Part of the ProCredit Group

ProCredit Bank

Disclosure Report 2016

in accordance with Article 13 CRR

JSC ProCredit Bank, Georgia

Introduction

As a significant subsidiary of ProCredit Holding AG & Co. KGaA (ProCredit Holding), which is the superordinated company of the ProCredit financial holding group (ProCredit group, the group), JSC ProCredit Bank, Georgia (the bank) has a duty of disclosure in accordance with Article 13 of EU Regulation No. 575/2013 (Capital Requirements Regulation, CRR).

The intention behind the regular disclosure of qualitative and quantitative information is to give the reader detailed insight into the current risk profile and risk management of an institution, and thus to create transparency and enhance market discipline. In this report ProCredit Bank Georgia discloses all qualitative and quantitative information required in accordance with the CRR as at 31 December 2016. As the CRR is not applied in Georgia, the information provided in this disclosure report is based on local regulations issued and overseen by the National Bank of Georgia.

This disclosure report is an additional document alongside the annual financial statements of JSC ProCredit Bank, Georgia, which are published on the bank's website. In particular, the report discloses information about own funds and credit risk. For further information related to the organisation of risk management, own funds and remuneration, please refer to the group disclosure report as well as the group annual report, which are published on the ProCredit Holding website.

Due to rounding, numbers and percentages presented throughout this report may not add up precisely to the totals provided.

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Own funds

The volume of the shareholders' equity increased by approximately GEL 24m. This increase comes from accumulated profit of the financial year 2016. The regulatory capital increased by approximately GEL 31m – partially from retained earnings, partially from the repricing of the subordinated debt.

The table below shows the reconciliation of the regulatory capital with the balance sheet.

	Amount 31.12.2016 in GEL '000	**Amount 31.12.2015** in GEL '000
Total shareholders' equity as per accounting balance sheet	**196,133**	**171,862**
Deconsolidation/Consolidation of entities		
thereof:		
Additional paid-in capital	0	0
Retained earnings	-17,094	-26,054
Accumulated other comprehensive income, net of tax	0	0
Total shareholders' equity as per regulatory balance sheet	**179,039**	**145,808**
Common Equity Tier 1 capital before regulatory adjustments	**179,039**	**145,808**
Regulatory adjustments		
thereof:		
Intangible assets	-1,676	-2,287
Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	-6,195	-6,195
Common Equity Tier 1 capital	**171,168**	**137,326**
Additional Tier 1 capital	**0**	**0**
Tier 1 capital	**171,168**	**137,326**
Tier 2 capital	**58,841**	**61,622**
Subordinated debt	42,349	45,503
Per balance sheet	66,170	59,873
Regulatory adjustments to balance sheet position		
thereof:		
Amortization	-23,821	-14,369
other	0	0
Other regulatory adjustments		
thereof:		
General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	16,492	16,119
Total regulatory capital	**230,009**	**198,949**

The following table shows the regulatory capital as at 31 December 2016 according to Georgian regulatory requirements.

Row		Amount 31.12.2016 in GEL '000	Amount 31.12.2015 in GEL '000
1	**Common Equity Tier 1 capital before regulatory adjustments**	179,039	145,808
2	Common shares that comply with the criteria for Common Equity Tier 1	88,915	88,915
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	36,388	36,388
4	Accumulated other comprehensive income	-	-
5	Other disclosed reserves	-	-
6	Retained earnings (loss)	53,736	20,505
7	**Regulatory adjustments of Common Equity Tier 1 capital**	7,871	8,482
8	Revaluation reserves on assets	-	-
9	Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	-	-
10	Intangible assets	1,676	2,287
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	-	-
12	Investments in own shares	-	-
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	-	-
14	Cash flow hedge reserve	-	-
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	-	-
16	Significant investments in the Common Equity Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	-	-
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	6,195	6,195
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	-	-
19	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-	-
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of Common Equity Tier 1	-	-
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	-	-
23	**Common Equity Tier 1**	171,168	137,326
		-	-
24	**Additional Tier 1 capital before regulatory adjustments**	-	-
25	Instruments that comply with the criteria for Additional Tier 1 capital	-	-
23	Including: instruments classified as equity under the relevant accounting standards	-	-
24	Including: instruments classified as liabilities under the relevant accounting standards	-	-
24	Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	-	-
25	**Regulatory adjustments of Additional Tier 1 capital**	-	-
25	Investments in own Additional Tier 1 instruments	-	-
26	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
26	Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-	-
27	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-	-
27	Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	-	-
28	**Additional Tier 1 capital**	-	-

