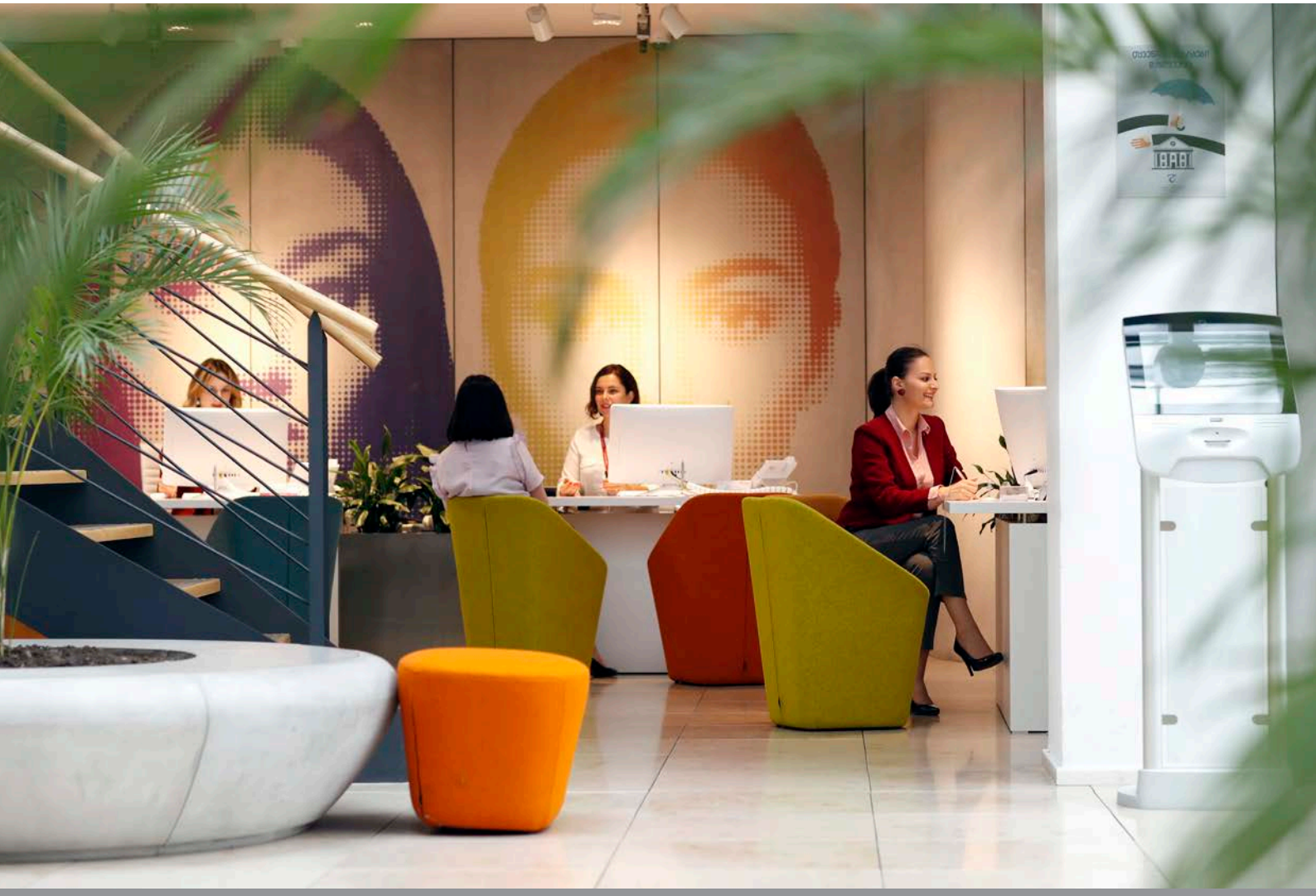
ProCredit Bank

Georgia

ANNUAL REPORT 2019

CONTENT



MISSION STATEMENT

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who have capacity to save and who prefer to do their banking through electronic channels. . In our operations, we adhere to a number of core principles: we value transparency in our communication with customers, we do not promote consumer lending, we strive to minimize our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

Direction of our main activities is focusing on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of savings and financial responsibility.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximization. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.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WHO WE ARE: PROCREDIT TODAY

AN INTERNATIONAL DEVELOPMENT-ORIENTED GROUP OF BANKS

ProCredit Bank Georgia is part of the international ProCredit group of banks, which operates mainly in Eastern and South-eastern Europe in countries with transition economies as well as in Germany. ProCredit Holding AG & Co. KGaA, based in Frankfurt am Main, Germany, is the parent company of the development-oriented ProCredit group, which consists of commercial banks for small and medium enterprises (SMEs). These banks also focus on serving private individuals who appreciate modern banking services, who have the capacity to save and who are willing to do their banking through electronic channels.). The ProCredit Holding's shares are traded on the Prime Standard segment of the Frankfurt Stock Exchange.

During many years of operation in the banking sector, the group has undergone several stages of development, each of which was entailed by strategic changes. The group's core target segments are SMEs with good development prospects. To this business sector, ProCredit banks provide a comprehensive range of banking services following the "Hausbank" principle.

The ProCredit group is serious about its responsibility to offer banking services in all of the countries where it operates; this includes compliance with social, ethical and environmental standards. The operational setup as an international group of banks allows ProCredit customers to take advantage of the transparent and favorable conditions for the most popular banking services.

PROCREDIT BANK GEORGIA

ProCredit Bank Georgia has been operating in the Georgian banking sector since 1999. The basic purpose of the bank's activities is to finance small and medium-sized businesses that have a long-term development plan. As well as business lending, ProCredit Bank also focuses on serving private individuals who appreciate modern banking services.

An important parts of the bank's social responsibility is to care for the environment. To this end, the bank has implemented an environmental management system and uses eco-products and, as a result, ProCredit is the first bank in Georgia to obtain ISO 14001 certification. The international rating agency FITCH RATINGS has assigned ProCredit Bank a "BB+" rating, which is the highest possible rating in Georgia and is even one step higher than the country's sovereign rating. This indicates that the bank's assets have historically demonstrated their high quality, that the Bank has excellent corporate governance and strong risk management.

The Bank's head office is located in Tbilisi. The Bank serves its clients through 3 branches, 5 service points and 12 Self-service areas in Tbilisi, Kutaisi, Batumi and Zugdidi.

The ProCredit Bank has one wholly-owned subsidiary, LLC ProCredit Properties, which was formed as a limited liability company under Georgian law on 23 July 2007 with the principal activity of holding and managing movable and immovable properties acquired through auctions resulting from defaults of the Bank's customers. The assets of LLC ProCredit Properties take a share of 0.6% of total assets of ProCredit Bank Georgia.

BUSINESS ETHIC

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which the group operates. We want to make a difference in terms of not only the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. Five essential principles guide the operations of the ProCredit institutions:

Transparency: We provide transparent information to our customers, to the public and to our employees. For example, we ensure that customers fully understand the terms of the contracts, they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of nontransparent financial offers.

A culture of open communication: We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.

Social responsibility and tolerance: We offer our clients sound, well-founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity. On this basis, we help them to choose appropriate loan options from which they can genuinely benefit, and to avoid becoming over indebted. Promoting a savings culture is another important part of our mission, as we believe that private savings play an especially crucial role in societies with relatively low levels of publicly funded social welfare provision.

Moreover, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, color, language, gender or religious or political beliefs.

High professional standards: Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.

A high degree of personal integrity and commitment: Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These five values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations.

RATINGS

On February 28, 2019, Fitch Ratings has revised ProCredit Bank Georgia's Outlook to Stable from Positive while upgrading the bank's Long-Term Issuer Default Ratings (IDRs) at "BB+". During the year 2019, ProCredit Bank continues to carry the best and the highest possible rating in Georgia.

ProCredit Bank's ratings:		
Long-term foreign and local currency IDRs, Outlook Stable	BB+	Affirmed
Short-term foreign and local currency IDRs	B	Affirmed
Viability Rating	bb-	Affirmed
Support Rating	3	Affirmed

KEY FIGURES [1]

Consolidated Statement of Financial Position (in '000 GEL)	31.12.2019	31.12.2018	Change
Total assets	1,511,748	1,498,909	12,839
Loans and advances to customers	1,093,679	1,049,814	43,865
Allowance for losses on loans and advances to customers	(23,559)	-26,558	2,999
Liabilities to customers	767,297	696,377	70,918
Total equity	214,354	185,939	28,416

Key Performance Indicator			
Return on Average Equity (ROAE)	14.2%	13.7%	0.5%

Consolidated Statement of Profit or Loss (in '000 GEL)			
Operating income	71,084	66,368	7.1%
Operating expenses	37,948	35,311	7.5%
Profit of the period	28,415	26,398	7.7%

Additional indicators			
Net interest margin	3.2%	3.6%	-0.4%
Cost-income ratio	55.7%	53.5%	2.2%

1. Return on Average Equity (ROAE) - Profit after tax divided on average assets; Net Interest Margin - Net interest income divided on average assets; Cost/Income ratio - Operating income divided on operating expenses.

RATINGS

ROAE - the improvement of return on Average Equity is caused by 2 factors: profit of the period increased on one side, which was influenced by decreasing of the expenses on allowances for losses loans to customers and on the other side, - in 2019 the dividends were issued.

Operating income - decrease of costs on allowances for losses and advances to customer had an important effect which was caused by improving the quality of portfolio compared to the last year.

Operating expenses - increase of the personnel expenses are to be taken into consideration, which is caused by the new - pension fund - regulation effects.

Gains less losses from trading in foreign currency and Foreign exchange translation - increase of the gains less losses from trading in foreign currency and decrease from foreign exchange translation are to be taken into consideration, which overall resulted in net increase, and is caused due to variation of foreign currency rates during the year.

Net interest margin - decrease of this coefficient at one side is caused by the increase of the market interest rates of the International financial institutions financing, which was due to tendencies: London Interbank market rate LIBOR and increase of refinancing rate USA Federal Reserves bank (FED) and second, country's dedollarization internal events processing in the country, (in 2019 requirements on minimum reserves increased).

OUR BUSINESS MODEL

MACROECONOMIC ENVIRONMENT [2]

In 2019, the economy of Georgia grew moderately faster than expected. Economic growth comprised 5.2% in 2019, the growth was notable in refinery industries, construction business, hotels and restaurants, transportation and warehousing.

This year also exhibits positive trends in terms of foreign economic activity. Forcastedforeign trade turnover comprised of 12.8 billion USD, which is 3% more than it was last year. Out of which export was 7.2% more, and import was 0.03% more.

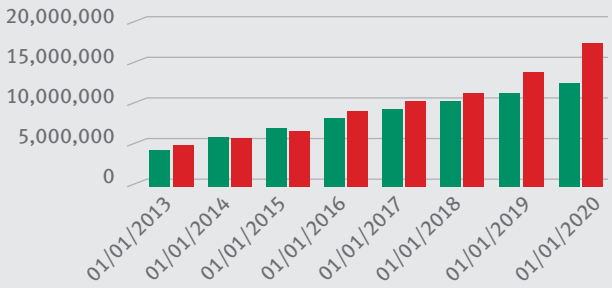
FINANCIAL SECTOR

In terms of lending, the year 2019 was distinguished by increased activity for the banking sector. The main increase was in Business segment (29%), followed by retail portfolio (11 percent). Increase of the share of SMEs/corporate segments in total lending was caused by the new regulations on private individuals, that concerns credit limitations without income verification, setting the minimum PTI and LTV rates.

For 31 December 2019, the whole credit portfolio of bank system reached 31.1 bln GEL and its annual increase comprised 19.9% without influence of exchange rate. During 2019, the deposits increased by 3.3 bln GEL (14 %) and up to December it comprised 27 bln GEL. According to the depository structure, increase of deposits of individuals and legal entities comprised 6.8% and 20.5% respectively.

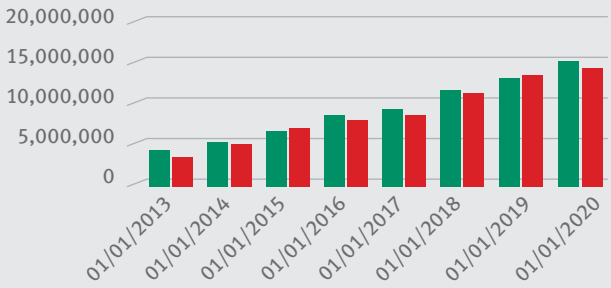
BUSINESS INDIVIDUALS

in GEL '000



PRIVATE INDIVIDUALS

in GEL '000



Source: NBG statistics

Customer Funds

Loan Portfolio

One of the priorities of the National Bank of Georgia in 2019 was to reduce the dollarization - the increase of larization and reduction of overindebtedness. Larization measures were resulted in the banking system before the first half of 2019 but in the second half of the year, due to the deviation from targeted inflation took place changes in refinancing rate (increase, to limit supply of GEL) and reducing min. reserve requirement for foreign currencies.

In 2019 the quality improvement of the portfolio has led to the growth of credit portfolio. The overdue loans for 90 or more days comprise 1.96 percent of the total credit portfolio, which is one of the best indicators among the comparable countries.

2. Source: GeoStat

KEY BUSINESS SEGMENTS

BUSINESS CLIENTS

The target client group of PCB Georgia reflects the Bank's commitment to contribute actively to economic development. We see ourselves as the "Hausbank" for our clients, and attach importance to building long-term relationships with them.

Our business clients are generally characterized by clear ownership structure, a sustainable business model and vision of sound and long-term management. We particularly focus on local manufacturing and on innovative, forward-looking companies with the greatest capacity for growth which is expected to result in job creation accordingly having positive impact on country's economic and social background.

In addition, as a rule, our business clients need more diversified bank services than only crediting. ProCredit Bank, Georgia is interested to be in partnership with clients in every kind of banking relationship, like usage of current or deposit accounts, transfers, credit relationships etc.

The Bank views itself as trustful and professional provider of financial services that gives long-term support to sound SMEs, and in this way contribute to creating jobs, enhancing capacity for innovation, raising ecological awareness and assuming greater social responsibility.

Our purpose is, through professional business clients' advisors, to develop stable and long-term banking relationships between the bank and business clients. Accordingly consultation or offers made by the bank are based on the profound analysis of the business and is in accordance with the clients' needs. Rendering banking services effectively and with responsibility is the most important principle of the bank.

We target clients that value a transparent, broad-based banking relationship and that seek to work with a bank providing professional, friendly service. As a reliable banking partner, we help clients build their business with well-structured credit facilities. By monitoring their debt capacity and usage of funds, we reduce the risk of overindebting and support sustainable business expansion and job creation. Therefore, we pride ourselves in having markedly better loan portfolio quality than the banking system. During the year 2019, total loan portfolio of PCB Georgia increased by 4.5% and amounted in loan portfolio of GEL 1.09 bln. Since several years ProCredit Bank Georgia had been gradually exiting from the segment of very small businesses and this process was finalized at the end of 2016. Consequently, the increased average amount of disbursed loan is explained by more focus on small and medium enterprises and financing their business needs.

Main target group of PCB Georgia is SME business customers. The total business LP reached GEL 984 mln.

Also, business deposit portfolio grew by 3.7% and comprises of 271 mln GEL.

The quality of our LP has always been remarkably good, the PAR›30 indicator in 2019 was 1.61% of the gross loan portfolio. This once again indicates the value of sound financial analysis and the importance of working with those SME companies, which are focused on the business development and appreciate long-term, reliable partnership with PCB Georgia.

PRIVATE CLIENTS

The "Private client" target groups comprise individuals working in and around our business clients, self-employed clients and salary earners who appreciate modern banking services and who are willing to do their banking through electronic channels.

Private clients account for approximately 60% of the deposit base of the bank. It is a central element of the ProCredit business strategy to successfully build the deposit base of ProCredit Bank from such retail clients.

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-rate 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'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 pursue consumer lending.

