ProCredit Bank
Georgia

ANNUAL REPORT

2023

OUR MISSION

We strive to be the leading SME bank in our market following sustainable and impact-oriented banking practices. In doing so, we want to generate long-term sustainable returns and create positive impact in the economy and society we work in.

Fitch rating BB+ (Positive)

STRONG FOCUS ON SUSTAINABILITY

- Over the past 12 years, we have granted more than 2300 eco-loans totaling 230 million euros, with a focus on energy efficiency and renewable energy investments. Since 2019, 800 eco-loans have been granted, amounting to 125 million euros
- The bank has contributed to the development of electric vehicle (EV) infrastructure by setting up 27 EV charging stations across different regions of Georgia, accessible to the public for free.
- The headquarters utilizes energy-saving techniques such as a rainwater collection system and a solar power station. In 2023, the solar power station generated over 116,000 kWh of electricity, leading to a reduction of 9.6 tons of CO2 emissions
- As a member of the Net-Zero Banking Alliance, the ProCredit group has developed a comprehensive strategy to achieve net-zero emissions by 2050, aligning with the Science Based Targets initiative (SBTi). Near-term targets include a 42% reduction in emissions by 2030, with 2022 as the base year.

POSITIVE FINANCIAL PERFORMANCE

- The bank generated a profit GEL 43.0 million with stable ROE 15.5%
- The Net Interest Margin (NIM) demonstrates a steadfast consistency, maintaining a rate of 4.4%
- Deposit to Loan Ratio improved by 4.6 Percentage points over previous year to 88.5%
- Cost-Income ratio stands at 50.9%
- NPL Ratio 3.1%
- Total CAR 22.3% (min requirement 18.2%)
- Cost of Credit Risk -0.6%

Contents


ProCredit Bank

Mission statement

ProCredit Bank is a development-oriented commercial bank. We provide superior customer service to small and medium-sized businesses and private individuals who have the ability to save and who prefer to conduct their banking transactions digitally. 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 that are based on both an understanding of each client's situation and on sound financial analysis.

The 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 providing easy-to-use deposit facilities and online banking services as well as 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 productive work environment and to provide our clients with a friendly and competent service.

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, 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) and private individuals who appreciate modern banking services, who have the capacity to save and who are willing to do their banking through electronic channels. ProCredit Holding's shares are traded on the Prime Standard segment of the Frankfurt Stock Exchange.

Throughout its many years of operation in the banking industry, the group has undergone several stages of development, the majority of which involved strategic shifts. The group's core target segments consist of 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 takes it responsibly to provide banking services in all of the countries where it operates in 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 favourable conditions for the most popular banking services.

ProCredit Bank Georgia

ProCredit Bank Georgia has been operating in the Georgian banking sector since 1999. The primary objective of the bank's activities is to finance small and medium-sized businesses with a plan for long-term growth. Alongside the business lending, ProCredit Bank focuses on providing modern banking services to private individuals.

Care for the environment is a significant aspect of the Bank's social responsibility. 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 Bank's head office is located in Tbilisi, which is the first green office building in Georgia that has been certified as energy efficient by EDGE international certification. The only bank in the country to operate its own solar power plant and rainwater system is ProCredit.

The Bank serves its clients through 4 branches, 1 service point and 7 Self-service areas in Tbilisi, Kutaisi, Batumi and Zugdidi.

ProCredit Bank has one wholly owned subsidiary, ProCredit Properties LLC, which was established 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 ProCredit Properties LLC take a share of 0.73% of total assets of ProCredit Bank Georgia.

Business ethic

The ProCredit group's mission includes establishing standards in the financial sectors in which it 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 concerning business ethics. In this regard, our strong corporate values play a key role. Five essential principles guide the operations of the ProCredit institutions:

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

A culture of open communication: We communicate with each other in an open, fair, and constructive manner, and we manage workplace conflicts professionally by collaborating to find solutions.

Social responsibility and tolerance: We provide our clients with sound, well-founded advice. Before offering loans to our clients, we evaluate their economic and financial situation, their business potential and their repayment capacity. On this basis, we assist them in selecting appropriate loan options from which they can genuinely benefit and to avoid becoming over indebted. Promoting a savings culture is another important aspect of our mission, as we believe that private savings play particularly vital 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, colour, language, gender or religious or political beliefs.

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

A high degree of personal integrity and commitment: All ProCredit group employees are required to maintain absolute integrity at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These five values serve as the foundation of our company's culture and are discussed and implemented in our daily operations.

International Ratings

In May 2023, international credit rating agency FITCH RATINGS has affirmed the rating of ProCredit Bank Georgia “BB+” and has revised and upgraded the Bank outlook from stable to positive. ProCredit Bank continues to maintain 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.

ProCredit Bank’s ratings:

Long-term foreign and local currency IDRs, Outlook Positive	BB+	Affirmed
Short-term foreign and local currency IDRs	B	Affirmed
Viability Rating	bb-	Affirmed
Support Rating	3	Affirmed

Macroeconomic environment

The economic growth in 2023 in Georgia remained strong at 7.5%[1] annual rate. Being lower than the double-digit growths in the previous two years, in 2023 it still was higher than expected in earlier forecasts. From the demand side[2] the growth was mostly due to investment, which contributed 5.8% pp. While constituting a significant share of total demand, the contribution of consumption to growth was relatively modest at 2.9% pp. Although tourism continued its growing trend to return to the pre-pandemic levels, the base effect of the previous year was too strong and therefore, net exports contributed negatively to the economic growth in 2024. On the production side the main contributors to growth were trade (1.74 pp), information and communication (1.64 pp) and transport and warehousing (1.23 pp), whereas health and social services (-0.44 pp), real estate (-0.19 pp) and agriculture (-0.17 pp) contributed negatively. Overall, the service sector was the main determinant of growth, due to strong domestic demand, tourism industry and a significant number of migrants, which entered the country due to Russia-Ukraine war.