29	**Tier 2 capital before regulatory adjustments**	58,841	61,622
30	Instruments that comply with the criteria for Tier 2 capital	42,349	45,503
30	Stock surplus (share premium) that meet the criteria for Tier 2 capital	-	-
31	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	16,492	16,119
31	**Regulatory adjustments of Tier 2 capital**	-	-
32	Investments in own shares that meet the criteria for Tier 2 capital	-	-
32	Reciprocal cross-holdings in Tier 2 capital	-	-
33	Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-	-
33	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-	-
34	**Tier 2 capital**	58,841	61,622

	Threshold treatment of significant investments in common shares and deferred tax assets when calculating Common Equity Tier 1		
35	Common Equity Tier 1 capital regulatory adjustments except:	1,676	2,287
36	Significant investments subject to limited recognition	-	-
37	Investments with holding less than 10% of share subject to limited recognition	-	-
38	Deferred tax assets arising from temporary differences subject to limited recognition	-	-
39	Common Equity Tier 1 Capital after regulatory adjustments (with consideration of full deduction before application of 10/15% thresholds)	177,362	143,521
40	Common Equity Tier 1 Capital after regulatory adjustments (with consideration of full deduction except significant investments and deferred tax assets subject to limited recognition)	177,362	143,521
41	10% limit of significant investments to be subject to limited recognition	17,736	14,352
42	10% limit of deferred tax assets to be subject to limited recognition	17,736	14,352
43	15% limit of significant investments and deferred tax assets to be subject to limited recognition	26,604	21,528
44	Significant investments that exceed 10% limit	-	-
45	Deferred tax assets that exceed 10% limit	-	-
46	Additional amount of significant investments and deferred tax assets that exceed 15% limit	-	-

	Threshold treatment of significant investments (except investment that are not common shares)		
47	Significant Investments in Tier 2 capital	-	-
48	Part that is to be deducted from Tier 2 capital	-	-
49	Part that is to be deducted from Additional Tier 1 capital due to shortfall of Tier 2 capital	-	-
50	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 and Tier 2 capitals	-	-
51	Significant Investments in Additional Tier 1 capital	-	-
52	Part that is to be deducted from Additional Tier 1 capital	-	-
53	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 capital	-	-

	Threshold treatment of investments with holdings less than 10% share		
54	Common Equity Tier 1 capital regulatory adjustments except Investments with holding less than 10% of share subject to limited recognition	1,676	2,287
55	Common Equity Tier 1 capital after all regulatory adjustments except Investments with holding less than 10% of share that do not depend on a threshold	177,362	143,521
56	Investments with holding less than 10% of share subject to limited recognition that comply with the criteria for Common Equity Tier 1 Capital	-	-
57	Investments with holding less than 10% of share subject to limited recognition that comply with the criteria for Additional Tier 1 Capital	-	-
58	Investments with holding less than 10% of share subject to limited recognition that comply with the criteria for Tier 2 Capital	-	-
59	Total amount of investments with holding less than 10% of share subject to limited recognition that comply with the criteria for Regulatory Capital	-	-
60	10% threshold amount of investments with holding less than 10% of share subject to limited recognition	17,736	14,352

