for receivables of the bank	373,436,600	1,096,107,848	1,469,544,448	331,226,685	1,091,257,707	1,422,484,392
5.1	Cash	6,100,537	1,630,506	7,731,043	4,795,619	6,892,846	11,688,464
5.2	Precious metals and stones	0	0	0	0	0	0
5.3	Real Estate:	322,258,460	994,236,809	1,316,495,269	281,675,450	1,007,565,369	1,289,240,820
5.3.1	Residential Property	103,363,362	272,632,304	375,995,666	87,333,291	256,395,614	343,728,905
5.3.2	Commercial Property	88,611,876	399,929,850	488,541,726	117,744,138	582,926,767	700,670,905
5.3.3	Complex Real Estate	0	0	0	0	0	0
5.3.4	Land Parcel	75,845,710	157,480,505	233,326,215	76,569,078	167,422,949	243,992,027
5.3.5	Other	54,437,512	164,194,149	218,631,661	28,944	820,039	848,983
5.4	Movable Property	28,481,863	82,016,275	110,498,139	22,672,380	58,156,029	80,828,409
5.5	Shares Pledged	13,630,915	15,858,485	29,489,400	17,799,634	16,612,767	34,412,400
5.6	Securities	0	913,811	913,811	0	799,773	799,773
5.7	Other	2,964,825	1,451,961	4,416,786	4,283,602	1,230,923	5,514,525
6	Derivatives	0	274,008,817	274,008,817	0	285,623,169	285,623,169
6.1	Receivables through FX contracts (except options)		135,204,967	135,204,967		142,800,419	142,800,419
6.2	Payables through FX contracts (except options)		138,803,850	138,803,850		142,822,750	142,822,750
6.3	Principal of interest rate contracts (except options)			0			0
6.4	Options sold			0			0
6.5	Options purchased			0			0
6.6	Nominal value of potential receivables through other derivatives			0			0
6.7	Nominal value of potential payables through other derivatives			0			0
7	Receivables not recognized on-balance			0			0
7.1	Principal of receivables derecognized during last 3 month	5,207	295,803	301,010	0	0	0
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	53,384	142,921	196,305	0	0	0
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	4,622,518	29,421,090	34,043,609	4,943,188	31,929,171	36,872,359
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	1,823,528	11,252,650	13,076,178	1,676,220	10,397,277	12,073,497
8	Non-cancelable operating lease	5,240	362,211	367,451	4,286	340,116	344,402
8.1	Through indefinit term agreement			0			0
8.2	Within one year	5,240	362,211	367,451	4,286	340,116	344,402
8.3	From 1 to 2 years			0			0
8.4	From 2 to 3 years			0			0
8.5	From 3 to 4 years			0			0
8.6	From 4 to 5 years			0			0
8.7	More than 5 years			0			0
9	Capital expenditure commitment			0			0

Table 17

The following table shows the differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes:

Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes

in Lari

1	Total carrying value of balance sheet items subject to credit risk weighting before adjustments	1,889,817,924
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	161,335,825
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	135,204,967
3	Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes	2,186,358,716
4	Effect of provisioning rules used for capital adequacy purposes	23,945,626
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	-78,437,074
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	-132,500,868
6	Effect of other adjustments	16,865,292
7	Total exposures subject to credit risk weighting	2,016,231,692

Table 18

The nominal value of off-balance positions, the nominal value of the counterparty related off-balance elements and the general reserve is added to the nominal value of the balance sheet items. In order to get the total RWAs for credit risk, the adjustments are made by using the credit conversion factor for off-balance and for counterparty related elements.

The bank uses a standardized approach to calculate the amount of the risk weighted assets for credit risk. Each risk position belongs to a certain class of risk positions. The risk weights to the risk positions are assigned in accordance with the Regulation on the Requirements for Capital Adequacy of Commercial Banks (The Order No. 100/04 of the President of the National Bank of Georgia).

The risk weighted assets for credit risk before credit risk mitigation are calculated according to the risk position class.

Table 19 shows the total balance and off-balance sheet values of the bank according to risk position classes and corresponding weights.