Real GDP Growth YoY (%)

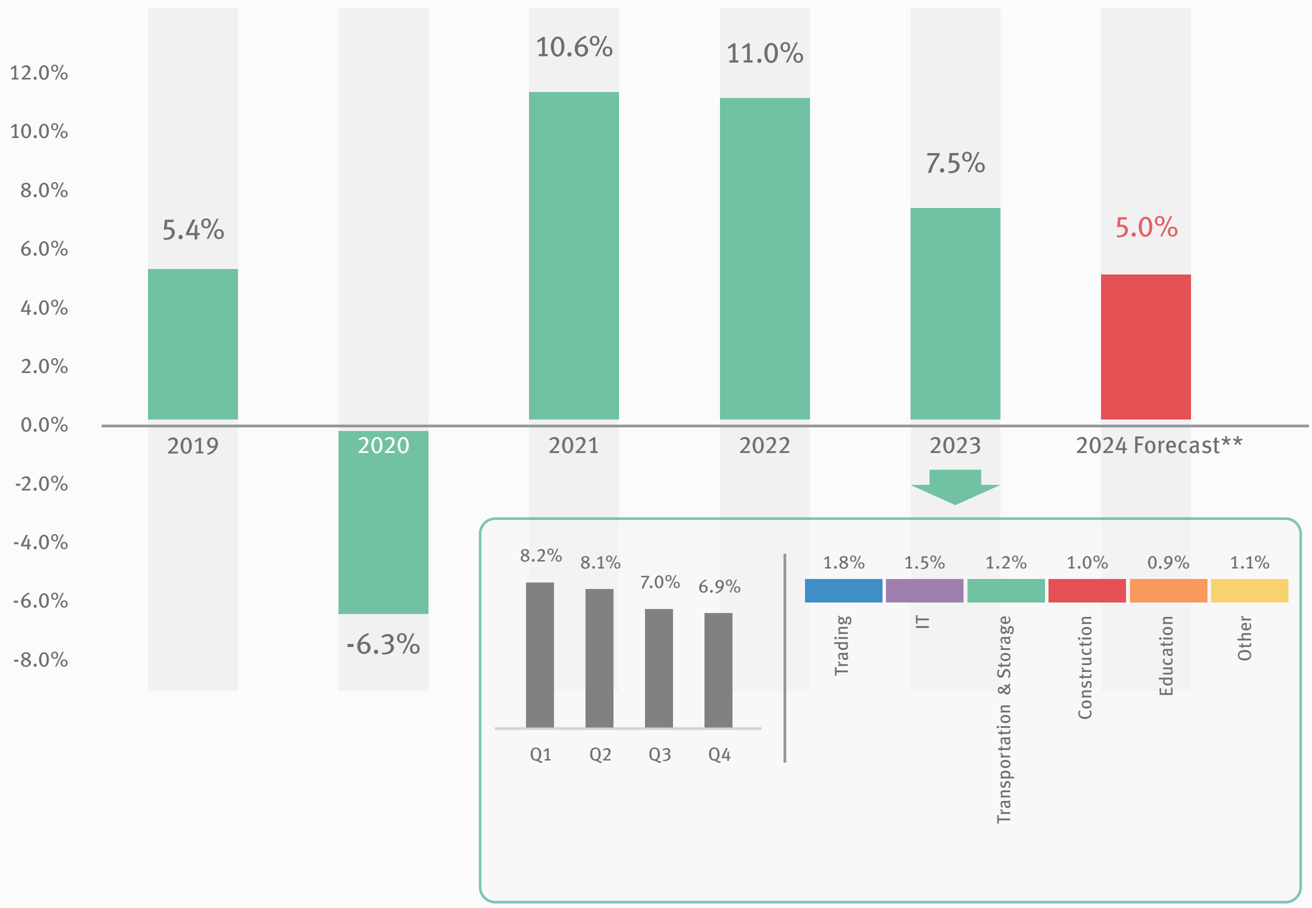


Figure 1. Real GDP Growth (Source: GeoStat, unless stated otherwise)

1. *Subject to revision in November 2024.*

2. *GeoStat does not publish the data on government expenditures as a component of demand separately. Rather the government spending numbers are included in respective components.*

Looking at sectoral growth, a high growth in construction (17.2%) and information and communication (27.4%) could be attributed to the migrants' impact – increase in demand for housing as well as prevalence of IT professionals in the migrant community.

The trade balance in goods remains negative and growing, although not as a share of GDP (31.1% as opposed to 31.9% in 2022). The widening of the trade deficit is related both to growth in imports and drop of the demand for domestic goods, which was declining throughout 2023, resulting in the share of domestic exports in total being below 50% for the first time. The reexports have been mostly driven by motor cars, although the demand for those has also been declining in recent months. Increase in import demand can be attributed to real exchange rate appreciation, although it must be noted that while the volume of imports grew, the value of imports in USD has declined in the 4th quarter on an annual basis, due to the fall in global prices.