Allocation of deductions of investments with holdings of less than 10% share to capital categories			
61	Allocation of the deduction of investments with holdings less than 10% of share subject to limited recognition to Common Equity Tier 1 capital	-	-
62	Allocation of the deduction of investments with holdings less than 10% of share subject to limited recognition to Additional Tier 1 capital	-	-
63	Part that is to be deducted from Additional Tier 1 capital	-	-
64	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 capital	-	-
65	Allocation of the deduction of investments with holding less than 10% of share subject to limited recognition to Tier 2 capital	-	-
66	Part that is to be deducted from Tier 2 capital	-	-
67	Part that is to be deducted from Additional Tier 1 capital due to shortfall of Tier 2 capital	-	-
68	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 and Tier 2 capital	-	-
Allocation of deductions of Investments in own capital to capital categories			
69	Investments in own Tier 2 capital	-	-
70	Part that is to be deducted from Tier 2 capital	-	-
71	Part that is to be deducted from Additional Tier 1 capital due to shortfall of Tier 2 capital	-	-
72	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 and Tier 2 capital	-	-
73	Investments in own Additional Tier 1 capital	-	-
74	Part that is to be deducted from Additional Tier 1 capital	-	-
75	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 capital	-	-
Allocation of deductions of reciprocal cross holdings to capital categories			
76	Reciprocal cross holdings in common equity Tier 2 instruments	-	-
77	Part that is to be deducted from Tier 2 capital	-	-
78	Part that is to be deducted from Additional Tier 1 capital due to shortfall of Tier 2 capital	-	-
79	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 and Tier 2 capital	-	-
80	Reciprocal cross holdings in Additional Tier 1 instruments	-	-
81	Part that is to be deducted from Additional Tier 1 capital	-	-
82	Part that is to be deducted from Common Equity Tier 1 capital due to shortfall of Additional Tier 1 capital	-	-
Allocation of deductions to Common Equity Tier 1 and Additional Tier 1 capital due to shortfall			
83	Regulatory adjustments applied to Additional Tier 1 due to shortfall of Tier 2 capital	-	-
84	Regulatory adjustments applied to Common Equity Tier 1 due to shortfall of Additional Tier 1 and Tier 2	-	-

The following tables show the key features of the capital instruments issued by JSC ProCredit Bank, Georgia.

No.	Main features		
1	Issuer	JSC ProCredit Bank, Georgia	JSC ProCredit Bank, Georgia
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law (s) of the instrument	Law of Georgia	Law of the State of New York, United States of America
	Regulatory treatment		
4	Transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	N/A	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	GEL 89m	GEL 16m/USD 6m
9	Nominal amount of instrument	GEL 89m	GEL 40m/USD 15m
9a	Issue price	GEL 5 each	100 percent
9b	Redemption price	Non-redeemable	100 percent
10	Accounting classification	Shareholders' equity	Liability - fair value option
11	Original date of issuance	Multiple issue dates	16 December, 2009
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	16 December, 2019
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Any time starting with 16/12/2017 Redemption amount - with a prior notice prepayment of the Loan is possible, in whole or in part, in a minimum partial prepayment amount of USD 1,000,000.00, or in multiples of one hundred thousand Dollars USD 100,000.00 in excess thereof.
16	Subsequent call dates, if applicable	N/A	Any time starting from 16/12/2017
Coupons / dividends			
17	Fixed or floating dividend/coupon	N/A	Floating
18	Coupon rate and any related index	N/A	USD 3M LIBOR + 3%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	N/A
36	Non-compliant transitioned features	No	N/A
37	If yes, specify non-compliant features	N/A	N/A

No.	Main features		
1	Issuer	JSC ProCredit Bank, Georgia	JSC ProCredit Bank, Georgia
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	Law of Federal Republic of Germany	Law of Federal Republic of Germany
	Regulatory treatment		
4	Transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	N/A	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	GEL 20m/USD 7.5m	GEL 7m/USD 2.5m
9	Nominal amount of instrument	GEL 20m/USD 7.5m	GEL 7m/USD 2.5m
9a	Issue price	100 percent	100 percent
9b	Redemption price	100 percent	100 percent
10	Accounting classification	Liability - fair value option	Liability - fair value option
11	Original date of issuance	23 May, 2013	18 April, 2008
12	Perpetual or dated	Dated	Dated
13	Original maturity date	2 April, 2025	2 April, 2025
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	02/04/2020 Redemption amount - with a prior notice prepayment of the whole of the Loan is possible.	02/04/2020 Redemption amount - with a prior notice prepayment of the whole of the Loan is possible.
16	Subsequent call dates, if applicable	02/04/2020	02/04/2020
Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	7.900%	7.900%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A

The main change since December 2015 is that the interest rates of the subordinated loan agreements dated 23 May 2013 and 18 April 2008 were amended in September 2016.