The table shows that the bank's largest risk position classes are "unconditional and conditional retail requirements", "unconditional and conditional requirements for corporate clients", "unconditional and conditional requirements for central governments and central banks" (the main part is mandatory reserves) and "unconditional and conditional requirements for commercial banks".

Credit Risk Weighted Exposures (On-balance items and off-balance items after credit conversion factor)

in Lari

Risk weights	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount		
Exposure classes																		
1	Claims or contingent claims on central governments or central banks	59,829,831	0	0	0	0	0	0	0	0	0	214,967,445	0	0	0	0	214,967,445	
2	Claims or contingent claims on regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3	Claims or contingent claims on public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
4	Claims or contingent claims on multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
5	Claims or contingent claims on international organizations/institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
6	Claims or contingent claims on commercial banks	0	0	163,437,381	0	0	0	22,129,748	0	0	0	0	0	0	0	0	43,752,350	
7	Claims or contingent claims on corporates	0	0	0	0	0	0	0	0	0	0	928,802,258	82,898,750	0	0	0	1,011,701,008	
8	Retail claims or contingent retail claims	0	0	0	0	0	0	0	382,389,725	0	0	0	0	0	0	0	286,792,294	
9	Claims or contingent claims secured by mortgages on residential property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
10	Past due items	0	0	0	0	0	0	0	0	0	0	12,706,219	0	0	0	0	12,706,219	
11	Items belonging to regulatory high-risk categories	0	0	0	0	0	0	0	0	0	0	0	0	31,748,632	0	5,093,681	60,357,151	
12	Short-term claims on commercial banks and corporates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
13	Claims in the form of collective investment undertakings (CIU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
14	Other items	42,029,212	0	0	0	0	0	0	0	0	0	67,494,710	0	0	0	0	67,494,710	
	Total	101,859,042	0	163,437,381	0	0	22,129,748	0	382,389,725	0	0	1,223,970,632	82,898,750	31,748,632	0	5,093,681	0	1,697,771,177

Table 19

The largest part of loan portfolio has been assigned to the risk position class of “claims or contingent claims on corporates” with the risk weight of 100%, as the bank’s business operations focus on the segments of small and medium businesses. This class includes guarantees and letters of credit, as well as unused part of credit lines and business overdrafts.

The second largest category is the risk position class of “retail claims or contingent retail claims” with the risk weight of 75%.

The class "claims and contingent claims for central governments and central banks" includes both, balance and off-balance positions.

The table also shows that class "claims and contingent claims for commercial banks" have a 20% risk weight. Risk weight in the above-mentioned class depends on the credit rating of a commercial bank. The bank places the excess liquidity in banks with high credit ratings, and therefore the lowest weight (20%) has been awarded to the largest part of this class.

The main components of the class "other items" (GEL 110 m out of GEL 48 m) are the fixed assets.

Standardized approach - Effect of credit risk mitigation

	Asset Classes	On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density f=e/(a+c)
			Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
1	Claims or contingent claims on central governments or central banks	274,797,276			214,967,445	33,927,885	12%
2	Claims or contingent claims on regional governments or local	0			0	0	
3	Claims or contingent claims on public sector entities	0			0	0	
4	Claims or contingent claims on multilateral development banks	0			0	0	
5	Claims or contingent claims on international organizations/institutions	0			0	0	
6	Claims or contingent claims on commercial banks	185,567,130			43,752,350	43,752,350	24%
7	Claims or contingent claims on corporates	928,802,258	161,335,825	82,898,750	1,011,701,008	940,406,498	93%
8	Retail claims or contingent retail claims	382,389,725			286,792,294	279,652,939	73%
9	Claims or contingent claims secured by mortgages on residential property	0			0	0	
10	Past due items	12,706,219			12,706,219	11,761,905	93%
11	Items belonging to regulatory high-risk categories	36,842,314			60,357,151	60,095,023	163%
12	Short-term claims on commercial banks and corporates	0			0	0	
13	Claims in the form of collective investment undertakings ('CIU')	0			0	0	
14	Other items	109,523,921			67,494,710	67,494,710	62%
	Total	1,930,628,842	161,335,825	82,898,750	1,697,771,177	1,437,091,310	71%

in Lari

Table 20

14.6 Credit risk mitigation techniques

The bank applies the following techniques (instruments) to reduce credit risk when calculating the capital requirements for credit risk:

- Guarantee
- Cash deposit as collateral

The bank applies the guarantee obtained from the Multilateral Investment Guarantee Agency (MIGA). MIGA is a member of the World Bank Group and can be classified as a multilateral development bank. Its purpose is to promote direct investments in developing countries, which it does by offering guarantees to secure against political risks. MIGA’s risk position is 0 percent according to the Capital Adequacy Regulation of the National Bank of Georgia. The amount of the guarantee, which was introduced in November 2015 for the first time and whose purpose is to mitigate credit risk, is EUR 45 m (GEL 144 m). The bank applies this guarantee to the USD and EUR exposure with the National Bank of Georgia, i.e. the mandatory reserves.

Starting November 2018, the bank applies the InnovFin guarantee (issued within the Agreement of Deep and Comprehensive Free Trade Area) facility which decreased the volume of RWAs by GEL 78 m. The EU-supported guarantee is provided to selected financial institutions to cover 50-75% of the Defaulted Amounts (which include principal and accrued interest up to 90 days net of recoveries from loans to SMEs).

Cash deposits as collateral have also been used since November 2015 to mitigate on- and off-balance sheet exposures, specifically client loans and guarantees (see the positions corporate loans, retail loans and guarantees in the table below). The main criteria for cash collateral mitigation are:

- the currency of the loan/guarantee must be the same as the currency of the cash deposit
- the mitigated exposure is only the portion which is covered by cash collateral

The total credit risk mitigation concentration is low. The mitigated exposure as at December 2020 was approximately GEL 261 m, which is equivalent to 15% of the total on- and off-balance sheet RWAs.

The table below shows used mitigation types according to the risk classes:

Credit Risk Mitigation		Funded Credit Protection									
		On-balance sheet netting	Cash on deposit with, or cash assimilated instruments	Debt securities issued by central governments or central banks, regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by other entities, which securities have a credit assessment, which has been determined by NBSG to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates.	Debt securities with a short-term credit assessment, which has been determined by NBSG to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures	Equities or convertible bonds that are included in a main index	Standard gold bullion or equivalent	Debt securities without credit rating issued by commercial banks	Units in collective investment undertakings
1	Claims or contingent claims on central governments or central banks										
2	Claims or contingent claims on regional governments or local authorities										
3	Claims or contingent claims on public sector entities										
4	Claims or contingent claims on multilateral development banks										
5	Claims or contingent claims on international organizations/institutions										
6	Claims or contingent claims on commercial banks										
7	Claims or contingent claims on corporates		874,432								
8	Retail claims or contingent retail claims		32,766								
9	Claims or contingent claims secured by mortgages on residential property		0								
10	Past due items		0								
11	Items belonging to regulatory high-risk categories		262,126								
12	Short-term claims on commercial banks and corporates										
13	Claims in the form of collective investment undertakings										
14	Other items	0	0	0	0	0	0	0	0	0	0
	Total	0	1,169,326	0	0	0	0	0	0	0	0

		Unfunded Credit Protection						
		Central governments or central banks	Regional governments or local authorities	Multilateral development banks	International organizations / institutions	Public sector entities	Commercial banks	Other corporate entities that have a credit assessment, which has been determined by NBSG to be associated with credit quality step 2 or above under the rules for the risk weighting of exposures to corporates
1	Claims or contingent claims on central governments or central banks			181,039,560				
2	Claims or contingent claims on regional governments or local authorities							
3	Claims or contingent claims on public sector entities							
4	Claims or contingent claims on multilateral development banks							
5	Claims or contingent claims on international organizations/institutions							
6	Claims or contingent claims on commercial banks							
7	Claims or contingent claims on corporates			70,420,078				
8	Retail claims or contingent retail claims			7,106,569				
9	Claims or contingent claims secured by mortgages on residential property			0				
10	Past due items			944,314				
11	Items belonging to regulatory high-risk categories			0				
12	Short-term claims on commercial banks and corporates							
13	Claims in the form of collective investment undertakings							
14	Other items	0	0	0	0	0	0	0
	Total	0	0	259,510,541	0	0	0	0