CORPORATE GOVERNANCE

The rights, tasks and responsibilities of the management authorities of ProCredit Bank are stipulated in the charter, final amendments to which are approved by the General Meeting of Shareholders on October 24, 2019.

SHAREHOLDER STRUCTURE

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

ProCredit Holding AG & Co. KGaA, the parent 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 October 24,2019.

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.

Below there is the list of shareholders owning more than 5% of ProCredit Holding's and consequently, the Bank's shares:

List of Shareholders owning 1% and more of issues 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 Paticipaties BV	12.5%
4	IFC - International Finance Corporation	10.0%
5	TIAA-Teachers Insurance and Annuity Association	8.6%

SUPERVISORY BOARD OF THE BANK

The Supervisory Board, whose members are appointed by the General Meeting of Shareholders (least two of which shall be independent members), supervises the Bank's business activities. Members of the Supervisory Board may not be at the same time the Bank's employees.

Based on üof 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 General Meeting of Shareholders.

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 its related parties.

The current composition of the Supervisory Board is as follows:

1. Marcel Zeitinger (Chairperson)
2. Jovanka Joleska Popovska
3. Sandrine Massiani
4. Maia Khachidze (independent member)
5. Rainer Peter Ottenstein (independent member)

The Supervisory Board meetings are held at least once in 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.

BOARD OF DIRECTORS OF THE BANK

The current composition of the Board of Directors is as follows:

Alex Matua (General Director)

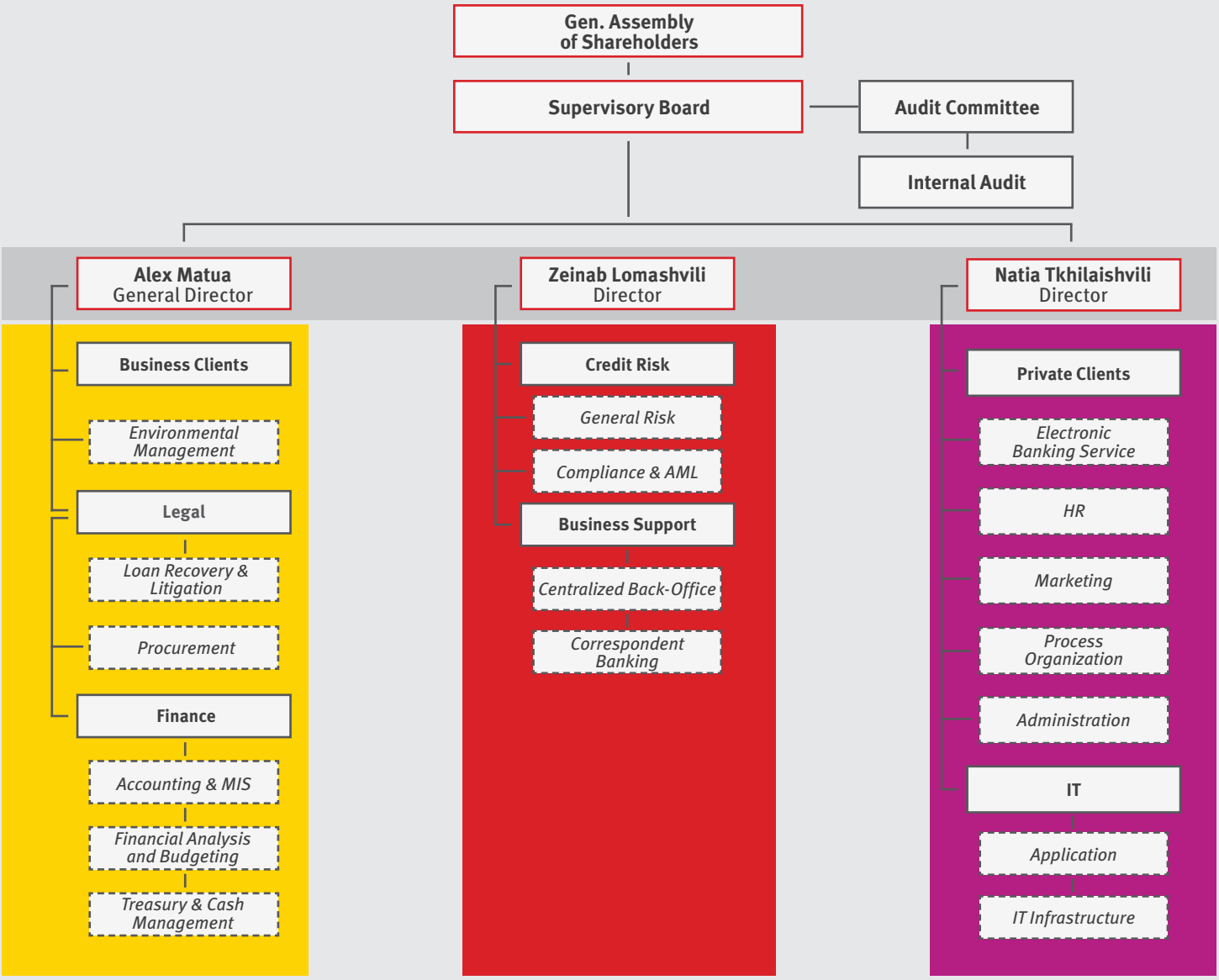
Natia Tkhilaishvili (Director)

Zeinab Lomashvili (Director)

As per stipulation of the law, members of the Board of Directors meet all required criteria set forth under banking regulations and are approved by the National Bank of Georgia. The members of the Board of Directors have years of experience working in various departments within the Bank. Each director has completed a full course of ProCredit Management Academy (Furth, Germany).

Where permitted by the law, certain tasks, within the scope of the respective competence, may be delegated to the Bank's employees. 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 based on their education and professional experience:



RISK MANAGEMENT

RISK STRATEGY

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, we have a conservative risk strategy. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the bank is and it continues to be appropriate at all times no matter if external conditions are volatile, as well as to achieve steady business results. Overall risk profile of the bank is adequate and stable. This is based on overall assessment of the individual risks as presented below.

The bank's business, risk and IT strategy are updated annually. While the business strategy lists the objectives of the bank for all material business activities and regions of operation and presents the measures to be taken to achieve them, the bank 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 Holding following discussions with the Supervisory Board.

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.

FOCUS ON CORE BUSINESS

ProCredit Bank Georgia, in line with other ProCredit institutions, focuses on the provision of financial services to small and medium 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 assumes mainly credit risk, currency risk, interest rate risk, liquidity risk and operational risk in the course of its day-to-day operations. At the same time, ProCredit avoids or strictly limits all other risks involved in banking operations.

HIGH DEGREE OF TRANSPARENCY, SIMPLICITY AND DIVERSIFICATION

ProCredit focuses on small and medium-sized business 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 a central pillar 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.

CAREFUL STAFF SELECTION AND INTENSIVE TRAINING

Responsible banking is characterized by long-term relationships not only with clients, but also with staff. This is why we select our staff very carefully and have made significant investments in training our employees for many reasons. Our intensive training efforts not only produce a high level of professional competence, but also and above all, they promote 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.

ORGANIZATION OF THE RISK MANAGEMENT FUNCTION

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 Committees 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.
- The Risk Committee established at the Supervisory Board of the bank in 2019 is responsible for submitting the relevant recommendations and suggestions to the Supervisory Board of the bank in connection with the current and future risk appetite of the bank.
- 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, coordinating 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 prioritizing 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 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.

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

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 assistance.

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.

MANAGEMENT OF INDIVIDUAL RISK

CREDIT RISK

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

CUSTOMER CREDIT RISK

The key objectives of credit risk management are to achieve high quality of loan portfolio, low risk concentrations within the loan portfolio and appropriate coverage of credit risks within loan loss provisions. Taking into account the diversification of business sectors the bank cooperates with and the experience ProCredit Bank Georgia has gained in operating in the market over the past 20 years, the bank has extensive expertise to limit customer credit risk effectively.

ProCredit Bank Georgia serves a broad spectrum of clients, ranging from relatively small business clients with increasingly formalized structures to larger SMEs. For lending operations, we apply the following principles:

- Intensively analyzing the debt capacity of our loan clients (the bank doesn't apply any scoring model)
- Carefully documenting credit risk analysis and processes conducted during lending operations, ensuring that the analysis performed can be understood by knowledgeable third parties
- Strictly avoiding over-indebting of bank's clients
- Building a personal and long-term relationship with the client, maintaining regular contact
- Strictly monitoring the repayment of credit exposures
- Applying closely customer-oriented, intensified loan management in case of arrears
- Collecting collateral in the event of insolvency

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

One of the main principles of ProCredit Bank's approach to managing credit risk is intensively analyzing the debt capacity of the bank's clients and rigorously avoiding their over-indebting. It is essentially important to assess FX risks for the clients who have loans in foreign currency and/or have assets/liabilities denominated or indexed in foreign currency. High fluctuation can have a negative impact on payment capacity of the client. For this, the bank uses particular model of FX stress at individual client base. Thus, availability of buffers for stress situations related to FX fluctuations are considered while credit committee decision-making process for all credit exposures.

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.

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

The valuation of collateral is conducted by external, independent appraisers. The bank regularly monitors the value of all collateral items. The verification of external appraisals and the regular monitoring activities are carried out by the specialist staff members at ProCredit Bank Georgia.

In 2019, the share of financial guarantees (InnovFin, Deep and Comprehensive Free Trade Area (DCFTA) agreement with European Union guarantee facilities) in total collateral coverage has relatively increased. The aim of different financial guarantees is to facilitate access to finance for innovative businesses and SMEs in general. The overall impact of implementing financial guarantee programs for our clients will be positive for the development of country's economy. The plan of ProCredit Bank Georgia is to increase the share of financial guarantees, therefore increase the opportunity for more business clients to have an access to the funds with lower collateral and/or capitalization requirements.

In total collateral, main share is comprised of highly liquid mortgages and financial guarantees which equals to approximately 94% in 2019.

LOAN PORTFOLIO QUALITY

The early detection of increase in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid 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 includes, 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 default and, if necessary, ensures that additional steps are taken in accordance with the policies. Reports-about risk indicators are regularly delivered to the branch manager, the bank's head office and in aggregated form to ProCredit Holding. The use of early warning indicators and the close monitoring of clients allow for improved tracking of increases in credit risk related to individual credit exposures (migration risk).

Once a higher risk is detected for a credit exposure, it is placed under intensified management. This implies the 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 authorized decision-making bodies for the credit exposures in question. In addition, if a credit exposure reaches problem loan status, responsible Business Client Advisers are supported by the Litigation Officers in process of intensified management of the credit exposure.

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).

In addition, three asset quality indicators are used, on the basis of which the 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). The indicators allow for a clear overview of the quality of the bank's portfolio and provide support for the process of credit risk management.

We also track the degree to which credit exposures of underperforming and defaulted class (which include but is not limited to clients 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.

Loan portfolio quality indicators are stable for 2019 and credit risk ratios stay at comfortable level.

The high granularity of the loan portfolio of the bank is a highly effective credit risk-mitigating factor for Concentration risk. This level of diversification is a consequence of lending to small and medium business in various economic sectors and geographic distribution.

Exceptional events which could have an impact on large areas of the loan portfolio (common risk factor) are analyzed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy.

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 by the bank, 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.

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 very limited scale, simple derivative instruments for liquidity management and hedging purposes (particularly foreign currency swaps).

The exposures towards counterparties and issuers are managed on the basis of a limit system. 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.

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.

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 unfavorably (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 unfavorable exchange rate developments on the bank's capital ratios.

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 (hedges) 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 (P&L effect). 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; 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).

OPERATIONAL AND FRAUD 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 standardized approach for operational risk pursuant to CRR, the operational risk management regulations of the National Bank of Georgia, the cybersecurity framework of the National Bank of Georgia and international best practices.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence of loss events. The main tools utilized are the group-

wide Risk Event Database (RED), the annual risk assessments of operational and fraud risks, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

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

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

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

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

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

THE RISK OF MONEY LAUNDERING AND TERRORISM FINANCING

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

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

The Group AML framework includes the following central elements:

- The Group AML team at ProCredit Holding acts as the central unit for the prevention of money laundering, terrorism financing and fraud throughout the ProCredit group. Besides providing the group policy framework and performing AML training measures, Group AML conducts regular controls in ProCredit banks to monitor the implementation of the Group AML Policy.
- The Bank appoints an AML Officer who regularly reports to the Management Board (or the Supervisory Board, if required) of the Bank and to the Group Anti-Money Laundering Officer at ProCredit Holding.
- Constant AML trainings for all Bank employees are conducted, both when staff enter the Bank and on an ongoing basis within the framework of the Bank's training plan, in accordance with the Group AML Policy.
- In accordance with the Group Customer Due Diligence (CDD) Standard, ProCredit Bank applies strict Know Your Customer (KYC) rules in its customer due diligence procedures.
- The bank maintains a risk classification system for its customers and applies due diligence and monitoring procedures accordingly.
- All customers and transactions of the bank are screened against relevant international sanctions and embargos as well as national and internal lists of politically exposed persons (PEP).
- The risk of money laundering, terrorism financing, fraud and other financial crime is assessed on an annual basis for the whole ProCredit group, allowing identified risks to be addressed and mitigated through specific measures.
- The bank co-operates with criminal investigation authorities in the country. All activities raising suspicion of money laundering, terrorism financing or financial crime are reported to the responsible Financial Intelligence Units (FIU) as well as to the Group Anti-Money Laundering Officer. On group level, the Group AML Officer co-operates with criminal investigation and law enforcement agencies in Germany and abroad.

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

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

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 custom-

er deposits. Our deposit-taking operations focus on our target group of business clients and savers, with whom we establish strong relationships. The financial crisis has shown that our customer deposits are a stable and reliable source of funding. As of end-December 2019, the largest funding source was customer deposits.

We measure our short-term liquidity risk using a liquidity gap analysis, among other instruments, and monitor this risk based on a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI) and "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 survival period is the time-period during which the bank can meet all its payments due without needing to generate additional funds. The calculations apply 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.

In addition, early warning indicators are defined and monitored. The indicators in this respect are: Total SLI or per currency, Interbank market indicator, Overnight funding indicator and Survival period, based on extended market stress scenario.

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.

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. An important indicator to measure funding risk is deposit concentration. This is defined as the share of deposits of 5 largest non-financial customer depositors or of all non-financial customer depositors having more than 1% share in the total non-financial customer deposit portfolio. The reporting trigger is set at a level of deposit outflow assumptions.

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 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 Bank of Georgia.

PILLAR 1 AND COMBINED BUFFER

Starting from December 2017, the NBG reviewed the minimum Pillar 1 and Pillar 2 capital requirements and defined additional capital buffers. The minimum requirements for Common Equity Tier 1, Tier 1 and total regulatory capital have been decreased and minimums of 4.5 %, 6 % and 8 %, respectively (7 %, 8.5 %, 10.5 % previously) have been established, excluding additional capital buffers. JSC ProCredit Bank, Georgia is required to hold own funds, which are at all times greater than or equal to the above 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.

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".

In accordance with this rule, Pillar 2 capital requirements include requirements for unhedged currency induced credit risk buffer, which was previously integrated in Pillar 1.

Besides abovementioned buffer, Pillar 2 framework determines capital buffer for 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. For the purpose of complying with these requirements commercial banks have been given appropriate timeframes until 2022.

COVID-19 OUTBREAK

(i). General overview

On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.). The restrictions imposed by Government of Georgia do not apply to any of the Bank's operations. The Bank continues work in under the business continuity plan with personnel assigned to either of the two offices and working remotely from home as much as possible.