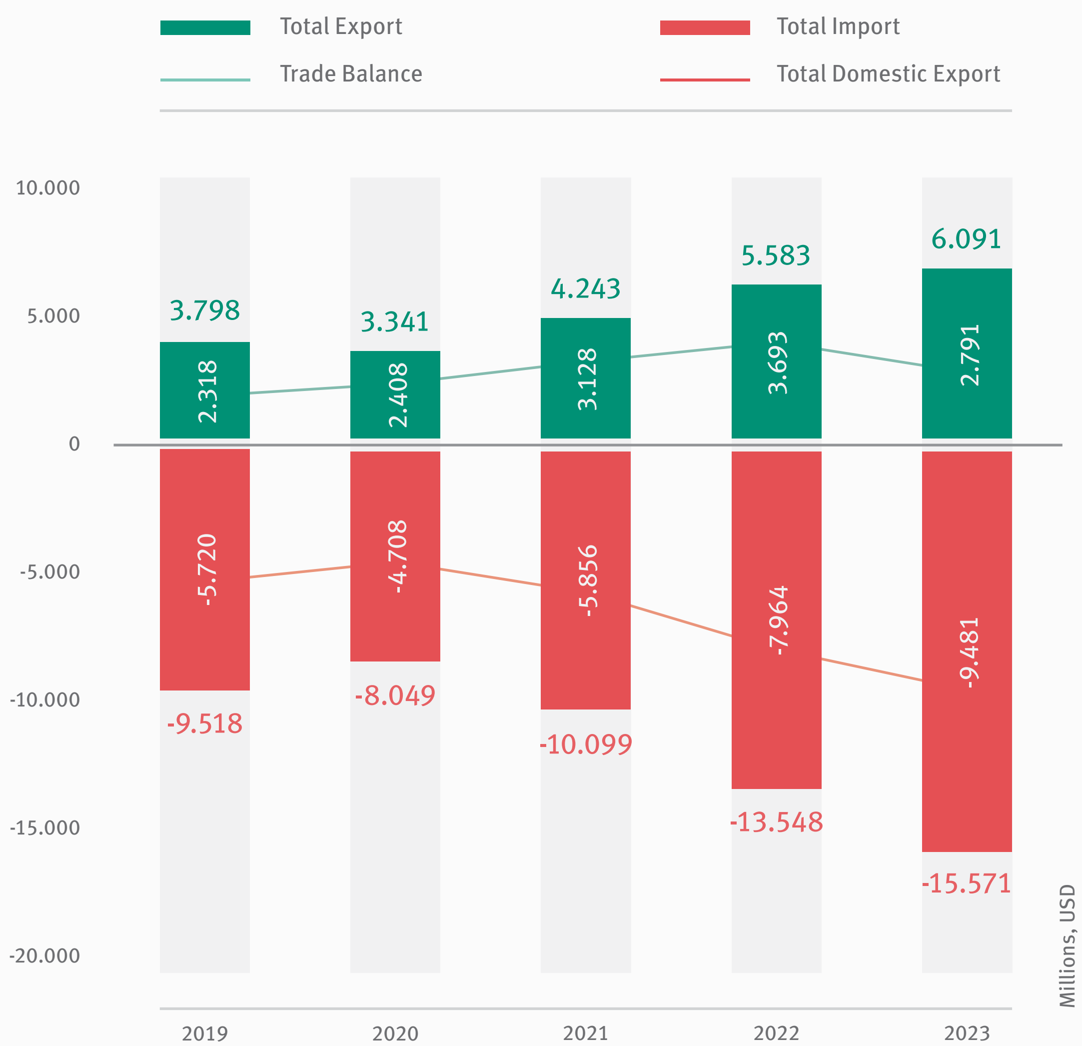


Figure 2. Trade in Goods

For the first time in quite a while the CIS countries became main export destinations for Georgia. While the lion's share of this export is the reexport of motor cars, the trend itself is somewhat noteworthy. 61% of total exports went to Azerbaijan (14%), Armenia (13%), Kazakhstan (12%), Kyrgyzstan (11%), and Russia (11%). Motor cars constituted 35% of total exports, followed by copper (8%), wines (4%), spirits and liquors (3%), and ferroalloys (3%).

As for imports, Turkiye remains the main importer (17% of total), followed by the US (13%), Russia (11%), China (9%), and Germany (6%). Just as in case of the exports, the imports are dominated by the motor cars (21%), followed by petroleum (7%), natural gas (3%), and medicaments (3%).

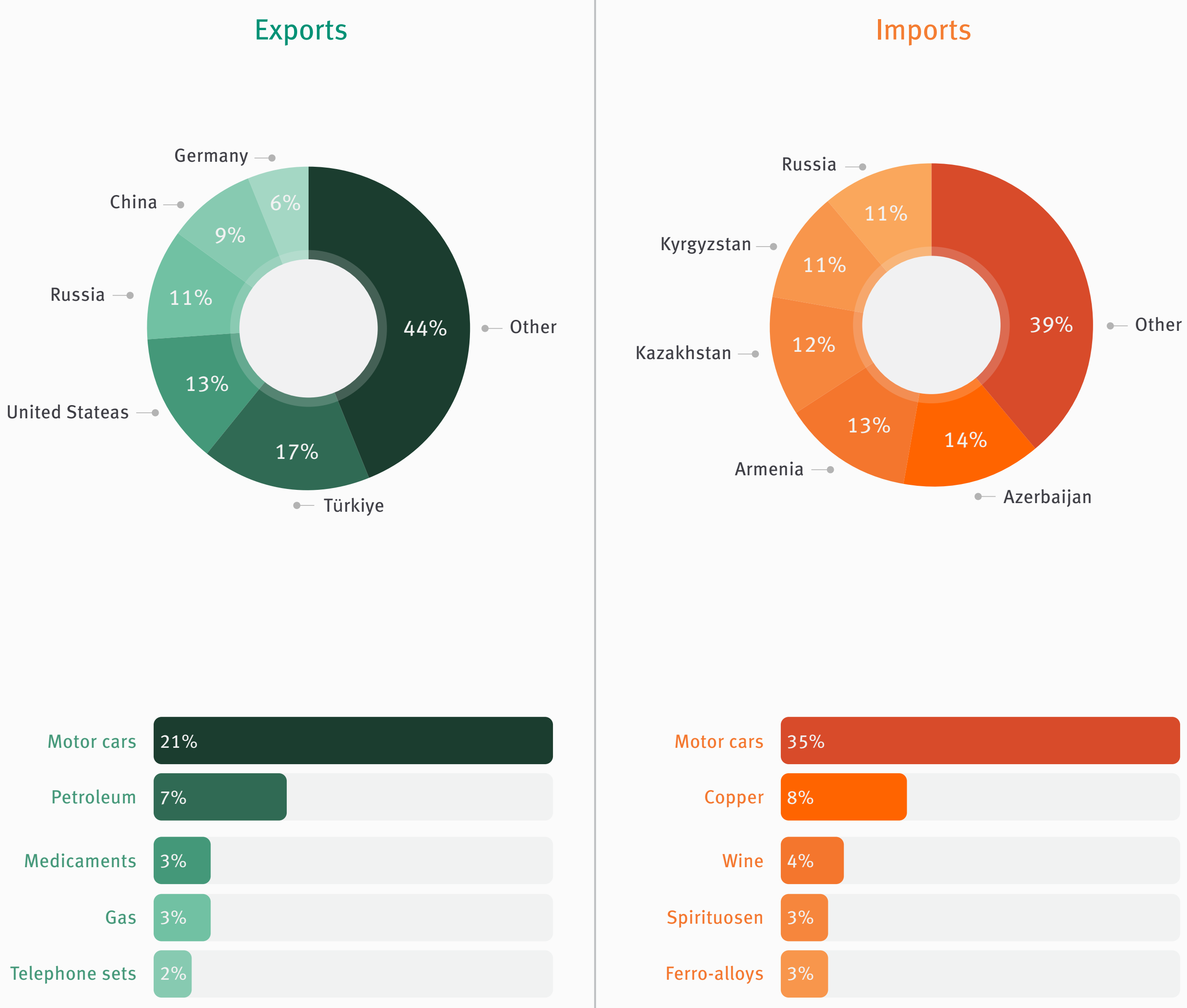
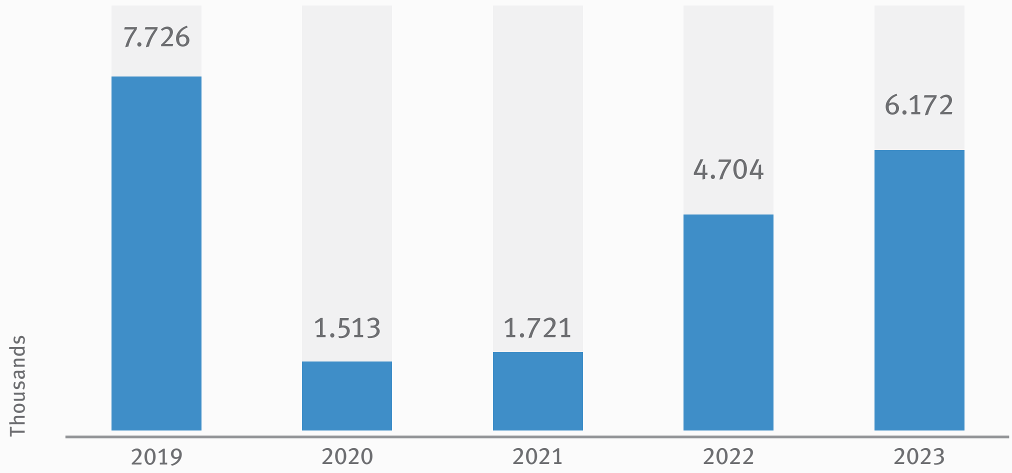