Credit Risk Mitigation

in Lari

		Total Credit Risk Mitigation - On-balance sheet	Total Credit Risk Mitigation - Off-balance sheet	Total Credit Risk Mitigation
1	Claims or contingent claims on central governments or central banks	181,039,560		181,039,560
2	Claims or contingent claims on regional governments or local authorities	0		0
3	Claims or contingent claims on public sector entities	0		0
4	Claims or contingent claims on multilateral development banks	0		0
5	Claims or contingent claims on international organizations/institutions	0		0
6	Claims or contingent claims on commercial banks	0		0
7	Claims or contingent claims on corporates	70,722,686	571,824	71,294,510
8	Retail claims or contingent retail claims	7,139,355		7,139,355
9	Claims or contingent claims secured by mortgages on residential property	0		0
10	Past due items	944,314		944,314
11	Items belonging to regulatory high-risk categories	262,128		262,128
12	Short-term claims on commercial banks and corporates	0		0
13	Claims in the form of collective investment undertakings	0		0
14	Other items	0		0
	Total	260,108,043	571,824	260,679,867

Table 21

Counterparty credit risk is related to counterparty default risk before the transaction is realized. The bank has SWAP transaction only with its sister bank – ProCredit Bank Germany. Generally, SWAP's maturity is up to 1 year and, accordingly, it is weighted in 2% according to the NBG regulation.

Counterparty credit risk

in Lari

		Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
1	FX contracts	135,204,967		2,704,099	0	2,704,099	0	0	0	0	0	0	540,820
1.1	Maturity less than 1 year	135,204,967	2.0%	2,704,099		2,704,099							540,820
1.2	Maturity from 1 year up to 2 years		5.0%	0									0
1.3	Maturity from 2 years up to 3 years		8.0%	0									0
1.4	Maturity from 3 years up to 4 years		11.0%	0									0
1.5	Maturity from 4 years up to 5 years		14.0%	0									0
1.6	Maturity over 5 years			0									0
2	Interest rate contracts	0		0	0	0	0	0	0	0	0	0	0
2.1	Maturity less than 1 year		0.5%	0									0
2.2	Maturity from 1 year up to 2 years		1.0%	0									0
2.3	Maturity from 2 years up to 3 years		2.0%	0									0
2.4	Maturity from 3 years up to 4 years		3.0%	0									0
2.5	Maturity from 4 years up to 5 years		4.0%	0									0
2.6	Maturity over 5 years			0									0
	Total	135,204,967		2,704,099	0	2,704,099	0	0	0	0	0	0	540,820

Table 22

Risk Weighted Assets for Market Risk is the volume of total open currency position. The bank, according to the foreign currency risk management policy, does not carry out speculative transactions and tries to maintain open currency position within strict internal limits.

The bank is required to maintain capital for operational risk. For calculating the risk weighted assets for operational risk the bank applies to the method of basic indicator.

Operational risks - basic indicator approach

in Lari

	2020	2019	2018	Average of sums of net interest and net non-interest income during last three years	Risk Weighted asset (RWA)
1 Net interest income	57,015,160	51,452,462	52,147,613		
2 Total Non-Interest Income	22,265,963	23,987,024	18,008,526		
3 less: income (loss) from selling property	1,487,646	950,471	123,059		
4 Total income (1+2-3)	77,793,477	74,489,015	70,033,080	74,105,191	138,947,233

Table 23

The table below shows the risk weighted assets after mitigation applied:

Risk Weighted Assets

in Lari

N		December-20	September-20
1	Risk Weighted Assets for Credit Risk	1,420,766,838	1,296,208,867
1.1	Balance sheet items	1,337,899,092	1,234,356,145
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)		
1.2	Off-balance sheet items	82,326,926	61,025,277
1.3	Counterparty credit risk	540,820	827,445
2	Risk Weighted Assets for Market Risk	17,348,806	25,088,596
3	Risk Weighted Assets for Operational Risk	138,947,233	128,903,222
4	Total Risk Weighted Assets	1,577,062,877	1,450,200,685