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Capital requirements

Maintaining an adequate level of capital is a core objective of the bank. At no point may the bank incur greater risks than it is able to bear. This principle is implemented using different indicators for which early warning indicators and limits have been established, and these are monitored regularly.

In Georgia, the implementation of the new combined regulation based on Basel II and Basel III came into force in 2014. On 28 October 2013, the National Bank of Georgia published the “Regulation on Capital Adequacy Requirements for Commercial Banks” (Decree N100/04 of the President of the National Bank of Georgia), which is in turn based on the three Pillars as defined by the internationally accepted capital adequacy framework of the “Basel Committee on Banking Supervision”. However, the regulation in Georgia uses more conservative approaches, including additional capital requirements for foreign currency-denominated exposures and other specific measurements and risk estimates.

Starting from 30 June 2014, JSC ProCredit Bank, Georgia has been obliged to comply with the capital adequacy ratios defined in this regulation (Pillar I). Furthermore, the bank implemented the internal capital adequacy assessment process (ICAAP) on 30 September 2014, as required by the regulation (Pillar II).

JSC ProCredit Bank, Georgia is required to hold own funds which are at all times greater than or equal to the following minimum capital requirements: a Common Equity Tier 1 capital ratio of 7%, a total Tier 1 capital ratio of 8.5%, and a regulatory total capital ratio of 10.5%.

Risk-weighted exposures are the sum of the risk-weighted exposures for credit risk, market risks and operational risk.

Credit risk exposures include all on- and off-balance sheet exposures. For the purpose of quantifying foreign currency credit risk, additional weights are applied to exposures denominated in foreign currency.

The following table shows the regulatory risk-weighted assets and capital requirements for JSC ProCredit Bank, Georgia, broken down by the local regulatory requirements.

	31/12/2016		31/12/2015	
in GEL '000	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
Credit Risk	**1,391,930**	**146,153**	**1,311,177**	**137,674**
Exposures to central governments or central banks	54,361	5,708	26,580	2,791
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations/institutions	-	-	-	-
Claims or contingent claims on commercial banks	34,405	3,612	7,682	807
Claims or contingent claims on corporates	660,282	69,330	478,454	50,238
Retail claims or contingent claims	138,578	14,551	298,692	31,363
Claims or contingent claims secured by mortgages on immovable property	-	-	-	-
Past due items	6,714	705	11,867	1,246
Items belonging to regulatory high-risk categories	-	-	-	-
Short-term claims on commercial banks and corporates	-	-	-	-
Claims in the form of collective investment undertakings ('CIU')	-	-	-	-
Other items	93,643	9,833	87,132	9,149
Off-balance sheet exposure	40,555	4,258	32,853	3,450
Counterparty credit risk	133	14	189	20
Foreign currency induced credit risk	363,258	38,142	367,728	38,611
Market risks (foreign currency risk)	**14,854**	**1,560**	**17,382**	**1,825**
Operational risk	**122,863**	**12,901**	**123,431**	**12,960**
Total	**1,529,646**	**160,613**	**1,451,989**	**152,459**

The capital ratios are as follows:

	Risk-weighted assets	Total capital ratio	Tier 1 capital ratio	Common equity Tier 1 capital ratio
	in GEL '000	in %	in %	in %
31/12/2016	1,530	15.0	11.2	11.2
31/12/2015	1,452	13.7	9.5	9.5

For the purpose of the ICAAP, the bank uses the risk-bearing capacity calculations implemented for the ProCredit banks. A gone concern approach is quantified. The bank is committed to being able, in the event of unexpected losses both in normal and (if possible) in stress scenarios, to meet its (non-subordinated) obligations at all times. When calculating the economic capital required to cover risk positions, the bank applies a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the group and are based on the annually conducted risk inventory.