Figure 3. Decomposition of Exports (green) and Imports (orange)

Revenues from international travel have also been increasing, compared to 2022, although the last quarter showed an annual decline. At the same time the number of international visitors still falls short of 2019 figures. Hence the increase in revenues can be attributed to both rise in price level and GEL appreciation over that time. International visitors come mostly from Russia, Türkiye, and Armenia (62% of total), with the EU being a far fourth at just 7% of total visitors. However, a EU visitor seem to spend almost twice as much as a Russian one, given the share of EU visitors in total revenues from tourism (13%).



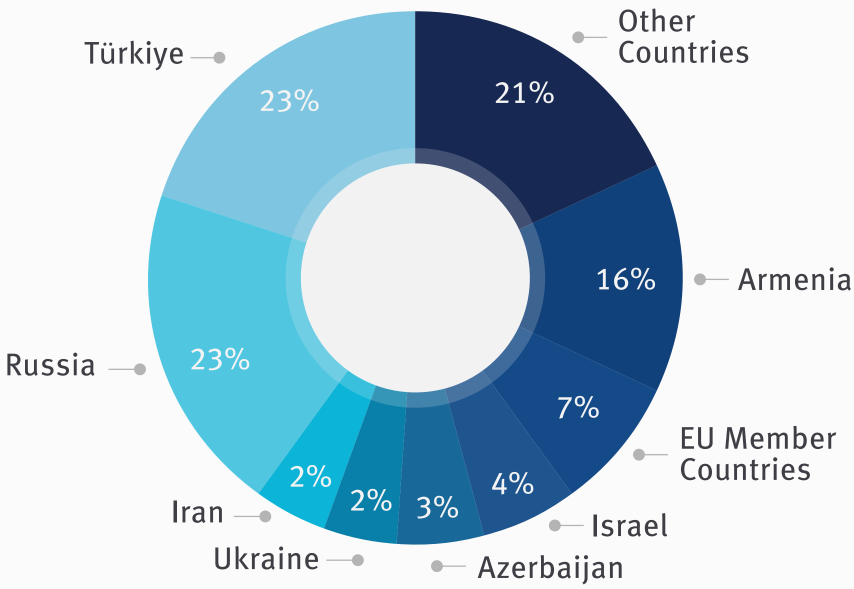
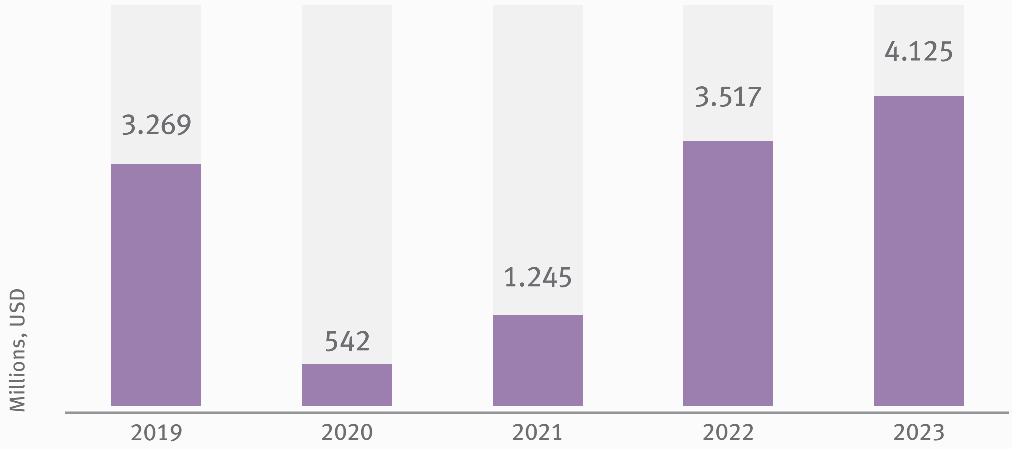


Figure 4. International Visitors by years (upper) and the decomposition by country of citizenship in 2023 (lower). (Source: Geostat and NBG)