Table 24

14.7 Differences between accounting and regulatory scopes of consolidation

Differences between accounting and regulatory scopes of consolidation in Lari 000

Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format													
					1	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12
					Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repossessed Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets	TOTAL ASSETS
Cash and balances with the NBG	199,902	199,902	202,991		42,029	7,663	153,016	0									283	202,991
Mandatory reserve deposits with NBG	215,459	215,459	214,752			214,752												214,752
Investments in debt securities	51,465	51,465	52,384						51,429				955					52,384
Investments in equity securities	234	234	265											265				265
Investment in Subsidiaries	-	-	6,100											6,100				6,100
Due from other banks	31,978	31,978	31,961				30,639										1,316	31,961
Financial Assets at fair value through profit or loss	0	0	462														462	462
Loans and advances to customers	1,354,923	1,354,923	1,314,814							1,379,372	-74,371	1,305,002	9,812					1,314,814
Current tax assets	4,019	4,019	4,171														4,171	4,171
Investment Properties:	8,515	5,394	5,280														5,094	5,280
Intangible assets	781	781	781															781
Property and equipment	47,875	47,874	47,874														47,874	47,874
ROU land and buildings	1,951	1,951	1,951													1,951		1,951
Deferred tax assets			507														507	507
Other assets	6,256	5,996	12,500				590		0				86				11,824	12,500
			0															0
Total assets	1,923,358	1,926,078	1,896,794	0	42,029	222,415	184,245	0	51,429	1,379,372	-74,371	1,305,002	10,859	186	6,365	55,701	18,563	1,896,794

Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format													
					13	14	15	16	17	18	19	20	21	22				
					Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities				
Due to other banks	55,717	55,717	55,538		54,315					0		71	1,153					55,538
Financial liabilities at fair value through profit o	3,415	3,415	4,463															4,463
Customers accounts	977,404	982,985	988,190						305,445	353,729	317,314			4,105	7,595			988,190
Borrowing from international financial institutions	582,858	582,858	582,471										576,843	5,628				582,471
Subordinated debt	53,753	53,753	53,543											661			52,883	53,543
Lease liabilities	2,300	2,300	2,290											7	2,283			2,290
Current tax liabilities	-	-	0															0
Other liabilities	1,464	1,098	3,992														3,992	3,992
Provisions	721	721	1,727															1,727
Deferred tax liabilities	2,639	2,639	1,309														1,309	1,309
Total liabilities	1,680,270	1,685,485	1,693,524	0	54,315	305,445	353,729	317,314	0	576,843	10,473	22,522	52,883	1,693,524				

Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format									
					23	24	25	26	27	28	29	30		
					Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Regulation Reserves	Total Equity Capital		
Subscribed capital	100,351	100,351	100,351		100,351									100,351
Capital reserve	51,324	51,324	51,324					51,324						51,324
Retained earnings	91,413	88,917	51,594							51,594				51,594
Total equity	243,089	240,593	203,270	0	100,351	0	0	51,324	0	51,594	0	203,270		

Table 25

Main differences between accounting and regulatory scopes of consolidation are formed by the following reasons:

- Assets

The balances on nostro accounts are considered as “Cash and balances with NBG” according to the IFRS, but the regulatory scope puts these amounts into “Due from other banks”. As of December 2020, the volume of the bank’s nostro accounts was approximately GEL 153m, therefore this is the difference between “Cash and balances with NBG” and “Due from other banks”;

The account “Net loans” represents the loan portfolio netted by loan loss provision. The volume of loan loss provision according to the regulatory purposes is higher than IFRS loan loss provision (the difference is approximately GEL 34m, mainly due to COVID19 special reserves). Additionally, the accrued interest on loans is also included in the “Net loans” account. According to the regulatory accounting, the accrued interest is accumulated for one month, according to the IFRS – throughout the whole period until the loan is written off. The IFRS accrued interest volume is higher by GEL 3.3m.