(ii). Changes in regulatory requirements

As response to the existing crisis, the National Bank of Georgia ("NBG") took several actions aiming at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The following NBG actions may potentially have effect on the Bank's operations:

- in order to stabilize sudden increase in foreign exchange rates (GEL/USD peak rate of 3.4842 was recorded on 27 March 2020), NBG sold USD 100 million on local market during March 2020;

- coordinated Georgian banks' initiative to provide voluntary grace period of three months to most of commercial banks' retail and small business borrowers within the country. In parallel to slightly amplified drawdowns of deposits for household cash needs, this initiative has further stressed the GEL liquidity in the financial sector. To address it, NBG started to offer FX swaps to commercial banks and microfinance organizations, up to USD 200 million for each sector;

- softened regulatory requirements for commercial banks, including softening certain requirements for capital adequacy and liquidity ratios. This will allow banks to use existing buffers to support customers in the current financially stressed circumstances, to continue normal business activities to the extent possible. Liquidity coverage ratio (LCR) requirements (for local and foreign currency, as well as total requirement) may as well be revisited and reduced, if necessary;

- imposed general provisions for possible credit losses for each bank individually;

- is not going to impose any monetary sanctions in case of breach of economic normative and limits driven by external factors (e.g. reserves, exchange rate deprecation).

(iii). Effect of COVID 19 on the Bank

- As part of the Government initiative to provide moratorium on the repayment of loans to customers (principal and interest) to the Bank followed individual approach on a customer's need base. The Bank granted moratorium on the repayments of principal and interest to its customers that were effected based on their request. Around 39% of loans to customers' portfolio has been granted moratorium for the repayment of interest and principal from 3 to 6 months as of the date of this Financial Statements are authorized for issue. The Bank has considered effect of moratorium in its liquidity analysis. In addition, the Bank revised expected credit loss model for updated macroeconomic environment thus resulting in increase of expected credit losses in March 2020.

- Management of the Bank also performed stress tests for several possible scenarios to estimate possible downside effects of the pandemic on the Bank's operations on the liquidity. Bank stressed cash flow on customer accounts assuming outflow in the range from 10% to 20% for the next 12 months. In addition the Bank also stressed repayment (inflows) on loans to customers by reducing repayment for the next three months to nil and 50% thereafter for 9 months. The Bank has assessed its liquidity and capital adequacy position for the 12 months from the date these Financial Statements are authorized for issues. Even in the worst case scenario of stress tests the Bank maintains sufficient liquidity and capital adequacy to support continued operations for the foreseeable future.

ENVIRONMENTAL MANAGEMENT

Commitment to environmental protection is an integral part of our identity. Our systematic approach to environmental management aims to: enhance our internal resource efficiency; help mitigate negative environmental and social impacts of our clients' activities; and finance green investments. As of end-2019, already 16 % of the ProCredit Bank Georgia's loan portfolio consisted of "Green" loans.

Environmental protection and awareness has been an important topic for us for many years. We do not support activities that are harmful to the environment and society, and we both maintain and further develop structures to continuously improve our environmental impact and that of our clients. Over time, we have increasingly formalized our approach to managing and improving our environmental performance. Today, we have an established and comprehensive environmental management system (EMS) that is certified under international best practice standards – ISO 14001:2015.

As a group that consists mostly of banks, the indirect aspects and impacts arising from our clients' operations naturally have a higher impact than our own resource consumption and management. At the same time, we see how valuable the continuous improvement of our internal resource consumption is, as we recognise that it supports the spread of green technologies in the countries of operation. Therefore, we have set up an EMS with three pillars to manage all our environmental aspects and impacts.

PILLAR I - INTERNAL ENVIRONMENTAL MANAGEMENT

Our approach to internal environmental management is based on processes and procedures that help us to systematically reduce our direct environmental footprint. Through green investments in the banks' infrastructure, we support the spread of green technologies in the countries of operation. Communication about environmental issues raises awareness in ProCredit institutions and leads to improved resource consumption.

We continue to substitute diesel cars with the electronic and hybrid vehicles. Our electronic and hybrid vehicle amounted to 73% of the total fleet in December 2019.

RAIN WATER RECYCLING PROJECT

Since June 2018, we collect rainwater from the Head Office (HO) building roof. This project enables us to have up to 14% rain water in total water consumption of the building, which is up to 600 m3 annually. As more than 80% of employees of PCB Georgia work in HO building, additionally 85 person from rented floors, result of water saving measures is significant.

WASTE MANAGEMENT

Waste management is an activity that we value due to its positive impact on the environment, especially in Georgia, where proper waste management is not very common. We guide with the principle "waste producer pays waste placement/elimination costs." In 2019, Procredit Bank handed over to the waste management company for processing 10278 kg paper and cardboard, 255 kg plastic, 385 kg glass, 60 kg e-waste and 3900 kg batteries.

ENVIRONMENTAL MANAGEMENT

ENVIRONMENTAL MANAGEMENT

PILLAR II - MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISK IN LENDING

We operate in the country which is often characterized by businesses which are at a developing level of enforcement of environmental and social standards. However, ProCredit Bank Georgia has been operating in this environment for last two decades, and we have developed and implemented robust processes for our lending operations. These are tailored to the risk profile of SME clients, facilitating the successful management of high environmental and social standards.

By issuing a credit facility, the bank aims to contribute to an improvement in the economic situation of the clients and their families and hence to overall economic development. To ensure that the credit exposures granted by the bank are used in compliance with our ethical, environmental and social standards, a number of eligibility criteria have been defined. These eligibility criteria set the requirements regarding the business activity of the potential borrower, mitigate the likelihood of money laundering and terrorist financing, and consider the environmental and social impact of the potential borrower.

Despite our inclusive approach and openness towards the many different business models of our clients, there are certain harmful practices and activities that ProCredit Bank refuses to support. We do not support activities that are incompatible with our ethical values, such as manufacturing or trading in weapons or narcotics, underground mining and the like, even if such activities are legal. Clearly, activities involving forced labor, child labor, involuntary resettlement, prostitution, etc., are also unacceptable. They are summarizes in our Exclusion List, which is also part of our Code of Conduct and in line with IFC's exclusion list, and we do not enter into any business relationships with individuals or companies involved in them.

Our efforts to minimize Environmental & Social risks are not based on simple scoring systems. Rather than simply refusing to do business with companies because they do not score well with regard to certain criteria, we prefer to engage them in dialogue to discuss how our services can help to improve their environmental and social performance in an economically sound way. We have implemented a three-step process for managing the E&S risk lending in line with the credit cycle, in which we:

1. Screen the client's business activities against our Exclusion List.
2. Use pre-defined list to categorize the client's activities according to the degree of environmental, health and safety risk.
3. Conduct an on-side individual environmental and social risk assessment.

To guide our staff in the analytical process, we have designed an E&S risk categorization system based on international standards that assigns individual economic sectors to the high, medium or low environmental risk category, depending on their potential environmental and social impact. Companies with business activities that fall into the medium or high risk categories are subjected to an individual assessment of their performance with regard to environmental, health and safety issues. An assessment of the social conditions in a company is carried out for all business clients in order to ensure that proper working conditions are in place and that labor and human rights are respected.

For the assessment of environmental risks, bank staff is supported by a sector-specific assessment form and guidance notes which highlight the particular risks for each sector. This allows our staff to better understand the processes and detect any possible issues, at which point they can discuss with the clients measures to improve the environmental and social performance of the business.

The purpose of this assessment is to make sure that the company's owners are aware of all environmental, health and safety issues, and that appropriate processes are in place to manage any risks. We foster active discussions with our clients to point out new investment options or changes in common practices that can help them increase their resource efficiency and sustainability. In particular, we look at legal compliance; management of land, waste, water, soil, emissions and hazardous substances; site safety and social integrity. To this end, we interact with all our clients directly and conduct on-site visits to strengthen the relationship.

ENVIRONMENTAL MANAGEMENT

By the December 31, 2019, in the bank, 74% of the financed activities have a low environmental risk and 23 % of activities with a medium environmental risk, 3% of the loans go towards financing activities with a high environmental risk. Due to the fact that we target clients in the agriculture and manufacturing sectors, the share of medium and high E&S risk clients is increasing. That is not to say that clients in these sectors necessarily pose a greater credit risk, but merely that a more specialized assessment system is required to analyze the complexity of their business activity.

The share of the financed activities with high environmental risk in total portfolio went up to 3% in 2019 and mainly includes mining stone and sand, importing and distributing of agriculture fertilizers and pesticides related activities and recently introduced sector in high environmental risk category - plastic production.

Generally, we don't say no to the clients with high ecological and environmental risks on financing; instead we profoundly analyze their activities in the frame of environmental and social risks, to make sure that the risks are managed and that the risks won't transmit into real harmful influence on environment and society.

PILLAR III - GREEN FINANCE

With our green finance activities, we directly promote green investments in the countries of operation and support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energies, or environmental protection.

Keeping in mind the environmental problems and high energy intensity in Georgia, we wish to accelerate the adoption of energy-efficient and renewable energy technologies, as well as to incentivize and support businesses with their environmentally-friendly investments. By encouraging our clients to take a green approach to their business, we minimize our indirect environmental impact and contribute to the mitigation of and adaptation to climate change.

For this purpose, we have implemented the Group Guidelines – Green Finance, which define the process and eligibility criteria for providing green finance to businesses and private clients throughout the entire ProCredit Group, including PCB Georgia. In particular, the guidelines promote investments in:

- Energy-efficient equipment and processes (EE)
- Renewable energy technologies (RE)
- Environmentally friendly projects with a direct positive impact on the environment

By the 31 of December, 2019 volume of the Green Finance share in total portfolio increased and consists of 16%.

One of our sustainability goals is to continue to promote investments in environmentally-friendly technologies and businesses. We will be focused on carrying out thorough assessments of all our business clients, providing advice for better management of environmental and social risk, and further improving our internal environmental and social regulations. This approach is in line with our long-term development strategy and with our core values.

ENVIRONMENTAL MANAGEMENT

OUR APPROACH TO STAFF

The success of our business strategy and our ability to deliver valuable service to our clients depends on the skills and attitude of our staff and management. We aim to build strong, visible, sustainable institutions founded on a commitment to staff development and a core set of ethical principles. We aim to sustain, together with our managers, a corporate culture which is proactive, productive and professional, as well as socially responsible, where our staff enjoys a long-term perspective and career-long professional development opportunities.

The strong management teams are a key to our solid and long-term oriented approach to staff. The senior managers have a deep understanding of their banks and of the group as a result of having been with the group for on average more than 12 years and of having all graduated from (and now being teachers at) our management academy.

The fact that we generally look for employees who value and seek to promote the "common good" and share a similar set of values is also a key differentiating factor of our approach to staff. In addition to good logical and analytical skills, we pay particular attention to the candidate's philosophical attitude, understanding of democracy, ability to dialogue and capacity for empathy. In that context we also value candidates with university background in humanities and sciences.

The primary objective of our approach to staff recruitment and development is to support the business and risk strategy of the group by having the right profile of employees in order to:

(1) Provide high quality and customer-oriented services

(2) Ensure an optimal organization of our outlets and departments

(3) Create an atmosphere for our staff which is both stimulating and enjoyable

A number of key initiatives are now well-established:

- standard recruitment steps for all potential new recruits in place and the six-month stipend-supported "ProCredit Entry Programme" provided in the Training center in Serbia, in English;
- structured training for new employees which starts after finishing the above mentioned Onboarding Programme and contains period from 6 months up to one year, according to the position;
- the group's salary structure, where any salary existing in the organization is relevant to the scale steps, where going to the next step (salary raise) takes place according to the qualification and results shown in current year. There are additional requirements for salary increases for higher steps, namely mandatory training courses in ProCredit Academies. The scale was fully implemented in 2014;
- a comprehensive approach to staff appraisal, supported by improved software to enable personalized professional development for each employee of the ProCredit group;
- comprehensive training for our middle managers and high potential staff through the ProCredit Banker Academy (one-year course) and the ProCredit Management Academy (three-year course) provided in our international academy in Germany, specialized position-specific trainings and group-wide thematic workshops in the areas of, for example, business development, credit risk, environment, as well as general training for all staff, including a one-week ethics course;
- English courses in our language training centers;
- the group-wide Code of Conduct distributed and discussed regularly with all employees.

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 necessary 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; Variable remuneration is restricted and under no circumstances contractually guaranteed. For most of the staff, the remuneration reflects market averages.

In addition to a fair salary, we offer every ProCredit staff member comprehensive training and rewarding professional opportunities. The potential to participate in our professional development programs represent a significant benefit for our staff. Participation in basic and advanced training measures is thus perceived by our staff to be an important part of the overall compensation package. 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 orgnisational structure, transparent promotion opportunities; it is our standart practice to announce internal vacancies for job openings and filling the most of the vacant positions from internal staff; it should also be mentioned that our senior and middle management staff predominantly come from within the bank. All of this we believe creates stimulating and professional working environment.

JSC ProCredit Bank

International Financial Reporting Standards
Consolidated and Separate Financial Statements and
Independent Auditors' Report
31 December 2019

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Independent Auditors' Report

To the Shareholders and Management of JSC ProCredit Bank

Opinion

We have audited the consolidated and separate financial statements of JSC ProCredit Bank (the "Bank") and its subsidiary (The "Group"), which comprise the consolidated and the separate statements of financial position as at 31 December 2019, the consolidated and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Bank, respectively, as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Statement of Management Report

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

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

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

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

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

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.

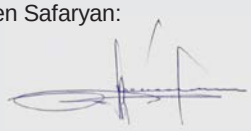
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Karen Safaryan:



KPMG Georgia LLC
15 May 2020

PROCREDIT BANK GROUP

Consolidated and Separate Statements of Financial Position

in '000 GEL		Consolidated		Separate	
	Notes	31 December 2019	31 December 2018*	31 December 2019	31 December 2018*
Assets					
Cash and balances with the NBG	7	86,983	167,842	86,983	167,842
Mandatory reserve deposits with NBG		175,926	170,806	175,926	170,806
Investments in debt securities	9	21,917	29,767	21,917	29,767
Investments in equity securities	10	234	234	234	234
Investments in subsidiary	10	-	-	6,100	6,100
Due from banks	8	83,489	32,143	83,489	32,143
Loans and advances to customers	11	1,070,120	1,023,256	1,070,120	1,023,256
Current tax asset		1,553	-	1,553	-
Investment properties	12	8,719	9,875	5,247	5,401
Intangible assets	13	544	1,287	544	1,287
Property and equipment	14	50,998	55,591	50,998	55,591
Right-of-use assets	15	2,871	-	2,871	-
Other assets	16	8,394	8,108	8,201	7,831
Total assets		**1,511,748**	**1,498,909**	**1,514,183**	**1,500,258**
Liabilities					
Due to banks	17	70,407	71,608	70,407	71,608
Financial liabilities at fair value through profit or loss		1,258	224	1,258	224
Customer accounts	18	767,297	696,377	771,385	699,694
Other borrowed funds	19	406,707	457,234	406,707	457,234
Subordinated debt	22	45,314	82,978	45,314	82,978
Lease liabilities	15	2,938	-	2,938	-
Current tax liability		-	1,775	-	1,775
Other liabilities	20	1,439	1,322	1,173	1,197
Other provisions		430	813	430	813
Deferred tax liability	21	1,604	639	1,604	639
Total liabilities		**1,297,394**	**1,312,970**	**1,301,216**	**1,316,162**
Equity					
Share capital	23	100,352	88,915	100,352	88,915
Share premium	23	51,324	36,388	51,324	36,388
Retained earnings		62,678	60,636	61,291	58,793
Total equity		**214,354**	**185,939**	**212,967**	**184,096**
Total equity and liabilities		**1,511,748**	**1,498,909**	**1,514,183**	**1,500,258**

*The Group and Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Approved for issue and signed on behalf of the Board of Directors on 15 May 2020.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