31.12.2016	Reporting trigger in %	Reporting trigger in GEL '000	Actual in GEL '000	Reporting trigger used in %
Customer credit risk	≤ 33	86,007	23,776	9
Counterparty risk	≤ 5	13,031	3,800	1
Interest rate risk	≤ 10	26,063	8,921	3
Foreign currency risk	≤ 2	5,213	416	0
Operational risk	≤ 10	26,063	11,229	4
Total	≤ 60	156,376	48,142	18
Risk-taking potential 2016			260,627	
Risk-taking potential 2015			**229,448**	

Article 440 CRR

Capital buffer

According to current local regulations, no capital buffers are required; however, after the complete implementation of Pillar II, which also includes the Supervisory Review and Evaluation Process, certain capital buffers will be set.

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Credit risk adjustments

For quantitative information on the bank’s exposure to credit risk and dilution risk, please refer to the following tables, which show the risk broken down by categories, industry and residual contractual maturities.

in GEL '000	Average amount of exposures of the 4 quarters 2016	Total amount of exposures 31.12.2016	Average amount of exposures of the 4 quarters 2015	Total amount of exposures 31.12.2015
Exposures to central governments or central banks	166,666	196,126	137,026	129,295
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations/institutions	-	-	-	-
Claims or contingent claims on commercial banks	81,281	171,739	36,911	37,399
Claims or contingent claims on corporates	547,462	663,771	436,147	480,899
Retail claims or contingent retail claims	295,009	185,850	408,773	400,563
Claims or contingent claims secured by mortgages on residential property	-	-	-	-
Past due items	12,035	6,714	11,423	11,867
Items belonging to regulatory high-risk categories	-	-	-	-
Short-term claims on commercial banks and corporates	-	-	-	-
Claims in the form of collective investment undertakings ('CIU')	-	-	-	-
Other items	164,858	173,755	152,718	155,465
Total	**1,267,311**	**1,397,957**	**1,182,998**	**1,215,488**

Risk-weighted assets (RWAs) increased in 2016, mainly influenced by the appreciation of the USD against the GEL, as the largest portion of the bank’s loan portfolio is denominated in USD. However, the risk mitigation measures applied to the Central Bank balances (mandatory reserves) denominated in USD had a partial offsetting effect on the total volume of RWAs.

31.12.2016 in GEL '000	Central Governments	Financial Institutions	Trade of Consumer Foods and Goods	Agro	Service	Real Estate Management	Production and Trade of Clothes, Shoes and Textiles	Other
Exposures to central governments or central banks	196,126	-	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-
Exposures to international organisations/institutions	-	-	-	-	-	-	-	-
Claims or contingent claims on commercial banks	-	171,739	-	-	-	-	-	-
Claims or contingent claims on corporates	-	791	86,740	44,677	31,603	67,868	11,233	420,859
Retail claims or contingent retail claims	-	0	19,044	7,342	17,930	12,570	3,708	125,257
Claims or contingent claims secured by mortgages on residential property	-	-	-	-	-	-	-	-
Past due items	-	-	1,607	1,177	745	231	286	2,669
Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-
Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-
Claims in the form of collective investment undertakings ('C	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	173,755
Total 2016	**196,126**	**172,531**	**107,391**	**53,196**	**50,277**	**80,668**	**15,227**	**722,540**
Total 2015	129,295	38,462	117,059	71,339	69,108	82,334	30,853	677,037