- Liabilities

Main difference is visible in “Customer accounts” – card connected cash adjustments and pending Visa/MasterCard transactions. This results in GEL 5.2 m difference between IFRS and regulatory accounting.

- Equity

The difference in account “Retained earnings” in amount of GEL 37m is mainly caused by different loan loss provisioning and additionally created reserves due to COVID19.

14.8 Internal capital adequacy

Ensuring that the bank has sufficient internal capital at all times is a key element of ProCredit’s group-wide risk management and internal capital adequacy assessment process. In the context of the internal capital adequacy assessment, the capital needs arising from our specific risk profile are compared with the available capital resources to assure that the ProCredit Bank’s capitalisation is at all times sufficient to match our risk profile. It is an ongoing process that raises group/bank-wide awareness of our capital requirements and exposure to risks.

The methods we use to calculate the amount of economic capital required to cover the different risks the bank is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our internal capital adequacy assessment is that the bank is able to withstand strong shock scenarios. In our view, the crisis years 2008-2010 underscored the necessity for a conservative approach to managing risks and capital, and the developments during that time proved the strength of the ProCredit group as well as of ProCredit Bank in dealing with a difficult economic environment. Throughout this period, the bank showed strong levels of capital, leaving ample scope for additional loss absorption had the economic conditions further deteriorated.

According to the internal capital adequacy concept, we are committed to being able to meet our non-subordinated obligations at all times in the event of unexpected losses, both in normal and in stress scenarios. The internal capital adequacy of the bank was sufficient at all times during 2020.

When calculating the economic capital required to cover risk exposures we apply a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the bank and are based on the annually conducted risk inventory.

Stress tests

Stress tests are performed regularly, at least once per month and ad hoc, to test the bank's resilience. Various types of analysis are performed, from simple sensitivity analysis for individual risk types to scenario analyses in which multiple or all risk factors are stressed simultaneously. Our analysis of the impact of stress scenarios includes an analysis of a severe economic downturn.

The scenarios apply to both historical and hypothetical stress situations. They include, among other things, assumptions depicting significant deterioration of macroeconomic conditions and simultaneous massive economic downturn. The selection of the scenarios takes account for the bank's strategic orientation and the economic environment.

The results of stress testing show that the risks to which the bank would be exposed in a severe stress event would not exceed the RA_tCR, meaning that the internal capital adequacy of the bank would be sufficient at all times, even under stress conditions. Our analysis of the ProCredit bank's internal capital adequacy thus confirms that the bank would have an adequate level of capitalisation even under extremely adverse conditions.

15 Remuneration

15.1 Principles of remuneration

The overall aims of the bank's staff management approach are to establish long-term relationships between our staff and the ProCredit institution and to promote responsible behaviour among staff. ProCredit Holding sets the framework for the bank's remuneration structure and organises a regular exchange of experience on these topics. ProCredit Bank is responsible for the implementation of the standards.

The ProCredit Bank's remuneration system is in line with our sustainable business and risk strategy and does not encourage excessive risk taking by our employees. The remuneration structure of the ProCredit Bank has the following objectives:

- to attract and retain staff and managers who have the requisite social and technical skills and have the willingness to engage
- to encourage staff to assume responsibility, to effectively manage the operations of the bank and to work together as a team
- to support the development and maintenance of long-term working relationships
- to ensure that the remuneration is perceived to be transparent and fair in order to encourage staff to perform their duties in line with the conservative risk profile of the ProCredit Bank

The remuneration approach in ProCredit Bank aims to provide a long-term perspective to our staff and managers. A transparent salary structure with fixed salaries is a key aspect in this context; as a general rule, salaries are not dependent on performance. Variable remuneration is restricted and under no circumstances contractually guaranteed. For most of the staff, the remuneration reflects market averages. For managers, however, the remuneration we offer is directly not comparable with that of our competitors. This is primarily due to the variable remuneration elements which are paid to managers at other institutions.