PROCREDIT BANK GROUP

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

in '000 GEL		Consolidated		Separate	
	Notes	2019	2018*	2019	2018*
Interest income calculated using effective interest rate method		90,882	86,339	90,882	86,339
Interest expense		(42,710)	(34,732)	(42,710)	(34,732)
Net interest income	**25**	**48,172**	**51,607**	**48,172**	**51,607**
Reversal of impairment losses on loans	11	2,960	311	2,960	311
Net interest income after provision for loan impairment		**51,132**	**51,918**	**51,132**	**51,918**
Fee and commission income	26	12,793	11,586	12,793	11,586
Fee and commission expenses	26	(7,835)	(6,057)	(7,835)	(6,057)
Net gain from trading in foreign currency		16,579	9,255	16,579	9,255
Net foreign exchange translation gain		(3,553)	(926)	(3,553)	(918)
Personnel expenses		(13,371)	(12,320)	(13,294)	(12,244)
Other administrative expenses	27	(24,577)	(22,991)	(24,510)	(22,919)
Other operating income	28(a)	5,229	3,613	4,245	2,499
Other operating expense	28(b)	(3,261)	(3,021)	(1,965)	(2,891)
Profit before income tax		**33,136**	**31,057**	**33,592**	**30,229**
Income tax expense	21	(4,721)	(4,659)	(4,721)	(4,849)
Profit and total comprehensive income for the year		**28,415**	**26,398**	**28,871**	**25,380**

*The Group and Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Approved for issue and signed on behalf of the Board of Directors on 15 May 2020.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

PROCREDIT BANK GROUP

Consolidated and Separate Statements of Changes in Equity

in '000 GEL		Consolidated				Separate			
	Notes	Share capital	Share premium	Retained earnings	Total	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2018*		**88,915**	**36,388**	**72,799**	**198,102**	**88,915**	**36,388**	**71,974**	**197,277**
Change on initial application of IFRS 9		-	-	(8,238)	(8,238)	-	-	(8,238)	(8,238)
Restated balance at 1 January 2018		**88,915**	**36,388**	**64,561**	**189,864**	**88,915**	**36,388**	**63,736**	**189,039**
Total comprehensive income									
Profit for the year		-	-	26,398	26,398	-	-	25,380	25,380
Total comprehensive income for the year		**-**	**-**	**26,398**	**26,398**	**-**	**-**	**25,380**	**25,380**
Transactions with owners, recorded directly in equity									
Dividends declared	23	-	-	(30,323)	(30,323)	-	-	(30,323)	(30,323)
Transactions with owners, recorded directly in equity		**-**	**-**	**(30,323)**	**(30,323)**	**-**	**-**	**(30,323)**	**(30,323)**
Balance at 31 December 2018		**88,915**	**36,388**	**60,636**	**185,939**	**88,915**	**36,388**	**58,793**	**184,096**
Balance at 1 January 2019		**88,915**	**36,388**	**60,636**	**185,939**	**88,915**	**36,388**	**58,793**	**184,096**
Total comprehensive income									
Profit for the year		-	-	28,415	28,415	-	-	28,871	28,871
Total comprehensive income for the year		**-**	**-**	**28,415**	**28,415**	**-**	**-**	**28,871**	**28,871**
Transactions with owners, recorded directly in equity									
Dividends declared	23	-	-	(26,373)	(26,373)	-	-	(26,373)	(26,373)
Shares issued	23	11,437	14,936	-	26,373	11,437	14,936	-	26,373
Transactions with owners, recorded directly in equity		**11,437**	**14,936**	**(26,373)**	**-**	**11,437**	**14,936**	**(26,373)**	**-**
Balance at 31 December 2019		**100,352**	**51,324**	**62,678**	**214,354**	**100,352**	**51,324**	**61,291**	**212,967**

*The Group and Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Approved for issue and signed on behalf of the Board of Directors on 15 May 2020.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

PROCREDIT BANK GROUP

Consolidated and Separate Statements of Cash Flows

in '000 GEL		Consolidated		Separate	
	Notes	2019	2018	2019	2018
Profit before income tax		**33,136**	**31,057**	**33,592**	**30,229**
Accrual/(release) of provision for loan impairment	11	(2,960)	(311)	(2,960)	(311)
Depreciation and amortization		5,837	4,805	5,812	4,775
Loss on write off of repossessed property.		1,627	-	780	-
Net foreign exchange translation loss		3,553	926	3,553	918
Accrual/reversal of other provisions		38	164	(383)	164
(Gain)/loss from disposal of property and equipment,		(28)	4,043	-	4,043
Net interest income		(48,172)	(51,607)	(48,172)	(51,607)
Operating cash flows before changes in operating assets and liabilities		**(6,969)**	**(10,923)**	**(7,778)**	**(11,789)**
Net change in assets and liabilities from operating activities after non-cash items:					
Mandatory reserve deposit with the NBG		5,667	(40,415)	5,667	(40,415)
Loans and advances to customers		(1,665)	(16,298)	(1,665)	(16,298)
Other assets		(932)	(1,053)	(335)	(1,818)
Due to banks		(4,780)	22,969	(4,780)	22,969
Financial liabilities at fair value through profit or loss		1,035	562	1,035	562
Customer accounts		36,580	54,379	37,322	55,633
Other liabilities		-	(2,989)	(142)	(2,957)
Total net change in assets and liabilities from operating activities after non-cash items		**35,905**	**17,155**	**37,103**	**17,676**
Interest received		95,649	85,788	95,649	86,254
Interest paid		(42,066)	(34,678)	(42,066)	(34,678)
Income tax paid		(7,084)	(1,650)	(7,083)	(1,801)
Net cash from operating activities		**75,435**	**55,692**	**75,824**	**55,662**
Purchase of property and equipment and intangible assets		(2,167)	(2,065)	(2,167)	(1,239)
Purchase of investment properties		-	(609)	-	(585)
Proceeds from sale of property and equipment and investment properties		2,157	1,611	1,769	785
Purchase of investments in debt securities	9	(72,700)	(87,227)	(72,700)	(87,227)
Proceeds from sale of investments in debt securities	9	80,710	62,609	80,710	62,609
Cash flows from/(used in) investing activities		**8,000**	**(25,681)**	**7,612**	**(25,657)**
Dividends paid	23	(26,373)	(30,323)	(26,373)	(30,323)
Shares issued		26,373	-	26,373	-
Payment of lease liabilities		(711)	-	(711)	-
Proceeds from other borrowed funds		169,416	139,789	169,415	139,789
Repayments of other borrowed funds		(245,018)	(89,396)	(245,018)	(89,396)
Proceeds of subordinated debts		-	15,218	-	15,218
Payments of subordinated debts		(43,229)	-	(43,229)	-
Cash flows (used in)/from financing activities		**(119,542)**	**35,288**	**(119,543)**	**35,288**
Net (decrease)/increase in cash and cash equivalents		**(36,107)**	**65,299**	**(36,107)**	**65,293**
Cash and cash equivalents at the beginning of the year		200,203	156,312	200,203	156,310
Effects of exchange rate changes		6,379	(21,408)	6,379	(21,400)
Cash and cash equivalents at the end of the year	7	**170,475**	**200,203**	**170,475**	**200,203**

*The Group and Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Approved for issue and signed on behalf of the Board of Directors on 15 May 2020.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2019

1. ORGANIZATION AND OPERATIONS

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

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

The address of the Bank's registered office is: 21 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia. The Bank's head office is located in Tbilisi. The Bank serves its clients through 4 branches, 5 service points and 12 self-service areas in Tbilisi, Kutaisi, Batumi and Zugdidi.

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

The Bank is wholly owned by its immediate and ultimate parent company ProCredit Holding AG & Co. KGaA (Parent). As of 31 December 2019 and 31 December 2018, the following shareholders directly owned more than 5% of the total outstanding shares of the Parent. Other shareholders individually owned less than 5% of the outstanding shares. As at 31 December 2019 and 31 December 2018 the Group and Bank had no ultimate controlling party.

	% of ownership interest held as of 31 December	
	2019	**2018**
Zeitinger Invest GmbH	17	17
KfW - Kreditanstalt für Wiederaufbau	13.2	13.2
DOEN Foundation	12.5	12.5
IFC - International Finance Corporation	10	10
TIAA-CREF - Teachers Insurance and Annuity Association	8.6	8.6
Other	38.7	38.7
Total	**100**	**100**

Refer to Note 32 for related party transactions.

2. BUSINESS ENVIRONMENT

The Group's and Bank's operations are located in Georgia. Consequently, the Group and Bank are exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated and separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group and Bank. The future business environment may differ from management's assessment. For COVID-19 impact please refer to Note 33.

PROCREDIT BANK GROUP
Notes to the financial statements - 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

This is the first set of the Group's/Bank's annual Financial Statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 5.

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

Basis of consolidation

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

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

Subsidiaries

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

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

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

Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and

volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

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

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

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

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

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

Financial instruments – initial recognition

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

contractual provisions of the instrument.

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

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

Financial assets – classification and subsequent measurement – measurement categories

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

Financial assets – classification and subsequent measurement – business model

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

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics

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

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

Financial assets – reclassification

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

Expected Credit Losses – ECL

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

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

The Group and Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Group and Bank identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 29 for a description of how the Group and Bank determines when a SICR has occurred. If the Group and Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group’s and Bank’s definition of credit impaired assets and definition of default is explained in Note 29. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

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

Financial assets – write-off

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

Financial assets – derecognition

The Group and Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group and Bank has transferred the rights to the cash flows from

the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification

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

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

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

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

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

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

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

Financial instruments – offsetting

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

Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

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

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

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

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

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

The reporting exchange rates and average rates for the period used in the statement of financial position and the statement of profit or loss and other comprehensive income are listed in Note 29.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at

AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

Mandatory reserve deposits with the National Bank of Georgia

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

Due from banks

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

Repossessed collateral

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

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

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

Investments in debt securities

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

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

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

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

Release of loss allowances

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

Write-offs, recoveries and direct write-offs

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

Non-substantial modification

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

Property and equipment

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

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

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

- Buildings 2-3%
- Furniture and fixtures 20-25%
- IT and other equipment 20-25%

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

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

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use

are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group and Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Investment properties

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or

substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

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

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

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

Deferred tax

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

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

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

Liabilities to banks and customers and other borrowed funds

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

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Provisions

Provisions are recognised if:

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

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

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

Credit related commitments

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

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

Subordinated debt

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

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

Share capital and share premium

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

Dividends

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

Interest income and expense

Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid

or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The Group and Bank does not have interest income on debt instruments at FVTPL calculated at nominal interest rate during 2018.

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income and expenses

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

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

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

4. USE OF ESTIMATES AND JUDGEMENTS

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

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

Judgements

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

- **Classification of financial assets:** assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

- **Modification of financial assets*:*** When financial assets are contractually modified (e.g. renegotiated), the Group and Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group and Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
- COVID 19 impact assessment – Management's assessment of the impact of COVID 19 pandemic on Group's and Bank's operations.

Assumptions and estimations uncertainty

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

- impairment of financial instruments: determining inputs into the ECL measurement model – Note 29(a);
- estimates of fair values of financial assets and liabilities – Note 30;
- COVID 19 impact assessment on expected credit losses – Note 33.

5. CHANGES IN SIGNIFICANT ACOOUNTING POLICIES

Adoption of IFRS 16 *"Leases".* The Group and Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. At the time of initial application, there were no effects on the opening balance of retained earnings. Accordingly, no adjustment was made to the comparative information for 2018. The Group and Bank applies the definition of a lease under IFRS 16 for all agreements at the date of initial application. There are no leases that were previously classified as finance leases. Leases with a term ending less than 12 months after the date of initial application are treated as short-term leases and are not recognised in the balance sheet. Likewise, no assets of low value are recognised. For contracts with extension and termination options, the term of the lease was determined retrospectively. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019.

Right-of-use assets under lease

From time to time, the Group and Bank leases particular assets for its operating purposes. The Group and Bank have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable before 1 January 2019

Operating leases were not recognised in the Group's and Bank's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

The Group and Bank did not have any finance leases under IAS 17.

Policy applicable from 1 January 2019

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

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

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

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

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

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

IFRS 16

The Group and Bank initially applied IFRS 16 Leases from 1 January 2019.

The Group and Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group and Bank determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease.*

The Group and Bank now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

As a lessee

The Group and Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group and Bank. Under IFRS 16, the Group and Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. The Group and Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(a) Leases classified as operating leases under IAS 17

Previously, the Group and Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's and Bank's incremental borrowing rate as at 1 January 2019.

The Group and Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group and Bank:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value

As a lessor

The Group and Bank leases out its investment property. The Group and Bank has classified these leases as operating leases.

The Group and Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impact on transition

On transition to IFRS 16, the Group and Bank recognised a right of use asset of GEL 1,778 thousand against a corresponding lease liability on 1 January 2019. The impact on transition is summarised below:

in '000 GEL	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the financial statements	2,038
Discounted using the incremental borrowing rate at 1 January 2019	(260)
Lease liabilities recognised at 1 January 2019	1,778
Right-of-use assets	1,778

6. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group and Bank has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's and Bank's consolidated/seperate financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).

- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

7. CASH AND BALANCES WITH THE NBG

Consolidated and Separate

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

in '000 GEL	31 December 2019	31 December 2018
Cash on hand	46,722	51,948
Balances at the NBG excluding mandatory reserves	4,396	21,539
Nostro accounts other than with NBG	35,868	94,577
Loss allowance for balances with NBG and Nostro accounts	(3)	(222)
Total cash and balances with the NBG in the statement of financial position	**86,983**	**167,842**

In 2019, Fitch Ratings affirmed the Government of Georgia's short term Issuer Default Rating of "B" and long-term Issuer Default Rating of "BB+" with the positive outlook (2018: short term "B" and long-term "BB-").

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

in '000 GEL	31 December 2019	31 December 2018
Cash and balances with NBG	86,983	167,842
Due from banks with a maturity up to three months (Note 8)	83,489	32,143
Loss allowance for balances with NBG and Nostro accounts	3	218
Total cash and cash equivalents in the statement of cash flows	**170,475**	**200,203**

Balances with the NBG above exclude the mandatory reserve deposit which is a non-interest bearing deposit calculated in accordance with regulations issued by the NBG. Refer to Note 30 for the estimated fair value of cash and cash equivalents. The interest rate analysis of cash and cash equivalents is disclosed in Note 29. As at 31 December 2019 the Group and Bank has one bank (2018: no banks), whose balance exceeds 10% of equity. The gross amount of the balance as at 2019 was GEL 33,018 thousand (2018: nil). As at 31 December 2019 the Group and Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

8. DUE FROM BANKS

Consolidated and Separate

in '000 GEL	31 December 2019	31 December 2018
Due from Banks in OECD* countries	43,370	15,796
Due from Banks in non-OECD countries	40,120	16,395
Loss allowance for loans to banks	(1)	(48)
Total due from banks	**83,489**	**32,143**

* Organisation for Economic Cooperation and Development

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

in '000 GEL Neither past due nor impaired	AA-	A-	BBB	B-	B	Total
31 December 2019	28,646	14,324	479	500	39,540	**83,489**

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31 December 2018	471	10,724	5,339	643	14,966	**32,143**

As at 31 December 2019 the Group and Bank had 1 related party bank, whose balance of GEL 34,904 thousand (including Nostro accounts and deposits) exceeded 10% of equity. As at 31 December 2018 the Group and Bank had 1 related party bank, whose balance of GEL 39,282 thousand exceeded 10% of equity.

Refer to Note 30 for the estimated fair value of each class of amounts due from banks. The interest rate analysis is disclosed in Note 29. Information on related party balances is disclosed in Note 32.