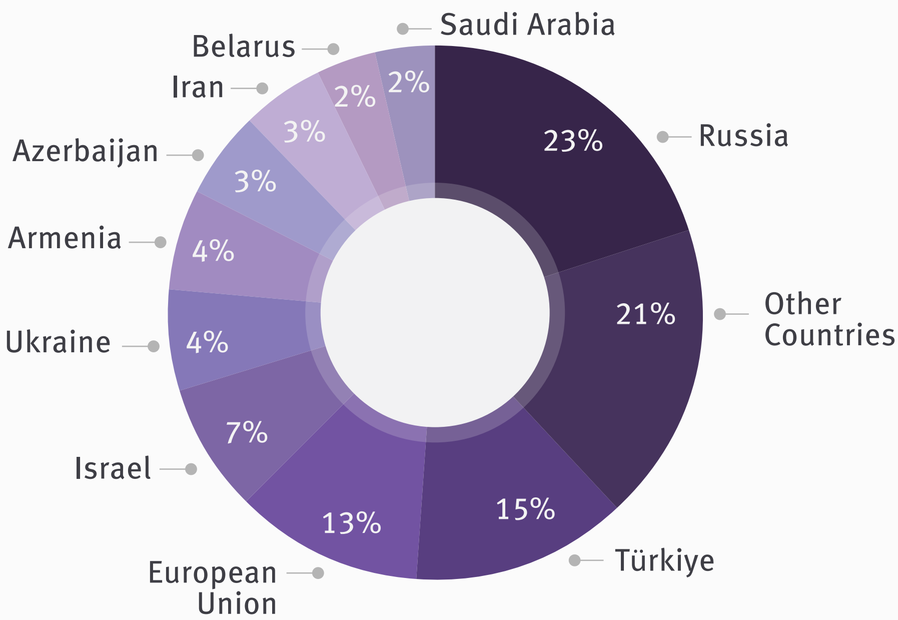


Figure 5. Income from Tourism by years (upper) and its decomposition by country of citizenship in 2023 (lower). (Source: Geostat, NBG)

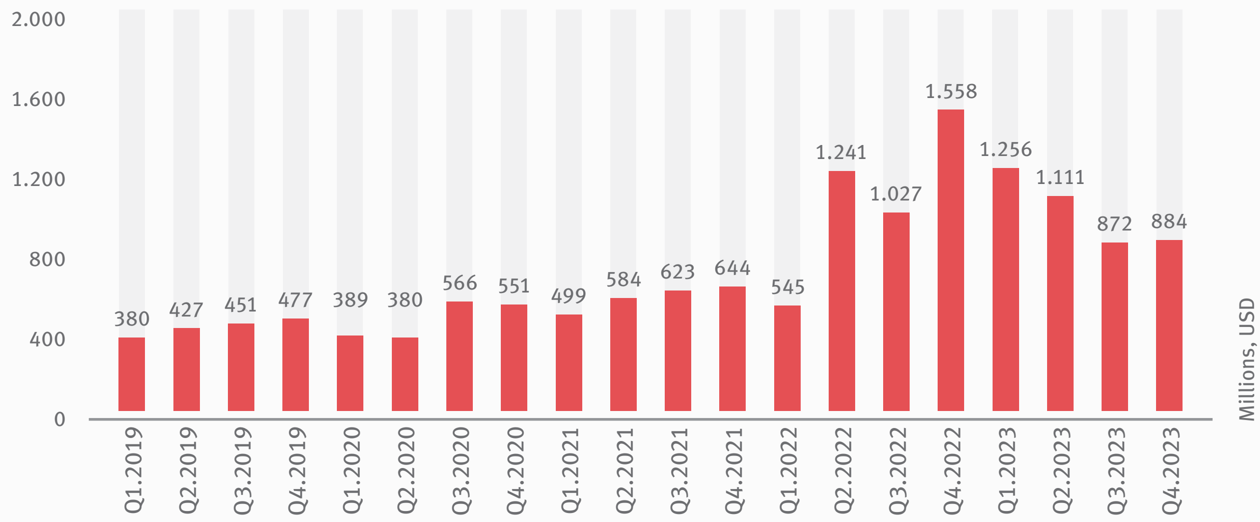


Figure 6. Remittances

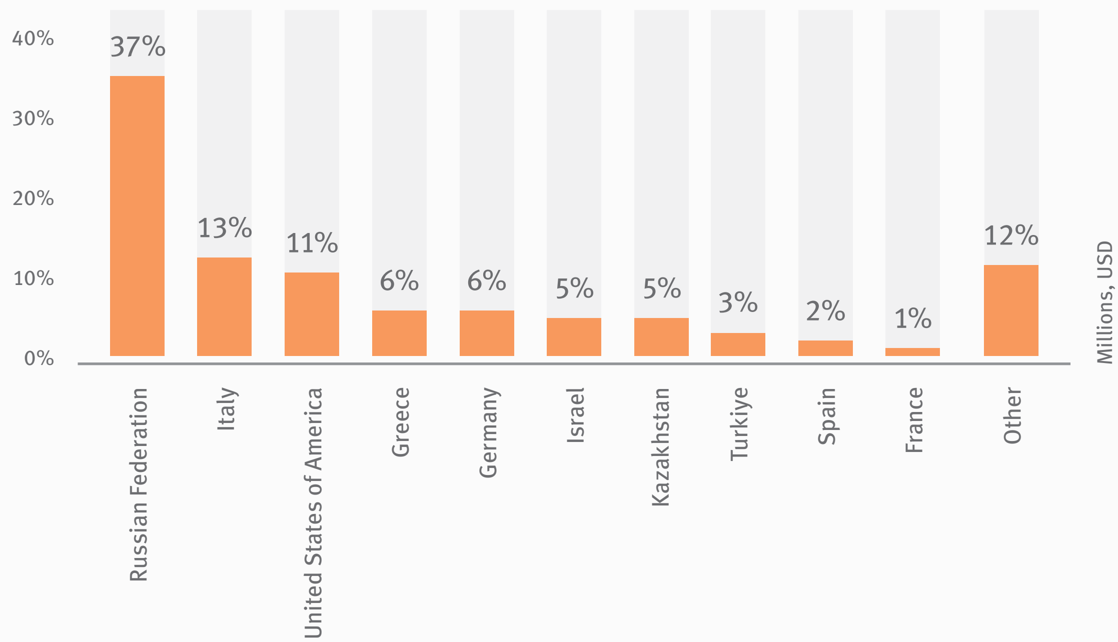


Figure 7. Decomposition of Remittances by countries in 2023

The volume of instant money transfers has declined in 2023, although it is still significantly higher than in the previous years. 2022 in this respect is a one-off case, when a huge portion of remittances was, in fact, transfer of own funds of migrants as opposed to the classical definition of remittances. In 2023 the migrant waves faded out and by 2024 this one-off effect can be discarded. As for the country composition of remittances, the Russian Federation remains the main source thereof, with 37% of total, followed by Italy (13%) and the USA (11%).