In addition to a fair salary, we offer every ProCredit staff member comprehensive training and professional development opportunities that represents a significant benefit for our staff. ProCredit Bank invests significant amounts in training, and the expenditures for training measures are a substantial part of the bank's overall personnel expenses. Other important factors which build long-term relationships between our staff and ProCredit are the interesting jobs we offer, flat hierarchies, transparent promotion opportunities since our management staff predominantly come from within the bank, independent responsibilities for duties as well as a stimulating and professional working environment.

15.2 Structure of remuneration

When defining the remuneration for its staff and managers, ProCredit Bank applies the group's standardised salary structure which has 22 salary levels. The bank defines the exact salary amounts in each step according to the market conditions, assigning its staff to one of the salary steps. This is carried out on the basis of the individual's position, the responsibilities they hold and their performance.

The ProCredit salary scheme applies to all ProCredit banks. The purpose of this salary structure is to ensure that positions with comparable responsibility within the ProCredit group are also compensated according to the same principles. This salary scheme defines which professional development programmes an employee must have successfully completed in order to be appointed to the various positions. The salary structure applicable throughout the group is reviewed and approved yearly by the Management of ProCredit Holding and presented to the Supervisory Board of ProCredit Holding. The salary scheme specific to the bank is likewise subject to annual review; the Management Board of the bank examines the salary scheme and it is approved by the Supervisory Board. A review of the allocation of staff within the ProCredit Bank to one of the 22 salary steps is also carried out annually on the basis of extensive staff evaluations and feedback discussions carried out by the HR committee.

The framework of the remuneration systems in the ProCredit Bank presented above also apply to staff whose professional activities have a material impact on the risk profile of the bank and the ProCredit group. As variable remuneration elements are not permitted in the remuneration structure of the bank described above, our remuneration system provides no incentives to assume particular risks.

15.3 Communication and approval of remuneration schemes

The remuneration structure and particularly the salary scheme in the bank is communicated to staff in a transparent manner. The management board of the ProCredit Bank reports annually to the supervisory board of the bank on the remuneration structure. The salary scheme in the bank is approved by the Management or the Supervisory Board of the bank, following discussions with the respective function at ProCredit Holding; however, the Management is permitted to delegate this responsibility to a Human Resources Committee. The Human Resources Committee is the bank's body responsible for taking decisions regarding the professional development of staff members and reviewing the bank's remuneration practices. The committee meets at least quarterly.

Remuneration for the Management of the bank is approved by the bank's supervisory board, after discussion with the Management of ProCredit Holding.

ProCredit Holding is managed by the members of the Management Board of ProCredit General Partner AG. As the remuneration structure which has been selected is simple, the Supervisory Board of ProCredit General Partner AG decided to retain responsibility for determining the amount and composition of Management remuneration, instead of delegating this decision-making authority to a remuneration committee.

15.4 Remuneration 2020

The remuneration of all staff in ProCredit Bank whose professional activities have a material impact on the risk profile is given below. Generally, the list of the material risk takers includes the management of the bank and staff with management responsibilities (pursuant to Delegated Regulation (EU) No. 604/2014).

Remuneration is presented separately for staff whose professional activities have an impact on the risk profile and for members of the Management. As a general rule, the heads of the following units are classified as staff whose professional activities have an impact on the risk profile: risk management, finance, legal, internal audit, compliance, IT, as well as branch managers. Overall, we consider around 12% of all staff to be risk takers.

Remuneration awarded during the reporting period			<i>in Lari</i>		
		Board of Directors	Supervisory Board	Other material risk takers	
1	Fixed remuneration	Number of employees	3	2	33
2		Total fixed remuneration (3+5+7)	640,174	66,024	2,220,765
3		Of which cash-based	637,795	66,024	2,197,221
4		Of which: deferred		30,736	
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms	2,379		23,544
8		Of which deferred			
9	Variable remuneration	Number of employees			
10		Total variable remuneration (11+13+15)	0	0	0
11		Of which cash-based			
12		Of which: deferred			
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms			
16	Of which deferred				
17		Total remuneration	640,174	66,024	2,220,765

Table 26

Two members of the bank's Supervisory Board are independent, whose remuneration is shown in the table above.

ProCredit Bank does not have special or variable remuneration payments.