9. INVESTMENTS IN DEBT SECURITIES

Consolidated and Separate

Figures below represent Investment securities measured at amortized cost.

in '000 GEL	31 December 2019	31 December 2018
Certificates of deposit of the NBG	16,993	24,824
Treasury bills issued by the Government of Georgia	4,924	4,943
Total investments in debt securities	**21,917**	**29,767**

No investment in debt securities are past due or impaired. As at 31 December 2019 the Group and Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

10. INVESTMENTS

Investments in subsidiaries

Separate

Investment in subsidiaries (related to separate financial statements)

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

Subsidiary	Country of incorporation	Ownership as at 31 December 2019	Investment as at 31 December 2019 (‘000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

Subsidiary	Country of incorporation	Ownership as at 31 December 2018	Investment as at 31 December 2018 (‘000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

LLC Procredit Property is a wholly-owned subsidiary of Procredit Bank Georgia, which was formed under Georgian Law on 23 July 2007. The principal operations of the company are holding and managing movable and immovable properties acquired through auctions from the Bank's defaulted customers. As at 31 December 2019 net assets of the Subsidiary is GEL 9,443 thousand (2018: GEL 5,561 thousand).

Investments in equity securities

Consolidated and Separate

Equity investments comprise shares in the following companies:

in '000 GEL	Ownership interest	Amount At 31 December 2019	Ownership interest	Amount At 31 December 2018
JSC Creditinfo Georgia	21.08%	95	21.08%	95

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JSC United Clearing Center Georgia	6.25%	54	6.25%	54
JSC American Academy in Tbilisi	4.73%	50	4.85%	50
S.W.I.F.T.SCRL	0.12%	35	0.01%	35
Total		**234**		**234**

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

11. LOANS AND ADVANCES TO CUSTOMERS

Consolidated and Separate

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

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

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The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2018:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2018**	**Gross amount**	**ECL allowance for impairment**	**Net amount**	**Share of total portfolio**
Wholesale and trade loans				
loan size up to USD 50,000	31,614	(1,706)	29,908	2.92%
loan size USD 50,000 to USD 250,000	145,150	(4,997)	140,153	13.70%
loan size more than USD 250,000	169,598	(1,690)	167,908	16.41%
Total wholesale and trade loans	**346,362**	**(8,393)**	**337,969**	**33.03%**
Agricultural, forestry and fishing loans				
loan size up to USD 50,000	2,655	(109)	2,546	0.25%
loan size USD 50,000 to USD 250,000	14,105	(1,256)	12,849	1.26%
loan size more than USD 250,000	29,737	(280)	29,457	2.88%
Total agricultural, forestry and fishing loans	**46,497**	**(1,645)**	**44,852**	**4.38%**
Production loans				
loan size up to USD 50,000	11,801	(634)	11,167	1.09%
loan size USD 50,000 to USD 250,000	61,871	(2,879)	58,992	5.77%
loan size more than USD 250,000	69,200	(496)	68,704	6.71%
Total production loans	**142,872**	**(4,009)**	**138,863**	**13.57%**
Transportation and storage loans				
loan size up to USD 50,000	3,562	(130)	3,432	0.34%
loan size USD 50,000 to USD 250,000	14,961	(224)	14,737	1.44%
loan size more than USD 250,000	2,849	(25)	2,824	0.28%
Total transportation and storage loans	**21,372**	**(379)**	**20,993**	**2.05%**
Other economic activities				
loan size up to USD 50,000	29,158	(788)	28,370	2.77%
loan size USD 50,000 to USD 250,000	145,519	(5,519)	140,000	13.68%
loan size more than USD 250,000	203,609	(2,828)	200,781	19.62%
Total other economic activities loans	**378,286**	**(9,135)**	**369,151**	**36.08%**
Total Business loans	**935,389**	**(23,561)**	**911,828**	**89.11%**
Housing loans				
loan size up to USD 50,000	36,573	(707)	35,866	3.51%
loan size USD 50,000 to USD 250,000	71,029	(2,123)	68,906	6.73%
loan size more than USD 250,000	2,851	(26)	2,825	0.28%
Total housing loans	**110,453**	**(2,856)**	**107,597**	**10.52%**
Investment loans				
loan size USD 50,000 to USD 250,000	3,405	(129)	3,276	0.32%
loan size more than USD 250,000	340	(3)	337	0.03%
Total investment loans	**3,745**	**(132)**	**3,613**	**0.35%**
Other loans	**225**	**(7)**	**218**	**0.02%**
Total Private loans	**114,423**	**(2,995)**	**111,428**	**10.89%**
Total	**1,049,812**	**(26,556)**	**1,023,256**	**100.00%**

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

As at 31 December 2019 and 2018 the Group and the Bank had no borrowers or groups of connected borrowers whose loan balances exceeded 10% of equity.

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

Consolidated and Separate

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2019	**997,060**	**23,986**	**28,768**	**-**	**1,049,814**
New financial assets originated	662,317	14,518	3,140	1,148	681,123
Modification of contractual cash flows of financial assets	157	(33)	54	-	178
Derecognitions	(434,728)	(18,530)	(14,132)	-	(467,390)
Write-offs	-	-	(9,492)	-	(9,492)
Changes in interest accrual	1,681	272	975	29	2,957
Repayments	(199,892)	(6,870)	(4,303)	(42)	(211,107)
Transfer from Stage 1 to Stage 2	(54,269)	54,269	-	-	-
Transfer from Stage 1 to Stage 3	(10,398)	-	10,398	-	-
Transfer from Stage 2 to Stage 1	17,708	(17,708)	-	-	-
Transfer from Stage 2 to Stage 3	-	(15,926)	15,926	-	-
Transfer from Stage 3 to Stage 2	-	1,156	(1,156)	-	-
Transfer from Stage 3 to Stage 1	67	-	(67)	-	-
Foreign exchange and other movements.	45,915	1,299	381	2	47,597
Gross outstanding amount as at 31 December 2019	**1,025,618**	**36,433**	**30,492**	**1,137**	**1,093,680**

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2018	**942,132**	**32,758**	**31,171**	**51**	**1,006,112**
New financial assets originated	433,718	1,735	300	-	435,753
Modification of contractual cash flows of financial assets	(230)	-	(19)	-	(249)
Derecognitions	(281,553)	(10,406)	(7,467)	(51)	(299,477)
Write-offs	(68)	(127)	(6,744)	-	(6,939)
Changes in interest accrual	213	139	(111)	-	241
Repayments	(105,113)	(3,981)	(2,831)	-	(111,925)
Transfer from Stage 1 to Stage 2	(8,077)	8,077	-	-	-
Transfer from Stage 1 to Stage 3	(6,622)	-	6,622	-	-
Transfer from Stage 2 to Stage 1	4,522	(4,522)	-	-	-
Transfer from Stage 2 to Stage 3	-	(4,090)	4,090	-	-
Transfer from Stage 3 to Stage 2	-	1,035	(1,035)	-	-
Transfer from Stage 3 to Stage 1	785	-	(785)	-	-
Foreign exchange and other movements	17,353	3,368	5,577	-	26,298
Gross outstanding amount as at 31 December 2018	**997,060**	**23,986**	**28,768**	**-**	**1,049,814**

The total amount of loans recoveries of amounts previously written off during the year 2019 was GEL 7,690 thousand (2018: GEL 6,399 thousand).

Further analysis loans is detailed in Note 29.

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

Consolidated and Separate

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2019	**(8,683)**	**(2,690)**	**(15,183)**	**-**	**(26,556)**
New financial assets originated	(5,373)	(257)	(22)	-	(5,652)
Release due to derecognition	3,848	1,680	6,384	-	11,912
Transfer from Stage 1 to Stage 2	455	(455)	-	-	-
Transfer from Stage 1 to Stage 3	76	-	(76)	-	-
Transfer from Stage 2 to Stage 1	(177)	177	-	-	-
Transfer from Stage 2 to Stage 3	-	2,060	(2,060)	-	-
Transfer from Stage 3 to Stage 2	-	(175)	175	-	-
Transfer from Stage 3 to Stage 1	(1)	-	1	-	-
Increase in PDs/LGDs/EaDs	(1,637)	(6,358)	(15,128)	(97)	(23,220)
Decrease in PDs/LGDs/EaDs	5,462	5,022	3,653	-	14,137
Usage of allowance	-	-	9,492	-	9,492
Increase due to modification without derecognition	(51)	(201)	(2,013)	-	(2,265)
Decrease due to modification without derecognition	66	49	13	-	128
Foreign exchange and other movements	(304)	(419)	(813)	-	(1,536)
Balance at 31 December 2019	**(6,319)**	**(1,567)**	**(15,577)**	**(97)**	**(23,560)**

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2018	**(10,847)**	**(3,934)**	**(11,897)**	**-**	**(26,678)**
New financial assets originated	(3,588)	(267)	(141)	-	(3,996)
Release due to derecognition	3,258	1,162	2,635	-	7,055
Transfer from Stage 1 to Stage 2	99	(99)	-	-	-
Transfer from Stage 1 to Stage 3	82	-	(82)	-	-
Transfer from Stage 2 to Stage 1	(656)	656	-	-	-
Transfer from Stage 2 to Stage 3	-	483	(483)	-	-
Transfer from Stage 3 to Stage 2	-	(368)	368	-	-
Transfer from Stage 3 to Stage 1	(349)	-	349	-	-
Increase in PDs/LGDs/EaDs	(138)	(1,135)	(14,346)	-	(15,619)
Decrease in PDs/LGDs/EaDs	2,636	1,148	2,492	-	6,276
Usage of allowance	68	127	6,744	-	6,939
Foreign exchange and other movements	752	(463)	(822)	-	(533)
Balance at 31 December 2018	**(8,683)**	**(2,690)**	**(15,183)**	**-**	**(26,556)**

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 1									
Not in Arrears	323,801	37,026	136,536	21,073	402,362	98,004	3,299	122	1,022,223
- less than 30 days overdue	63	48	591	465	1,702	521	4	1	3,395
Total Stage 1 loans	**323,864**	**37,074**	**137,127**	**21,538**	**404,064**	**98,525**	**3,303**	**123**	**1,025,618**
Stage 2									
Not in Arrears	10,390	1,105	6,564	39	11,721	1,119	41	0	30,979
- less than 30 days overdue	938	-	344	-	664	-	110	-	2,056
- 31 to 90 days overdue	199	-	1,487	-	1,019	676	16	1	3,398
Total Stage 2 loans	**11,527**	**1,105**	**8,395**	**39**	**13,404**	**1,795**	**167**	**1**	**36,433**
Stage 3									
Not in Arrears	1,883	52	5,137	-	1,430	907	24	4	9,437
- less than 30 days overdue	254	-	139	17	-	544	-	-	954
- 31 to 90 days overdue	1,844	-	-	224	3,235	822	-	-	6,125
- over 90 days overdue	2,135	360	2,193	184	7,837	1,204	62	1	13,976
Total Stage 3 loans	**6,116**	**412**	**7,469**	**425**	**12,502**	**3,477**	**86**	**5**	**30,492**

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in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
POCI									
Not in Arrears	-	2	-	-	-	-	-	-	2
- over 90 days overdue	-	-	-	-	1,135	-	-	-	1,135
Total POCI loans	**-**	**2**	**-**	**-**	**1,135**	**-**	**-**	**-**	**1,137**
Less impairment provisions	**(5,205)**	**(618)**	**(4,475)**	**(407)**	**(9,628)**	**(3,128)**	**(95)**	**(4)**	**(23,560)**
Total loans and advances to customers	**336,302**	**37,975**	**148,516**	**21,595**	**421,477**	**100,669**	**3,461**	**125**	**1,070,120**

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 1									
Not in Arrears	332,045	39,903	135,328	19,206	352,012	103,929	3,390	213	986,026
- less than 30 days overdue	1,621	2,798	120	1,180	4,264	1,040	5	4	11,032
Total Stage 1 loans	**333,666**	**42,701**	**135,448**	**20,386**	**356,276**	**104,969**	**3,395**	**217**	**997,058**
Stage 2									
Not in Arrears	2,145	1,936	2,137	-	11,205	2,147	168	1	19,739
- less than 30 days overdue	761	-	-	143	80	262	9	-	1,255
- 31 to 90 days overdue	1,111	-	24	597	1,119	125	14	2	2,992
Total Stage 2 loans	**4,017**	**1,936**	**2,161**	**740**	**12,404**	**2,534**	**191**	**3**	**23,986**
Stage 3									
Not in Arrears	3,375	235	2,128	127	2,207	806	31	1	8,910
- less than 30 days overdue	173	343	1,048	-	492	623	-	-	2,679
- 31 to 90 days overdue	1,052	830	383	34	729	50	31	-	3,109
- over 90 days overdue	4,078	451	1,705	86	6,179	1,472	93	6	14,070
Total Stage 3 loans	**8,678**	**1,859**	**5,264**	**247**	**9,607**	**2,951**	**155**	**7**	**28,768**
Less impairment provisions	**(8,393)**	**(1,645)**	**(4,009)**	**(379)**	**(9,135)**	**(2,856)**	**(132)**	**(7)**	**(26,556)**
Total loans and advances to customers	**337,968**	**44,851**	**138,864**	**20,994**	**369,152**	**107,598**	**3,609**	**220**	**1,023,256**

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

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

Key assumptions and judgments for estimating allowance for loan impairment

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

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

Change in these estimates by 10% increase/decrease could affect the expected credit loss on loans to customers for 2019 by GEL 2,500 thousand.

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Collateral

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

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

The following tables provide information on collateral securing loans and advances to customers by type of collateral as at 31 December 2019 and 2018:

in '000 GEL **At 31 December 2019**	**Real estate**	**Financial guarantees**	**Cash collateral**	**Other**	**No collateral**	**Total**
Wholesale and trade	312,099	10,273	332	8,268	5,331	336,303
Agriculture, forestry and fishing	34,657	880	724	704	1,010	37,975
Production	118,133	9,480	911	17,253	2,739	148,516
Transportation and storage	17,056	459	-	3,827	253	21,595
Other economic activities	392,846	6,848	828	12,841	8,114	421,477
Housing	100,604	-	65	-	-	100,669
Investment loans	1,500	-	576	-	1,385	3,461
Other	1	-	-	-	123	124
Total	**976,896**	**27,940**	**3,436**	**42,893**	**18,955**	**1,070,120**

As at 31 December 2019 and 2018 'Other' collateral consists from: Shares in companies, Movable properties (Vehicles, Equipment), Household Goods, Livestock, Inventory, Receivables.

in '000 GEL **At 31 December 2018**	**Real estate**	**Financial guarantees**	**Cash collateral**	**Other**	**No collateral**	**Total**
Wholesale and trade	302,686	13,117	628	8,480	13,058	337,969
Agriculture, forestry and fishing	38,815	143	936	4,372	585	44,851
Production	115,135	9,361	-	10,748	3,619	138,863
Transportation and storage	17,436	1,134	-	2,028	395	20,993
Other economic activities	343,831	6,815	765	5,109	12,631	369,151
Housing	106,153	-	302	-	1,142	107,597
Investment loans	2,539	-	75	-	998	3,612
Other	3	-	-	-	217	220
Total	**926,598**	**30,570**	**2,706**	**30,737**	**32,645**	**1,023,256**

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

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

Refer to Note 30 for the estimated fair value of each class of loans and advances to customers. For more information on credit risk management and interest rate analysis of loans and advances to customers refer to Note 29.

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12. INVESTMENT PROPERTIES

Consolidated

in '000 GEL	2019	2018
Net book value at 1 January	**9,875**	**10,965**
Additions	1,131	1,383
Disposals	(2,168)	(2,434)
Depreciation for the year	(179)	(184)
Disposal of depreciation	60	145
Net book value at 31 December	**8,719**	**9,875**
Total acquisition costs	9,821	10,858
Accumulated depreciation	(1,102)	(983)
Net book value at 31 December	**8,719**	**9,875**

Rental income in 2019 under operating leases was GEL 1,238 thousand (2018: GEL 951 thousand).