31.12.2016 in GEL '000	<1 Year	1-5 Years	>5 Years	Without maturity
Exposures to central governments or central banks	191,366	4,760	-	-
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	-	-
Exposures to multilateral development banks	-	-	-	-
Exposures to international organisations/institutions	-	-	-	-
Claims or contingent claims on commercial banks	171,739	-	-	-
Claims or contingent claims on corporates	220,477	304,775	138,161	357
Retail claims or contingent retail claims	65,530	86,120	34,176	24
Claims or contingent claims secured by mortgages on residential property	-	-	-	-
Past due items	1,442	3,136	2,136	-
Items belonging to regulatory high-risk categories	-	-	-	-
Short-term claims on commercial banks and corporates	-	-	-	-
Claims in the form of collective investment undertakings ('CIU')	-	-	-	-
Other items	173,755	-	-	-
Total 2016	**824,310**	**398,791**	**174,474**	**382**
Total 2015	617,551	440,687	156,557	692

Risk provisioning

Definition of “past due” and “adversely classified”

Past-due loan: a loan for which the repayment of principal (or part thereof) or interest, or any instalment of either, has remained unpaid for more than 30 calendar days beyond the date agreed in the relevant loan agreement.

Adversely classified asset: an asset classified as “Watch”, “Substandard”, “Doubtful” or “Loss”.

Definition of “general reserve” and “specific reserve”

General reserve: a reserve established to cover possible unspecified loan losses.

Specific reserve: a reserve established to cover possible losses against a specific asset for the purpose of decreasing that asset’s value as recorded on the bank’s balance sheet. This reserve is directly tied to or corresponds with a specific identified asset.

Approaches and methods adopted for determining general and specific reserves

General reserves for loan losses are applied to all Standard loans at a rate of 2% of the total volume. A loan is classified as “Standard” if principal and interest are paid in a timely manner and the borrower has sound capital and repayment capacity.

The bank is required to maintain specific reserves for each of its adversely classified loans. The rates for specific reserves in each category of adversely classified loans are as follows:

Category	Provisioning rate
Watch	10%
Substandard	30%
Doubtful	50%
Loss	100%

The main criteria for assigning loans to the above-mentioned categories are the number of days in arrears and the collateralisation of the loan. Additional factors are considered as well, such as the financial situation and repayment capacity of the borrower, or foreseeable developments or market trends in the respective sector, etc.

Exposures above USD 30,000 are assessed individually.

in GEL '000	Past due	Adversely classified	Reserves for adversely classified loans
Financial Institutions	-	0	0
Trade of Consumer Foods and Goods	1,854	9,722	3,211
Agro	1,867	8,156	2,152
Service	902	5,887	2,286
Real Estate Management	272	6,054	1,240
Production and Trade of Clothes, Shoes and Textiles	361	1,307	1,052
Other	3,849	27,841	9,742
Total 2016	**9,105**	**58,967**	**19,682**
Total 2015	17,035	105,063	33,467

Loan portfolio quality has improved significantly in comparison to 2015. The loan loss provisions for adversely classified loans have decreased by almost half compared to the previous year. The changes are due to the sale of the non-profile clients portfolio in December 2016. Most of the impaired loans were sold, which reduced the volume of the past-due, adversely classified loans, and therefore allowed the bank to decrease the reserves for adversely classified loans.

The reconciliation of changes in the specific reserves for adversely classified assets and general reserves is shown in the following table:

31.12.2016 in GEL '000	Specific provisions	General provisions
Carrying amount as at 1 January 2016	35,589	16,119
Additions	23,767	11,490
Utilisation	-	-
Releases	41,570	14,009
Transfers	-	-
Unwinding effects	-	-
Exchange rate adjustments	3,781	2,891
Carrying amount as at 31 December 2016	21,567	16,492

31.12.2015 in GEL '000	Specific provisions	General provisions
Carrying amount as at 1 January 2015	23,759	13,832
Additions	26,614	7,763
Utilisation	-	-
Releases	14,784	15,350
Transfers	-	-
Unwinding effects	-	-
Exchange rate adjustments	6,337	3,538
Carrying amount as at 31 December 2015	35,589	16,119

The following table shows the reconciliation of changes in the specific and general credit risk adjustments as well as their effect on the income statement.