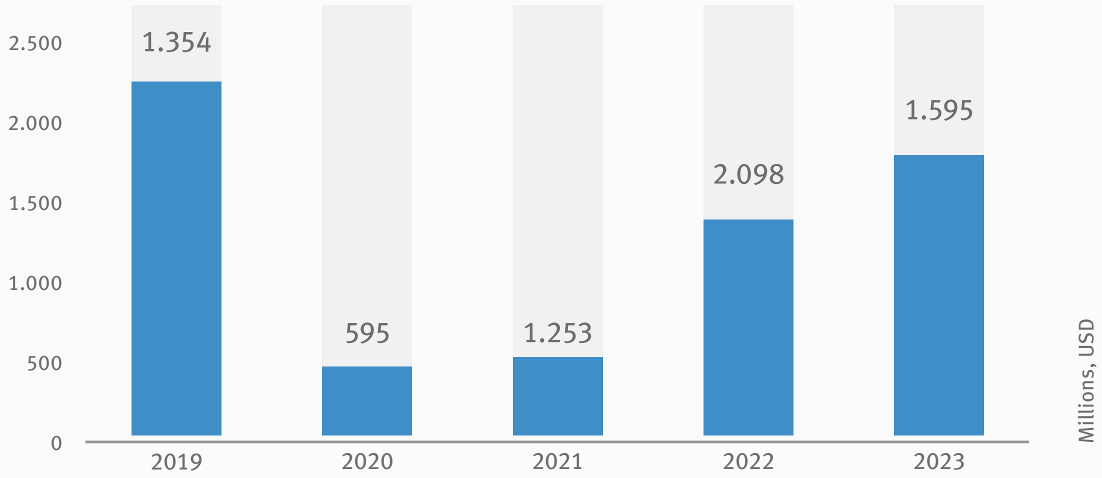
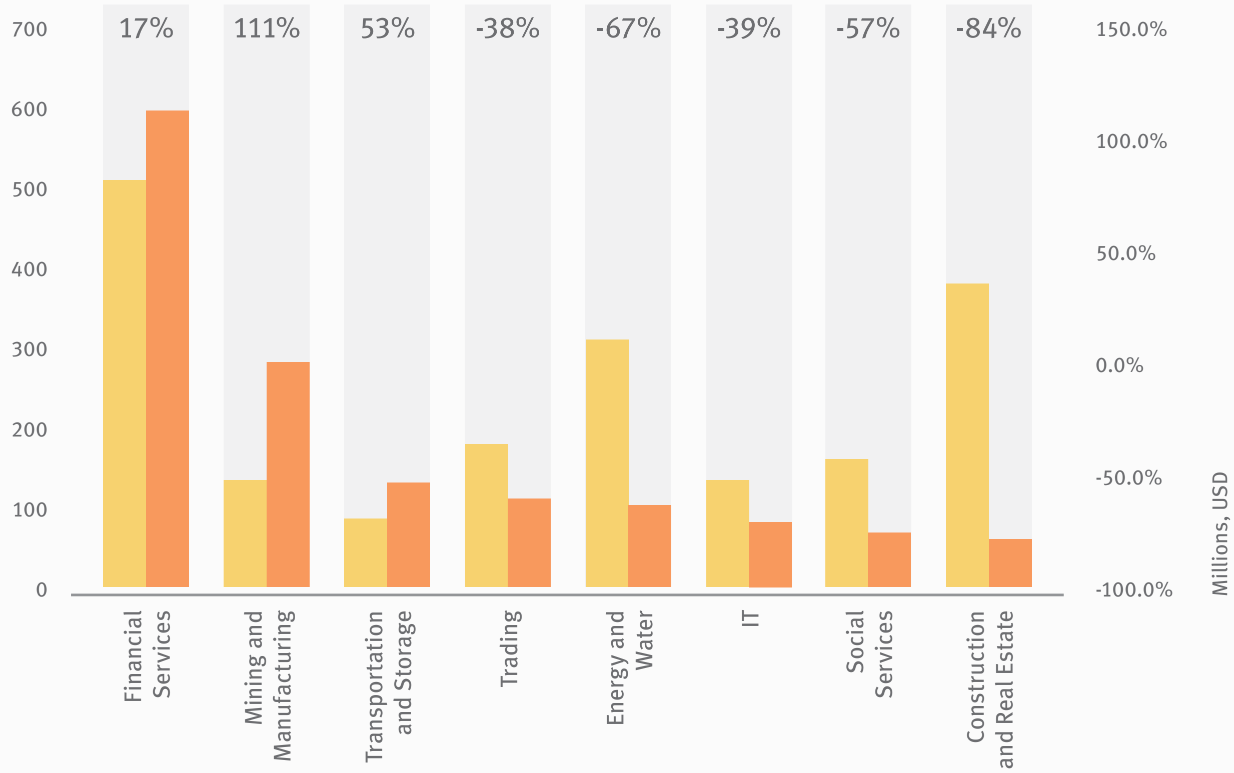


Figure 8. Foreign Direct Investments

The volume of foreign direct investment has declined in 2023 compared to 2022 by 23.9%, mostly due to the strong base effect. Main contributors to the FDI in 2023 where the United Kingdom and the Netherlands, with 392 and 360.5 mln USD respectively. More than half of the FDI went to financial and insurance companies (39.5%) and processing industry (18.3%). 38.8% of FDI went to SME sector[3].

3. It should be noted that the SME definition employed by the Geostat might be different from ProCredit Group definition.