Separate

in '000 GEL	2019	2018
Net book value at 1 January	**5,401**	**5,513**
Additions	-	584
Disposals	-	(686)
Depreciation for the year	(154)	(155)
Disposal of depreciation	-	145
Net book value at 31 December	**5,247**	**5,401**
Total acquisition costs	6,281	6,281
Accumulated depreciation	(1,034)	(880)
Net book value at 31 December	**5,247**	**5,401**

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

13. INTANGIBLE ASSETS

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

Consolidated and Separate

in '000 GEL	2019	2018
Net book value as at 1 January	1,287	1,393
Additions	600	320
Disposal	(5,904)	-
Amortisation for the year	(563)	(426)
Disposal of amortisation	5,124	-
Net book value as at 31 December	**544**	**1,287**
Total acquisition costs as at 31 December	4,572	9,876
Accumulated amortisation as at 31 December	(4,028)	(8,589)
Net book value as at 31 December	**544**	**1,287**

During 2019, the Group and Bank have written off unused Microsoft licenses GEL 5,904 thousand (2018: Nil)

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14. PROPERTY AND EQUIPMENT

The development of property and equipment was as follows:

Consolidated and Separate

in '000 GEL	Land & buildings, assets under construction	Other fixed assets	Total PPE
Net book value at 1 January 2018	**48,823**	**14,329**	**63,152**
Additions	502	1,242	1,744
Disposals - at cost	(5,063)	(8,349)	(13,412)
Depreciation for the year	(1,175)	(3,162)	(4,337)
Disposals - accumulated depreciation	1,346	7,098	8,444
Net book value at 31 December 2018	**44,433**	**11,158**	**55,591**
Total acquisition costs	51,927	31,681	83,608
Accumulated depreciation	(7,494)	(20,523)	(28,017)
Net book value at 1 January 2019	**44,433**	**11,158**	**55,591**
Additions	280	1,446	1,726
Disposals - at cost	(2,245)	(1,916)	(4,161)
Depreciation for the year	(1,116)	(3,330)	(4,446)
Disposals - accumulated depreciation	385	1,903	2,288
Net book value at 31 December 2019	**41,737**	**9,261**	**50,998**
Total acquisition costs	49,962	31,211	81,173
Accumulated depreciation	(8,225)	(21,950)	(30,175)
Net book value at 31 December 2019	**41,737**	**9,261**	**50,998**

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

Consolidated and Separate

(a) Right-of-use assets

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

(b) Lease liability

in '000 GEL	2019
Lease liabilities recognised at 1 January 2019	**1,778**
Payments of lease liability 2019	(711)
Additions 2019	1,768
Unwinding discount using the incremental borrowing rate	103
Lease liabilities recognised at 31 December 2019	**2,938**

When measuring lease liabilities for lease that were classified as operating leases, the Group and Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 5.3% term of lease contracts very from 2020 to 2024.

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16. OTHER ASSETS

At 31 December 2019 and 2018, other assets were as follows:

Consolidated

in '000 GEL	31 December 2019	31 December 2018
Accounts receivable from credit card and online payment system companies and money transfer agencies	3,914	3,598
Security deposit	514	471
Other	138	132
Loss allowance for account receivables	(48)	(81)
Total other financial assets	**4,518**	**4,120**
Non-current		
Prepayments for court fees and charges, net of provision	892	927
Prepayments for fixed assets	476	90
Repossessed property	127	-
Current		
Prepayments for various services	2,007	2,014
Assets classified as held for sale	-	192
Inventory and other	374	765
Total other non-financial assets	**3,876**	**3,988**
Total	**8,394**	**8,108**

Separate

in '000 GEL	31 December 2019	31 December 2018
Accounts receivable from credit card and online payment system companies and money transfer agencies	3,730	3,598
Security deposit	514	471
Other	138	132
Loss allowance for account receivables	(48)	(81)
Total other financial assets	**4,334**	**4,120**
Non-current		
Repossessed properties	127	-
Prepayments for court fees and charges, net of provision	892	927
Prepayments for fixed assets	476	90
Current		
Prepayments for various services	2,000	1,738
Assets classified as held for sale	-	192
Inventory and other	372	764
Total other non-financial assets	**3,867**	**3,711**
Total	**8,201**	**7,831**

As at the date of initial recognition and as at 31 December 2019 and 31 December 2018, management believes that the carrying value of the assets held for sale was not materially different from their fair value less costs to sell at those dates. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties.

Group and Bank allocates other assets under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2018: Stage 1). ECL at the year ends is shown in the above table.

Refer to Note 30 for the estimated fair value of other financial assets. Information on related party balances is disclosed in Note 32.

PROCREDIT BANK GROUP
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17. DUE TO BANKS

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

Consolidated and Separate

in '000 GEL	31 December 2019	31 December2018
Banks in OECD countries	69,801	51,763
Banks in non-OECD countries	606	19,845
Total	**70,407**	**71,608**

Refer to Note 30 for the estimated fair value of due to banks. Information on related party balances is disclosed in Note 32.

18. CUSTOMER ACCOUNTS

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

Consolidated

in '000 GEL	31 December 2019	31 December 2018
Current accounts	**224,775**	**221,694**
- private individuals	56,399	56,994
- legal entities	168,376	164,700
Savings accounts	**249,314**	**230,271**
- private individuals	158,694	148,883
- legal entities	90,620	81,388
Term deposit accounts	**289,152**	**238,302**
- private individuals	234,817	186,616
- legal entities	54,335	51,686
Other liabilities to customers	**4,056**	**6,110**
Total	**767,297**	**696,377**

Separate

in '000 GEL	31 December 2019	31 December 2018
Current accounts	**228,864**	**225,012**
- private individuals	56,399	56,994
- legal entities	172,465	168,018
Savings accounts	**249,313**	**230,271**
- private individuals	158,693	148,883
- legal entities	90,620	81,388
Term deposit accounts	**289,152**	**238,302**
- private individuals	234,817	186,616
- legal entities	54,335	51,686
Other liabilities to customers	**4,056**	6,109
Total	**771,385**	**699,694**

PROCREDIT BANK GROUP
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At 31 December 2019, the Group and Bank had included pending client transfers of GEL 4,056 thousand (2018: GEL 6,100 thousand) in other liabilities to customers.

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

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

Consolidated

in '000 GEL	31 December 2019	31 December 2018
Private individuals	449,909	392,493
Trade and services	222,703	209,327
Transportation and communications	29,809	27,344
Construction	25,144	20,571
Manufacture	14,281	13,207
Agriculture and forestry	12,045	10,621
Mining and mineral processing	832	1,147
Government	-	4,760
Other	12,574	16,907
Total	**767,297**	**696,377**

Separate

in '000 GEL	31 December 2019	31 December 2018
Private individuals	449,909	392,493
Trade and services	226,792	212,644
Transportation and communications	29,809	27,344
Construction	25,144	20,571
Manufacture	14,281	13,207
Agriculture and forestry	12,045	10,621
Mining and mineral processing	832	1,147
Government	-	4,760
Other	12,573	16,907
Total	**771,385**	**699,694**

At 31 December 2019, the Group and Bank had 91 customers (2018: 84 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 263,390 thousand (2018: GEL 234,927 thousand) or 34 % (2018: 33 %) of total customer accounts.

At 31 December 2019, customer accounts included deposits of GEL 3,436 thousand (2018: GEL 2,706 thousand) held as collateral for on-balance exposures and GEL 5,691 thousand (2018: GEL 5,898 thousand) held as collateral for irrevocable commitments under financial and performance guarantees and letters of credit refer to Note 31.

Interest rate analysis is disclosed in Note 29. Information on related party balances is disclosed in Note 32. Refer to Note 30 for the estimated fair value of each class of customer accounts.

PROCREDIT BANK GROUP
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19. OTHER BORROWED FUNDS

Consolidated and Separate

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

in '000 GEL

Liabilities with fixed interest rates	Due	31 December 2019	31 December 2018
Ministry of Finance of Georgia	December 2026	2,044	2,228
European Investment Bank (EIB)	March 2023	24,831	29,871
European Investment Bank (EIB)	April 2024	19,281	22,050
European Investment Bank (EIB)	July 2022	17,513	21,848
European Investment Bank (EIB)	October 2024	16,999	15,905
European Investment Bank (EIB)	February 2024	4,732	5,325
European Investment Bank (EIB)	April 2022	3,829	5,016
Council of Europe Development Bank (CEB)	August 2022	9,291	11,623
ProCredit Holding AG & Co. KGaA	May 2024	50,336	-
ProCredit Holding AG & Co. KGaA	April 2024	14,539	-
ProCredit Holding AG & Co. KGaA	April 2024	14,538	-
ProCredit Holding AG & Co. KGaA	August 2027	14,533	13,598
ProCredit Holding AG & Co. KGaA	August 2027	14,533	13,598
ProCredit Holding AG & Co. KGaA	June 2021	-	13,484
ProCredit Holding AG & Co. KGaA	May 2021	-	13,450
ProCredit Holding AG & Co. KGaA	May 2021	-	26,974
ProCredit Holding AG & Co. KGaA	June 2021	-	18,812
ProCredit Holding AG & Co. KGaA	July 2021	-	27,846
ProCredit Bank AG, Frankfurt am Main	June 2021	11,489	-
ProCredit Bank AG, Frankfurt am Main	June 2021	-	16,082
Total liabilities with fixed interest rates		**218,488**	**257,710**
Liabilities with variable interest rates			
European Bank for Reconstruction and Development(EBRD)	February 2024	49,791	47,177
European Bank for Reconstruction and Development(EBRD)	September 2023	30,813	30,790
GREEN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	January 2019	-	32,755
ProCredit Bank AG, Frankfurt am Main	July 2024	29,183	21,442
Council of Europe Development Bank (CEB)	August 2021	6,162	8,657
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	37,242	-
Oesterreichische Entwicklungsbank AG(OEeB)	February 2024	35,028	-
ProCredit Holding AG & Co. KGaA	March 2019	-	9,242
ProCredit Holding AG & Co. KGaA	March 2019	-	16,285
ProCredit Holding AG & Co. KGaA	April 2019	-	33,176
Total liabilities with variable interest rates		**188,219**	**199,524**
Total liabilities		**406,707**	**457,234**

Below table shows maturity analysis of other borrowed funds as at 31 December 2019 and 31 December 2018 based on carrying amount.

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

As at 31 December 2018 (in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	132,371	295,897	28,966	**457,234**

Refer to Note 30 for the estimated fair value of other borrowed funds. The interest rate analysis is disclosed in Note 29. Information on related party balances is disclosed in Note 32.

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20. OTHER LIABILITIES

Consolidated and Separate

in '000 GEL	31 December 2019	31 December 2018
Accounts payable	963	940
Other	182	190
Total other financial liabilities	**1,145**	**1,130**
Received prepayments and deferred fees from guarantees issued	294	192
Total other liabilities	**1,439**	**1,322**

Refer to Note 30 for the estimated fair value of other financial liabilities.

Note for the separate other liabilities is not materially different from consolidated note, hence one schedule is presented above which provides consolidated balances of other liability as at 31 December 2019 and 2018.

21. INCOME TAXES

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

Consolidated and Separate

in '000 GEL	2019	2018
Current tax charge	3,756	4,857
Deferred tax charge (benefit)	965	(198)
Income tax expense for the year	**4,721**	**4,659**

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

in '000 GEL	2019	2018
Profit before tax	**33,136**	**31,057**
Theoretical tax charge at statutory rate of 15%	4,970	4,659
Tax effect of items which are not deductible:		
– Non-tax deductible expenses/(income)/ effects of change of tax legislation	(249)	-
Income tax expense for the year	**4,721**	**4,659**

The tax effect of the movements in the temporary differences is detailed below and is recorded at the rate of 15% (2018:15%).

in '000 GEL **Deferred tax on:**	31 December 2019	Charge to profit or loss	31 December 2018	Credit to profit or loss	1 January 2018
IFRS 9 adjustment as at 1 January Directly to retained earnings.	(100)	-	(100)	-	(100)
Allowances for losses on loans and advances to customers	1,535	655	880	249	631
Other temporary differences	169	310	(141)	(447)	306
Total deferred tax liability	**1,604**	**965**	**639**	**(198)**	**837**

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

Note for the separate income tax is not materially different from the consolidated note, hence one schedule is presented above which includes consolidated balances related to income taxes as at and for the year ended 2019 and 2018.

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22. SUBORDINATED DEBT

Consolidated and Separate

The subordinated debt can be broken down as follows:

in '000 GEL	Due	31 December 2019	31 December 2018
Subordinated debt with variable interest rates			
Overseas Private Investment Corporation (OPIC)	December 2019	-	40,293
Subordinated debt with fixed interest rates			
ProCredit Holding AG & Co. KGaA	April 2025	21,913	20,504
ProCredit Holding AG & Co. KGaA	April 2025	7,305	6,835
ProCredit Holding AG & Co. KGaA	September 2028	16,096	15,346
Sub-total: ProCredit Holding AG & Co. KGaA		**45,314**	**42,685**
Total		**45,314**	**82,978**

Creditors' claims to repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, these creditors will only be paid after the claims of all non-subordinated creditors have first been satisfied.

Refer to Note 30 for the disclosure of the fair value of subordinated debt. The interest rate analysis is disclosed in Note 29. Information on related party balances is disclosed in Note 32.

23. SHARE CAPITAL AND SHARE PREMIUM

Shareholder structure is as follows:

in '000 GEL (except for the number of shares)	31 December 2019			31 December 2018		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount of share capital**	**Size of stake in %**	**Number of shares**	**Amount of share capital**
ProCredit Holding AG & Co. KGaA	100%	20,070,275	100,352	100%	17,782,963	88,915
Total	**100%**	**20,070,275**	**100,352**	**100%**	**17,782,963**	**88,915**

At 24 October 2019, Group and Bank Issued additional 2,287,312 ordinary shares, the par value per share is GEL 5.00. The purchase price per share is GEL 11.53

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2018	**17,782,963**	**88,915**	**36,388**
Issue of shares	2,287,312	11,437	14,936
At 31 December 2019	**20,070,275**	**100,352**	**51,324**

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2018	**17,782,963**	**88,915**	**36,388**
At 31 December 2019	**20,070,275**	**100,352**	**51,324**

Dividends

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

In 2019 dividend of GEL 26,373 thousand (GEL 1.3 per share) were declared and paid (2018: GEL 30,323 thousand, GEL 1.7 per share).

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24. NET DEBT RECONCILIATION

Consolidated and Separate

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

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

	Liabilities from financing activities		
	Other borrowed funds	**Subordinated debt**	**Total**
Balance at 1 January 2018 Changes from financing cash flows	411,946	64,967	476,913
Proceeds	139,789	15,218	155,007
Repayments	(89,396)		(89,396)
Total changes from financing cash flows	**50,393**	**15,218**	**65,611**
The effect of changes in foreign exchange rates	**(5,583)**	**2,755**	**(2,828)**
Other changes			
Interest expense	19,220	1,954	21,174
Interest paid	(18,742)	(1,916)	(20,658)
Balance at 31 December 2018 Changes from financing cash flows	**457,234**	**82,978**	**540,212**

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25. NET INTEREST INCOME

Consolidated and Separate

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

in '000 GEL

Interest and similar income	2019	2018
Loans and advances to customers	85,282	81,868
Cash and cash equivalents and due from banks	3,680	3,209
Investment in debt securities	1,920	1,262
Total interest income	**90,882**	**86,339**
Interest and similar expenses		
Customer accounts	(17,018)	(11,895)
Other borrowed funds	(19,427)	(19,220)
Subordinated debt	(5,427)	(1,954)
Due to banks	(735)	(1,663)
Lease liabilities	(103)	-
Total interest expenses	**(42,710)**	**(34,732)**
Net interest income	**48,172**	**51,607**

26. FEE AND COMMISSION INCOME AND EXPENSES

Consolidated and Separate

in '000 GEL

Fee and commission income	2019	2018
Payment transfers and cash transactions	4,074	3,842
Debit/credit card issuance fee	3,327	2,622
Account maintenance fee	3,708	3,581
Letters of credit and guarantees	1,551	1,359
Internet bank fee	24	67
SMS service fee	6	13
Other fee and commission income	103	102
Total fee and commission income	**12,793**	**11,586**
Fee and commission expenses		
Debit/credit card issuance fee	(5,989)	(4,697)
Account maintenance fee	(1,248)	(965)
Payment transfers and transactions	(112)	(112)
Service fee	(119)	(120)
Letters of credit and guarantees	(367)	(163)
Total fee and commission expenses	**(7,835)**	**(6,057)**
Net fee and commission income	**4,958**	**5,529**

The item "other fee and commission income" consists of transactions carried out on behalf of third parties, e.g. Western Union.