	Increase of risk provisioning		Release of risk provisioning		Direct write-offs	Recoveries of write-offs	Total
in GEL '000	Specific provisions	General provisions	Specific provisions	General provisions			
Total 2016	27,548	14,382	-41,570	-14,009	16,099	-5,441	-2,991
Total 2015	26,614	17,638	-14,784	-15,350	12,177	-4,264	22,029

Article 450 CRR

Remuneration policy

The Human Resources Committee is the bank body responsible for taking decisions regarding the professional development of staff members and for reviewing the bank's remuneration practices. The committee meets on a monthly basis and is composed of employees in managerial positions, HR staff and at least two members of the Board of Directors. The remuneration of each employee or manager is reviewed at least once per year.

The table below shows the remuneration of the management board and members of staff whose actions have a material impact on the risk profile of the bank (risk takers).

31.12.2016	Fixed remuneration	Variable remuneration				Number of beneficiaries
in GEL '000		Cash	Shares	Share-linked instruments	Other types	
Management body	747	-	-	-	-	6
Other risk takers	1,554	-	-	-	-	29

The following remuneration components are not applicable for JSC ProCredit Bank, Georgia: outstanding deferred remuneration; deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; signed-on payments; severance payments.

Article 451 CRR

Leverage

In accordance with current Georgian regulations, no requirements on the leverage ratio are published.

The bank, as the group member, follows group standards and monitors leverage ratio. The leverage ratio according to the CRR equals to 12.0% as at 31 December 2016. The limit established is 5%.

Article 453 CRR

Credit risk mitigation techniques

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

1) Guarantee
2) Cash deposit as collateral

The bank applies the guarantee obtained from the Multilateral Investment Guarantee Agency (MIGA). MIGA is a member of the World Bank Group and can be classified as a multilateral development bank. Its purpose is to promote direct investments in developing countries, which it does by offering guarantees to secure against political risks. MIGA's risk position is 0 per cent according to the Capital Adequacy Regulation of the National Bank of Georgia. The amount of the guarantee, which was introduced in November 2015 and whose purpose is to mitigate credit risk, is USD 29.3 million (GEL 70 million). The bank applies this guarantee to the USD exposure with the National Bank of Georgia, i.e. the mandatory reserves. The amount of the guarantee will be increased in January 2017 and will be equal to USD 43.5 million.

Mandatory reserves, whose credit risk is mitigated by this guarantee, are not collateralised; they are unfunded and no valuation or management of collateral is carried out.

Cash deposits as collateral have also been used since November 2015 to mitigate on- and off-balance sheet exposures, specifically client loans and guarantees (see the positions corporate loans, retail loans and guarantees in the table below). The main criteria for cash collateral mitigation are: a) the currency of the loan/guarantee must be the same as the currency of the cash deposit; b) the mitigated exposure is only the portion which is covered by cash collateral.

The total credit risk mitigation concentration is low. The mitigated exposure as at December 2016 was approximately GEL 84 million, which is equivalent to 8.7% of the total on- and off-balance sheet RWAs.

The tables below show the credit risk exposures before and after application of credit risk mitigation:

31.12.2016 in GEL '000	**Credit risk-weighted exposure before mitigation**	**Credit risk mitigation**	**Credit risk-weighted exposure after mitigation**
Mandatory reserves at central bank	131,854	77,494	54,361
Corporate loans	663,771	3,489	660,282
Retail loans	139,388	809	138,578
Guarantees (off - balance)	32,070	2,154	29,916
Total	**967,083**	**83,946**	**883,137**

31.12.2015 in GEL '000	**Credit risk-weighted exposure before mitigation**	**Credit risk mitigation**	**Credit risk-weighted exposure after mitigation**
Mandatory reserves at central bank	96,698	70,118	26,580
Corporate loans	480,899	2,445	478,454
Retail loans	300,422	1,730	298,692
Guarantees (off - balance)	23,937	2,589	21,348
Total	**901,956**	**76,882**	**825,074**