2022	538	141	90	189	327	141	169	401
2023	630	297	138	117	108	86	72	63
Share	39.5%	18.6%	8.7%	7.3%	6.7%	5.4%	4.5%	3.9%
Growth	17%	111%	53%	-38%	-67%	-39%	-57%	-84%

Figure 9. FDI by Economy Sectors and respective growth rates

In April 2023, for the first time since January 2021, the annual inflation dropped below its target level of 3% and has remained below the target since. In December 2023 headline inflation was 0.4%, whereas the core inflation (inflation less the volatile prices of food, energy, and tobacco) was 1.9%. Inflation has been declining since May 2022 (with a single exception in August of the same year) due to the combination of the strict monetary policy of the NBG coupled with the gradual normalization of global food, fuel, and transportation prices as well as fiscal consolidation. The imported inflation has been declining also as a result of a significant real effective exchange rate appreciation. The most recent shocks to the imported inflation include the recent disturbances in the Red Sea, which may adversely affect the transportation prices and contribute to higher inflation in the region.

Domestic inflation, unlike the imported one, which has been negative since March 2023, declined quite slowly, still being above the 3% target in December (3.6%). This was due to the increased price of services (annual 6.6%).

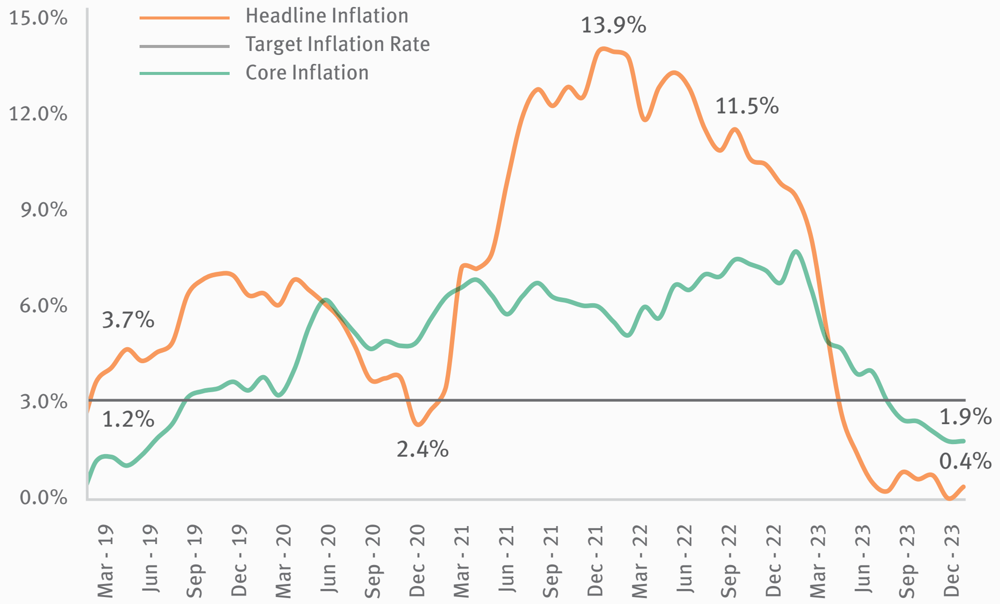


Figure 10. CPI Inflation (Source: GeoStat)

The dynamic of the Producer Price Index, as expected, somewhat mirrors the CPI, however with higher volatility. At the same time the relevant inflations remained below zero for a shorter period of time and turned positive around the turn of the year.

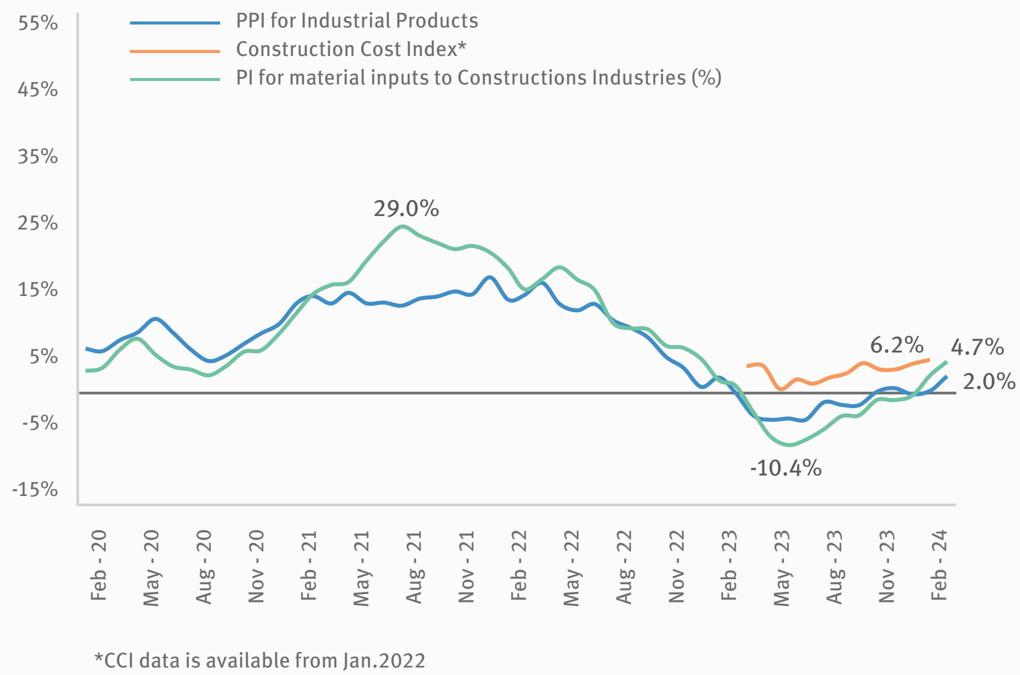


Figure 11. PPI Inflation

Georgia has undergone a series of consecutive macroeconomic shocks, all of which exerted upward pressure on inflation. Hence since August 2019 the monetary policy has been kept tight (even during a short period in 2020, when the policy rate was reduced by a total of 1 percentage point, monetary policy still was contractionary). In April 2022 the monetary policy rate reached its peak of 11% and remained at this level for more than a year. By the end of 2023 it was reduced to 10%, with the indication of further reductions in 2024[4]. Given that Georgia was granted candidacy to the EU, the country risk premium should decrease, reducing the neutral level of the monetary policy rate. However, there still are inflationary risks – strong domestic demand, uncertainty in transportation costs' future dynamics, sustained increase in wages in the recent period.