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27. OTHER ADMINISTRATIVE EXPENSES

Consolidated and Separate

Other administrative expenses include the following items:

in '000 GEL	2019	2018
Depreciation and amortization	5,658	4,764
Communication and IT expenses	4,706	4,910
Personnel recruitment, training and other staff-related expenses	2,916	2,753
Consulting services	2,544	2,493
Marketing, advertising and entertainment	1,831	1,387
Repair and maintenance	436	559
Transport	879	920
Security service	293	445
Insurances	318	319
Utilities and electricity	790	746
Consulting and legal services	775	22
Audit and other financial services	512	777
Office rent	135	910
Taxes other than on income	1,657	1,660
Other	1,127	326
Total	**24,577**	**22,991**

Administrative expenses above includes GEL 512 thousand (2018: GEL 311 thousand) fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

Of the total personnel and administrative expenses, expenses of GEL 1,741 thousand were incurred on staff training and related activities during 2019 (2018: GEL 1,789 thousand).

In 2019 the monthly average number of persons employed by the Group and Bank was 341 people (2018: 331).

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

	2019	2018
Senior Management	3	4
Middle Management	22	21
Other staff	242	241
Service contractors	74	65
Total	**341**	**331**

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28. OTHER OPERATING INCOME AND EXPENSE

Consolidated and Separate

(a) *Other operating income*

in '000 GEL	2019	2018
Income from disposal of property, and equipment	1,769	925
Rental income from investment properties	1,239	952
Income from sale of repossessed properties	819	1,092
Other operating income	1,402	644
Total	**5,229**	**3,613**

(b) *Other operating expenses*

in '000 GEL	2019	2018
Expense related to write/sale off of repossessed property	1,268	334
Expenses related for deposit insurance fund	333	390
Expenses from disposal of property and equipment	227	809
Other operating expense	1,433	1,488
Total	**3,261**	**3,021**

29. FINANCIAL RISK AND CAPITAL MANAGEMENT

Consolidated and Separate unless otherwise indicated.

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

Objectives

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

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

Processes and procedures

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

Compliance with external and internal capital requirements

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

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As at 31 December 2019 the Group and Bank was in compliance with the regulatory capital adequacy requirements imposed by the NBG according to the guidelines of the Basel Committee (Basel II /III). The following table shows the capital adequacy ratios as calculated in accordance with those requirements:

As at 31 December 2019 (Pillar I + Pillar II)	2019	2018
Tier 1 Capital /RWA (required to be above 11.57%)	15.20%	13.37%
Tier 1 + Tier 2 Capital /RWA (required to be above 15.85%)	19.82%	17.79%

NBG introduced Pillar II buffers which were to be maintained from December, 2017. As of 31 December 2019 the minimum requirements including set buffers for Tier 1 equals to 11.57% and for Regulatory capital 15.88% of the total risk weighted assets. Unhedged credit risk is excluded from total risk weighted assets for Pillar I and added as a buffer.

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

Consolidated and Separate:

As at 31 December	2019*	2018*
Tier 1 Capital / RWA	18.57%	16.25%
Tier 1 + Tier 2 Capital / RWA	22.64%	20.75%

in '000 GEL

As at 31 December	2019*	2018*
Ordinary share capital	100,352	88,915
Share premium	51,324	36,388
Prior period retained earnings	60,636	64,560
Profit for first nine months	19,040	21,640
Less other adjustments	(23)	(30)
Less dividends budgeted for the next year	(26,373)	(30,323)
Less intangible assets	(544)	(1,287)
Tier I capital	**204,412**	**179,863**
Adjusted Tier I capital	**204,412**	**179,863**
Subordinated loans	44,737	49,854
Tier II capital	**44,737**	**49,854**
Total regulatory capital	**249,149**	**229,717**

in '000 GEL

As at 31 December	2019*	2018*
RWA on balance	954,145	953,238
RWA off balance	24,424	19,578
RWA from open currency position	1	492
RWA from operational risk	121,776	133,678
Total RWA	**1,100,346**	**1,106,986**

* These amounts are unaudited.

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

With respect to leveraging, a lower limit for the ratio of Tier 1 capital to recognized and unrecognized exposures (Tier 1 leverage ratio) was introduced in 2011 according to which the leverage ratio of the Group and Bank should not fall below 5%. As at 31 December 2019 and 2018 the Group and Bank's leverage ratio was above 10%.

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ICAAP

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

The risk bearing capacity of the Group and Bank is defined as equity (net of intangibles) plus subordinated debt with the maturity of over one year, which amounted to GEL 259 million as at 31 December 2019 (2018: GEL 227 million). The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential, i.e. GEL 136 million, unaudited for 2019 (2018: GEL 136 million, unaudited). For calculating potential losses in the different risk categories the following concepts are used:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates are calculated and applied to the current loan portfolio as well as the off-balance portfolio to calculate potential loan losses;
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation;
- Market risks: Whereas historical currency fluctuations are statistically analysed and the highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the 12-months interest earnings at a standard interest rate shock for EUR/USD (two percentage points, Basel interest rate shock) and higher (historical) shock levels for local currency;
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The volume of economic capital to cover credit risk stayed stable as at 31 December 2019 and 2018. The underlying portfolio quality showed improvement throughout 2018. Counterparty, interest rate and currency risk limit utilisation remained low. All risks combined, as quantified by the methods established in the Group and Bank Standards for Bank ICAAP, are below 60% of the Group and Bank's total risk taking potential as defined. Other risks have been assessed as not sufficiently relevant for the Group and Bank or as relevant, but not quantifiable.

The table below shows the distribution of the RAtCR among the different risk categories as determined by the Parent's Risk Management Committee and the level of utilisation for the Group and Bank as at the end of December 2019. The economic capital required to cover operational risk is calculated according to the Basel II standard approach.

Risk Factor	**Risk Detail**	**Limit** (in %) *	**Limit** (in '000 GEL)*	**Actual** (in '000 GEL)*	**Limit Used** (in % of risk bearing capacity)*
Credit Risk (Clients)	Credit Risk (Clients)	33.0%	85,373	48,199	18.6%
Counterparty Risk	Commercial Banks	5.0%	12,935	2,689	1.0%
Market Risk	Interest Rate Risk	10.0%	25,871	14,462	5.6%
Market Risk	Currency Risk	2.0%	5,174	294	0.1%
Operational Risk	Operational Risk	10.0%	25,871	9,742	3.8%
Resources Available to Cover Risk		**60.0%**	**155,224**	**75,386**	**29.1%**

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As at the end of December 2018 the distribution of RAtCR was as follows:

Risk Factor	Risk Detail	Limit (in %)*	Limit (in '000 GEL)*	Actual (in '000 GEL)*	Limit Used (in % of risk bearing capacity)*
Credit Risk (Clients)	Credit Risk (Clients)	33.0%	74,844	37,757	16.6%
Counterparty Risk	Commercial Banks	5.0%	11,340	1,997	0.9%
Market Risk	Interest Rate Risk	10.0%	22,680	7,944	3.5%
Market Risk	Currency Risk	2.0%	4,536	225	0.1%
Operational Risk	Operational Risk	10.0%	22,680	10,694	4.7%
Resources Available to Cover Risk		**60.0%**	**136,080**	**58,617**	**25.8%**

* These amounts are unaudited.

Management of individual risks

In 2019, the Group and Bank further developed the policies and tools in managing of individual risks that serve the further enhancement of the risk management of the Group and Bank. In particular, strengthened processes were introduced for the management of:

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

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

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

(a) Credit risk

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

The following table shows the maximum exposure to credit risk:

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

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

- analysis of the debt capacity of borrowers.
- documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties.
- avoidance of over indebting the Group and Bank's borrowers.
- building a personal and long term relationship with the client and maintaining regular contact.
- regular monitoring of borrower's capacity.
- monitoring of loan repayment, fulfilment of covenants.
- practising effective arrears management.
- exercising strict collateral collection in the event of default.
- investing in well-trained and highly motivated staff implementing carefully designed and well-documented processes.
- application of the "four-eyes principle".

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

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

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

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

Overall, the loan portfolio of the Group and Bank includes 355 borrower group credit exposures of more than USD 250,000 (2018: 364 borrower group credit exposures).

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

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

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

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

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

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

Exposure at default:

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

Probability of default:

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

Loss given default:

- LGDs are specified by client exposure size classes. The estimates are averages of cured and non-cured and of collateralized and non-collateralized loss defaulted exposures.1
- As PDs, LGDs are specified as weighted averages of PiT forecasts based on different scenarios of the macroeconomic outlook.

Loans and advances to customers

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

Impairment allowances are determined based on the forward-looking ECL models. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

<u>Increase of loss allowances</u>

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

- Stage 1: All financial assets are generally classified as “Stage 1” at initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately within Stage 3. The Group and Bank establishes loss allowances in an amount equivalent to the 12 month expected credit losses, insofar as there has not been a significant increase in credit risk since initial recognition. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.
- Stage 2: If the credit risk increases significantly, then “Stage 2” classification is assigned, and loss allowances are established in an amount equivalent to the lifetime expected credit losses.

- Stage 3: Defaulted financial assets are assigned to "Stage 3" and loss allowances are likewise established in an amount equivalent to the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired). For significant exposures, risk provisioning is determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Stage 3 also includes financial assets which are already impaired at initial recognition ("POCI"). These are measured initially at fair value and without loss allowances. Regardless of future changes in the credit risk, POCI assets remain in Stage 3 until their disposal.

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

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

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

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

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

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

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

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

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

When at least one of the following events is detected:

- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days

- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- standard or watch restructuring event(s)

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

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

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

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

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

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

Individually insignificant credit exposures

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

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

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

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

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

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

Risk classification process

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

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

	Underperforming loan portfolio	Default loan portfolio
At 31 December 2019	**3.3%**	**2.8%**
At 31 December 2018	**2.3%**	**2.7%**

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

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

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

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The Group's and Bank's loan portfolio (gross) grouped according to the common risk factors is as follows:

in '000 GEL At 31 December 2019	Wholesale and Trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans	Others	Total
< 50,000 USD	24,050	3,020	11,220	2,769	26,493	33,385	3,203	129	104,269
50,000 to 250,000 USD	136,278	16,944	60,433	12,047	132,138	67,980	351	-	426,171
>250,000 USD	181,180	18,629	81,338	7,186	272,475	2,432	-	-	563,240
Total	**341,508**	**38,593**	**152,991**	**22,002**	**431,106**	**103,797**	**3,554**	**129**	**1,093,680**

in '000 GEL At 31 December 2018	Wholesale and Trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans	Others	Total
< 50,000 USD	31,614	2,655	11,801	3,562	29,158	36,573	3,405	225	118,993
50,000 to 250,000 USD	145,150	14,105	61,871	14,961	145,519	71,029	340	-	452,975
>250,000 USD	169,598	29,737	69,200	2,849	203,609	2,851	-	-	477,844
Total	**346,362**	**46,497**	**142,872**	**21,372**	**378,286**	**110,453**	**3,745**	**225**	**1,049,812**

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

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

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

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

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

Credit risk from interbank placements and issuer risk

Conceptual risk management framework

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

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time;
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market;

- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed;
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security;
- market price risk: the risk of loss due to the drop of the market value of securities as interest rates increase.

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

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

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

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

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

in '000 GEL	2019	In %	2018	In %
Banking groups	**83,489**	**29%**	**32,142**	**13%**
OECD banks	43,370	15%	15,795	6%
Non-OECD banks	40,119	14%	16,347	7%
NBG	**197,312**	**69%**	**216,948**	**75%**
Mandatory reserve	175,926	62%	170,806	67%
Other exposures	21,386	7%	46,142	8%
Government of Georgia	**4,924**	**2%**	**4,943**	**12%**
Treasury bills	4,924	2%	4,943	12%
Total counterparty and issuer exposure	**285,725**	**100%**	**254,033**	**100%**

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The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 62% (2018: 67%) of the Group's and Bank's counterparty and issuer exposure. The distribution of the NBG and government exposures across currencies can be seen in the following table:

in '000 GEL

31 December 2019	GEL	EUR	USD	Total
NBG	**21,274**	**44,380**	**131,658**	**197,312**
Mandatory reserve	-	44,331	131,595	175,926
Balances at NBG excluding mandatory reserves	4,281	49	63	4,393
Certificates of deposits of NBG	16,993	-	-	16,993
Government of Georgia	**4,924**	**-**	**-**	**4,924**
	26,198	**44,380**	**131,658**	**202,236**

in '000 GEL

31 December 2018	GEL	EUR	USD	Total
NBG	**45,317**	**35,122**	**136,509**	**216,948**
Mandatory reserve	-	34,304	136,502	170,806
Balances at NBG excluding mandatory reserves	20,493	818	7	21,318
Certificates of deposits of NBG	24,824	-	-	24,824
Government of Georgia	**4,943**	**-**	**-**	**4,943**
	50,260	**35,122**	**136,509**	**221,891**

(b) Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group and Bank also minimises its dependency on the interbank market. The Group and Bank's policies stipulate that the total amount of interbank liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. Higher limits need to be approved by the Parent's ALCO.

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

in '000 GEL **At 31 December 2019**	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 -5 years**	**More than 5 years**	**Total gross amount inflow (outflow)**	**Carrying amount**
Non-derivative Financial Assets							
Cash and balances with the NBG (including mandatory reserve)	196,263	7,043	33,056	23,070	3,477	262,909	262,909
Due from banks	83,489	-	-	-	-	83,489	83,489
Loans and advances to customers	32,686	74,340	315,232	622,205	251,396	1,295,859	1,070,120
Investments in debt securities	17,000	-	5,007	-	-	22,007	21,917
Other financial assets	4,518	-	-	-	-	4,518	4,518
Total Financial Assets	**333,956**	**81,383**	**353,295**	**645,275**	**254,873**	**1,668,782**	**1,442,953**
Non-derivative Financial Liabilities							
Due to banks	1,218	69,189	-	-	-	70,407	70,407
Customer accounts	492,590	31,745	149,003	103,992	15,666	792,996	767,297
Other borrowed funds	4,550	6,732	41,552	347,697	57,504	458,035	406,707
Other financial liabilities	977	168	-	-	-	1,145	1,145
Lease liability	48	-	236	1,221	1,585	3,090	2,938
Subordinated debt	-	-	3,849	13,060	49,509	66,418	45,314
Derivative liabilities							
- Inflow	-	142,646	-	-	-	142,646	
- Outflow	-	(143,205)	-	-	-	(143,205)	1,258
Total Financial Liabilities	**499,383**	**107,275**	**194,640**	**465,970**	**124,264**	**1,391,532**	**1,295,066**
Liquidity Gap	**(165,427)**	**(25,892)**	**158,655**	**179,305**	**130,609**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(165,427)**	**(191,319)**	**(32,664)**	**146,641**	**277,250**		
Credit related commitments and guarantees	**(97,422)**	**-**	**-**	**-**	**-**	**(97,422)**	

in '000 GEL **At 31 December 2018**	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 -5 years**	**More than 5 years**	**Total gross amount inflow (outflow)**	**Carrying Amount**
Non-derivative assets Financial Assets							
Cash and balances with the NBG (including mandatory reserve)	279,212	7,119	30,723	18,206	3,388	338,648	338,648
Due from banks	32,164	-	-	-	-	32,164	32,143
Loans and advances to customers	38,642	72,075	293,429	638,859	186,521	1,229,526	1,023,256
Investments in debt securities	8,697	18,893	2,608	-	-	30,198	29,767
Other financial assets	4,120	-	-	-	-	4,120	4,120
Derivative assets							
- Inflow	-	-	56,668	-	-	56,668	
- Outflow	-	-	(55,240)	-	-	(55,240)	(224)
Total Financial Assets	**362,835**	**98,087**	**328,188**	**657,065**	**189,909**	**1,636,084**	**1,427,934**
Non-derivative Financial Liabilities							
Due to banks	18,991	13,810	39,397	-	-	72,198	71,608
Customer accounts	462,310	29,371	126,766	75,118	13,977	707,542	696,377
Other borrowed funds	35,320	36,877	60,187	295,227	37,375	464,986	457,234
Other financial liabilities	1,130	-	-	-	-	1,130	1,130
Subordinated debt	-	661	45,563	12,289	49,757	108,270	82,978
Total Financial Liabilities	**517,751**	**80,719**	**271,913**	**382,634**	**101,109**	**1,354,126**	**1,309,327**
Liquidity Gap	**(154,916)**	**17,368**	**56,275**	**274,431**	**88,800**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(154,916)**	**(137,548)**	**(81,273)**	**193,158**	**281,958**		
Credit related commitments and guarantees	**(65,328)**	**-**	**-**	**-**	**-**	**(65,328)**	

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

As at 31 December 2019, total current accounts within 'Customer accounts' amounted to GEL 224,775 thousand (2018: GEL 221,694 thousand). Within amounts of the customer accounts for the period of the preceding two years on a monthly basis, current accounts end-of-month balances have not fallen below GEL 117,312 thousand (2018: GEL 141,208 thousand). Significant part of total current accounts represents current accounts from legal entities which historically are of long-term nature.

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

As at 31 December 2019, the Group and Bank was in compliance with the sufficient liquidity indicator limit set at 1 according to the Liquidity Risk Management Policy as well, as with "survival period" limit set at 90 days.

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

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

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

The table below shows the approximate distribution of funding sources as at 31 December 2019 and 2018. It shows that, as mentioned above, customer deposits are by far the largest source of funds. Other main sources of funding are liabilities to the companies under Parent's control and IFIs.

In %	31 December 2019	31 December 2018
Liabilities to banks	-	1.4%
Customer deposits	59.3%	53.2%
Liabilities to the companies under Parent's control	20.5%	24.4%
Liabilities to IFIs	19.9%	20.9%
Other liabilities	0.3%	0.1%

Overall, the Group and Bank considers its funding sources to be sufficiently diversified, especially given that

the bulk of the funds are provided by a large number of customer deposits.

I. Funding risk

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

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

(c) Market risk

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

i. Currency risk

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

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

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

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

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

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

The Group's OCPs were within the aforementioned limits as at 31 December 2019.

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The following significant exchange rates applied during the year:

in GEL	Average rate 2019	Average rate 2018	Reporting date spot rate 31 December 2019	Reporting date spot rate 31 December 2018
USD 1	2.8168	2.5312	2.8646	2.6803
EUR 1	3.1535	2.9899	3.2181	3.0689

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

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

in '000 GEL As at 31 December 2018	EUR	USD	Other currencies	Local currency	Total
Assets					
Cash and balances with the NBG (including mandatory reserve)	73,231	221,671	640	43,106	338,648
Due from banks	1,028	16,149	-	14,966	32,143
Investments in debt securities	-	-	-	29,767	29,767
Loans and advances to customers	180,399	608,542	-	234,315	1,023,256
Other financial assets	1,245	1,199	-	1,676	4,120
Total financial assets	**255,903**	**847,561**	**640**	**323,830**	**1,427,934**
Liabilities					
Due to banks	56,610	14,998	-	-	71,608
Customer accounts	116,542	407,602	284	171,949	696,377
Other borrowed funds	11,858	414,488	-	30,888	457,234
Other financial liabilities	546	13	-	571	1,130
Subordinated debt	15,347	67,631	-	-	82,978
Total financial liabilities	**200,903**	**904,732**	**284**	**203,408**	**1,309,327**
Net position	**55,000**	**(57,171)**	**356**	**120,422**	**118,607**
The effect of derivatives	**(55,240)**	**56,668**	**-**	**-**	**1,428**
Net position after derivatives	**(240)**	**(503)**	**356**	**120,422**	**120,035**

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

in '000 GEL

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

in '000 GEL

As at 31 December 2018	95% confidence	99% confidence
Maximum loss (VaR)	(151)	(171)
Average loss in case confidence interval is exceeded	(126)	(138)

ii. Interest rate risk

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

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

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

Economic value risk

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

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

Interest earnings risk

Interest earnings risk considers how changes in interest rate could affect the bank's profitability given its current re-pricing structure. The earnings risk has a near term perspective (up to one year) and therefore identifies the risk arising from shorter term re-pricing mismatches. It is analyzed via a profit and loss (P/L) analysis of interest earnings.

For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven deviations from the

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Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Parent's General Risk Management Committee.

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

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

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

in '000 GEL **As at 31 December 2019**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -12 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	215,657	-	-	-	-	-	47,252	262,909
Due from banks	81,969	-	-	-	-	-	1,520	83,489
Investments in debt securities	16,993	-	4,924	-	-	-	-	21,917
Loans and advances to customers	109,759	111,162	206,908	170,267	352,336	114,767	4,921	1,070,120
Other financial assets	-	-	-	-	-	-	4,518	4,518
Total financial assets	**424,378**	**111,162**	**211,832**	**170,267**	**352,336**	**114,767**	**58,211**	**1,442,95**
Liabilities								
Due to banks	-	69,235	-	-	-	-	1,172	70,407
Customer accounts	268,030	27,360	42,168	116,817	71,968	12,266	228,688	767,297
Other borrowed funds	74,493	91,081	8,760	43,744	155,137	29,229	4,263	406,707
Other financial liabilities	-	-	-	-	-	-	1,145	1,145
Lease liability	-	-	-	-	-	-	2,938	2,938
Subordinated debt	-	-	-	-	-	44,736	578	45,314
Total liabilities	**342,523**	**187,676**	**50,928**	**160,561**	**227,105**	**86,231**	**238,784**	**1,293,80**
Net interest sensitivity gap	**81,855**	**-76,514**	**160,904**	**9,706**	**125,231**	**28,536**		

in '000 GEL **As at 31 December 2018**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -12 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and balances with the NBG (including mandatory reserve)	235,539	-	-	-	-	-	103,109	338,648
Due from banks	25,783	-	-	-	-	-	6,360	32,143
Investment securities available-for-sale	8,682	18,523	-	2,380	-	-	182	29,767
Loans and advances to customers	84,705	88,928	149,722	167,202	372,267	151,028	9,404	1,023,256
Other financial assets	-	-	-	-	-	-	4,120	4,120
Total financial assets	**354,709**	**107,451**	**149,722**	**169,582**	**372,267**	**151,028**	**123,175**	**1,427,934**
Liabilities								
Due to banks	13,402	13,810	9,207	29,155	-	-	6,034	71,608
Customer accounts	241,444	25,152	32,924	106,977	49,627	12,434	227,819	696,377
Other borrowed funds	53,606	105,058	53,210	12,322	194,468	33,620	4,950	457,234
Other financial liabilities	-	-	-	-	-	-	1,130	1,130
Subordinated debt	-	40,205	-	-	-	42,148	625	82,978
Total liabilities	**308,452**	**184,225**	**95,341**	**148,454**	**244,095**	**88,202**	**240,558**	**1,309,327**
Net interest sensitivity gap	**46,257**	**(76,774)**	**54,381**	**21,128**	**128,172**	**62,826**		

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In quantitative terms, the risks associated with interest rate fluctuations are currently limited by stipulating that the interest rate risk exposure (economic value impact in present value) of the Group and the Bank following an interest rate shock of +/- 200 bps on EUR/USD and historical worst case for local currency, may not exceed 15% of regulatory capital for all currencies. As at 31 December 2019, the Group and the Bank were in compliance with these requirements. Cumulative interest earnings impact for 12 months shows the following figures as at 31 December 2019:

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

As at 31 December 2018, the impact of cumulative interest earnings was as follows:

	Impact on profit or loss (equals impact on equity)			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
USD	137	(137)	341	(341)
EUR	1,550	(1,550)	3,875	(3,875)
GEL	3,154	(3,154)	5,272	(5,272)
	4,841	**(4,841)**	**9,488**	**(9,488)**

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

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

At 31 December 2019 in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	(0.2)	0.59	5.03
Loans and advances to customers	5.35	7.24	11.10
Financial liabilities			
Due to other banks	0.63	-	2.50
Customer accounts	0.57	2.60	2.72
Other borrowed funds	2.71	3.38	8.24
Subordinated debt	5.94	8.41	-

At 31 December 2018 in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	-	-	7.10
Loans and advances to customers	6.21	7.46	11.02
Financial liabilities			
Due to other banks	4.94	5.43	-
Customer accounts	0.56	2.41	2.70
Other borrowed funds	3.71	3.74	8.25
Subordinated debt	5.94	7.19	-

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iii. Country risk

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

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

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

(d) Operational risk

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

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

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

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

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

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

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

(e) Anti-money laundering activities

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

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

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

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

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

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

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

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

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

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

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

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

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The Group and Bank estimates the fair value of all financial assets and liabilities as at 31 December 2019 and 2018. Results are provided in the following table:

in '000 GEL		2019		2018	
	Level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets					
Cash and cash equivalents	Level 2	86,983	86,983	167,842	167,842
Mandatory reserve deposits with NBG	Level 2	175,926	175,926	170,806	170,806
Due from other banks	Level 2	83,489	83,489	32,143	32,143
Loans and advances to customers	Level 3	1,070,120	1,053,398	1,023,256	1,000,294
Other financial assets	Level 3	4,518	4,518	4,120	4,120
Total financial assets		**1,421,036**	**1,404,314**	**1,398,167**	**1,375,205**

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in '000 GEL		2019		2018	
	Level	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities					
Due to other banks	Level 2	70,407	70,407	71,608	71,608
Customer accounts					
Current accounts	Level 2	224,775	224,775	221,694	221,695
Savings accounts	Level 2	249,314	249,290	230,271	230,271
Term accounts	Level 3	289,152	294,580	238,302	241,892
Other liabilities to customers	Level 2	4,056	4,056	6,110	6,110
Other borrowed funds	Level 3	406,707	404,146	457,234	443,636
Other financial liabilities	Level 3	1,145	1,145	1,130	1,130
Subordinated debt	Level 3	45,314	45,314	82,978	78,594
Total financial liabilities		**1,290,870**	**1,293,713**	**1,309,327**	**1,294,936**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

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

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

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

31. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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in '000 GEL

As at 31 December	2019	2018
Financial guarantees and stand-by letters of credit	12,850	10,149
Performance guarantees	35,613	28,948
Commitments to extend credit:		
- Original term to maturity of one year or less	28,603	11,710
- Original term to maturity of more than one year	20,356	14,521
Total	**97,422**	**65,328**

As at 31 December 2019 the Group/Bank allocates commitments to extend credit, financial guarantees and stand-by letters of credit in Stage 1 and 2 for the purposes of identifying expected credit loss under IFRS 9 (1 January 2018: Stage 1and 2). The Group/Bank calculates ECL of performance guarantees according to IAS 37. Management estimates that ECL is immaterial at reporting dates. The table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. The management believes that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements.

Tax legislation

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

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

Litigation

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

32. RELATED PARTY TRANSACTIONS

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

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The key management personnel include the executive directors of the Group and Bank and their close family members.

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The Group and Bank had the following balances outstanding as at 31 December 2019 and 2018 with related parties:

in '000 GEL **As at 31 December**	**Contractual interest rate, p.a.**	**2019**	**2018**
Assets			
Due from banks			
- Entities under common control	(0.75%) to 1.55 %	36,013	40,213
Loans and advance to customers			
- Key management	12 %	6	31
Due to banks			
- Entities under common control	up to 0.99%	70,434	53,190
Customer accounts			
- Key management	0.0%-4.5%	186	329
Other borrowed funds			
- Parent	2.84%-4.0%	108,435	186,464
- entities under common control	2.6%-4.3%	40,672	37,524
Subordinated debt			
- Parent	5.9%-7.9%	45,314	42,685

Included in the profit or loss for the year ended 31 December 2019 and 2018 are the following amounts which arose due to transactions with related parties:

in '000 GEL	**2019**	**2018**
Interest expense		
- Parent	10,919	10,567
- entities under common control	1,943	3,259
- key management	5	11
Fees and commission expenses		
- entities under common control	2,073	1,854
Other operating income		
- Parent	-	8
Personnel expenses		
- Key management	874	1,068
Other administrative expenses		
- Parent	2,544	2,493
- entities under common control	3,851	3,932

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

The Bank had the following balances outstanding as at 31 December 2019 and 2018 with it subsidiary:

in '000 GEL **As at 31 December**	**2019**	**2018**
Assets		
Investment in Subsidiaries		
- Subsidiary	6,100	6,100
Liability		
Customer accounts		
Subsidiary	4,089	3,317

33. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent events – the COVID-19 outbreak

(i). **General overview**

On 11 March 2020, the World Health Organisation (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.). The restrictions imposed by Government of Georgia do not apply to any of the Bank's operations. The Bank continues work in under the business continuity plan with personnel assigned to either of the two offices and working remotely from home as much as possible.

(ii). **Changes in regulatory requirements**

As response to the existing crisis, the National Bank of Georgia ("NBG") took several actions aiming at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The following NBG actions may potentially have effect on the Bank's operations:

- in order to stabilize sudden increase in foreign exchange rates (GEL/USD peak rate of 3.4842 was recorded on 27 March 2020), NBG sold USD 100 million on local market during March 2020;
- coordinated Georgian banks' initiative to provide voluntary grace period of three months to most of commercial banks' retail and small business borrowers within the country. In parallel to slightly amplified drawdowns of deposits for household cash needs, this initiative has further stressed the GEL liquidity in the financial sector. To address it, NBG started to offer FX swaps to commercial banks and microfinance organizations, up to USD 200 million for each sector;
- softened regulatory requirements for commercial banks, including softening certain requirements for capital adequacy and liquidity ratios. This will allow banks to use existing buffers to support customers in the current financially stressed circumstances, to continue normal business activities to the extent possible. Liquidity coverage ratio (LCR) requirements (for local and foreign currency, as well as total requirement) may as well be revisited and reduced, if necessary;
- imposed general provisions for possible credit losses for each bank individually;
- is not going to impose any monetary sanctions in case of breach of economic normative and limits driven by external factors (e.g. reserves, exchange rate deprecation).

(iii). **Effect of COVID 19 on the Bank**

As part of the Government initiative to provide moratorium on the repayment of loans to customers (principal and interest) to the Bank followed individual approach on a customer's need base. The Bank granted moratorium on the repayments of principal and interest to its customers that were effected based on their request. Around 39% of loans to customers' portfolio has been granted moratorium for the repayment of interest and principal from 3 to 6 months as of the date of this Financial Statements are authorized for issue. The Bank has considered effect of moratorium in its liquidity analysis. In addition, the Bank revised expected credit loss model for updated macroeconomic environment thus resulting in increase of expected credit losses in March 2020.

Management of the Bank also performed stress tests for several possible scenarios to estimate possible downside effects of the pandemic on the Bank's operations on the liquidity. Bank stressed cash flow on customer accounts assuming outflow in the range from 10% to 20% for the next 12 months. In addition the Bank also stressed repayment (inflows) on loans to customers by reducing repayment for the next three months to nil and 50% thereafter for 9 months. The Bank has assessed its liquidity and capital adequacy position for the 12 months from the date these Financial Statements are authorized for issues. Even in the worst case scenario of stress tests the Bank maintains sufficient liquidity and capital adequacy to support continued operations for the foreseeable future.

Other

In January 2020 the Group and Bank obtained a loan from EBRD with amount of EUR 15 000 000.