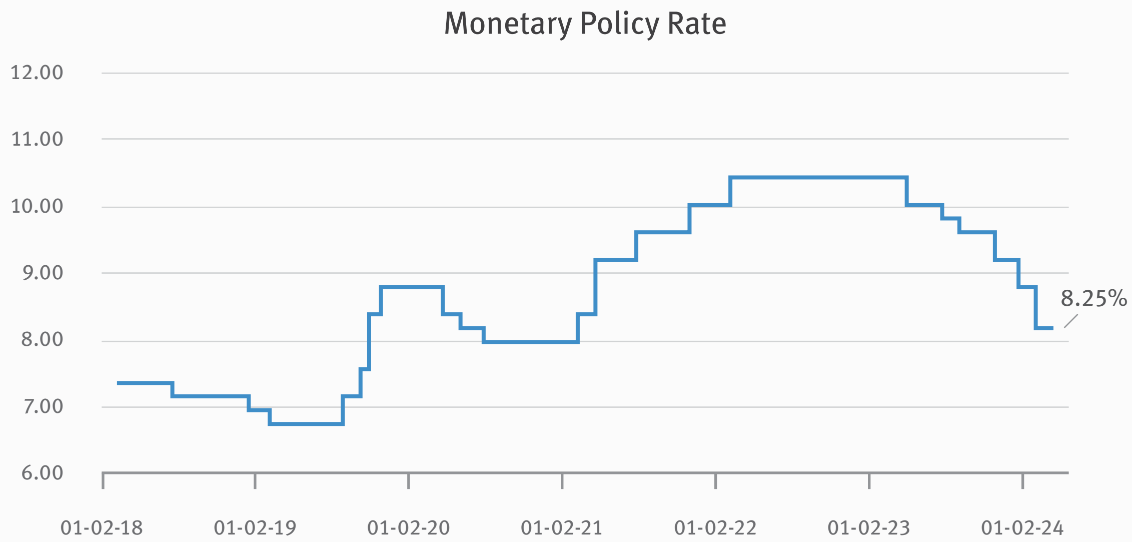


Figure 12. Monetary Policy Rate of the NBG (Source: NBG)

The USD/GEL exchange rate has been relatively stable in 2023, in the second half in particular. Overall, there has been an appreciation trend ever since early 2021, interrupted only in February-March 2022, when the negative expectations due to start of the war in Ukraine caused panic. The latter was subdued fairly quickly once the instant money transfers have significantly increased in volume due to the aforementioned migrants' activity. At the same time both nominal and real effective exchange rates have appreciated quite significantly, 16.3% and 3.7% respectively. While the nominal effective exchange rate appreciation carried certain risks for Georgia in terms of loss of competitiveness, the fact that the inflation in Georgia has been lower than in its trading partners accounts for the relatively low appreciation of the real effective exchange rate. This appreciation came mostly against the currencies of Armenia, Russia and China.

4. It should be mentioned that the actual reductions which have already taken place in 2024 seem to be even more drastic than promised/expected.

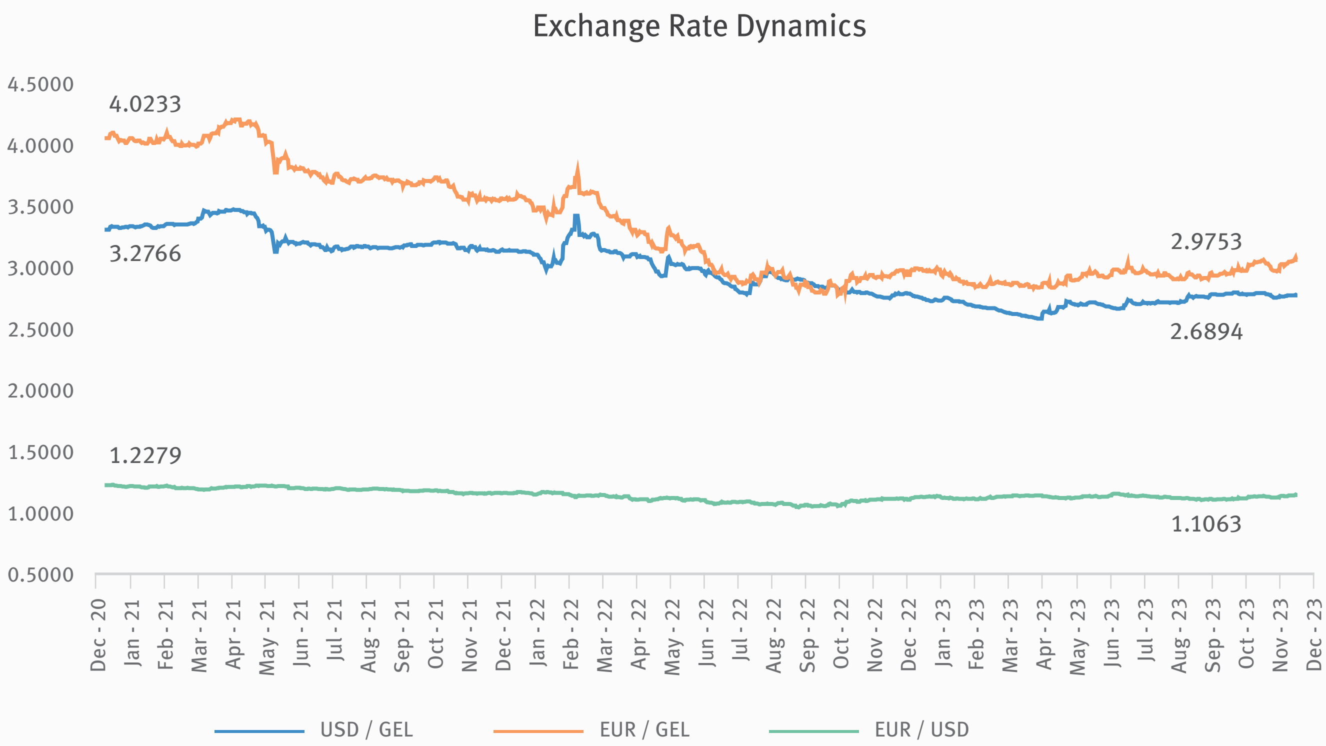


Figure 13. Nominal Exchange Rates (Source: NBG)

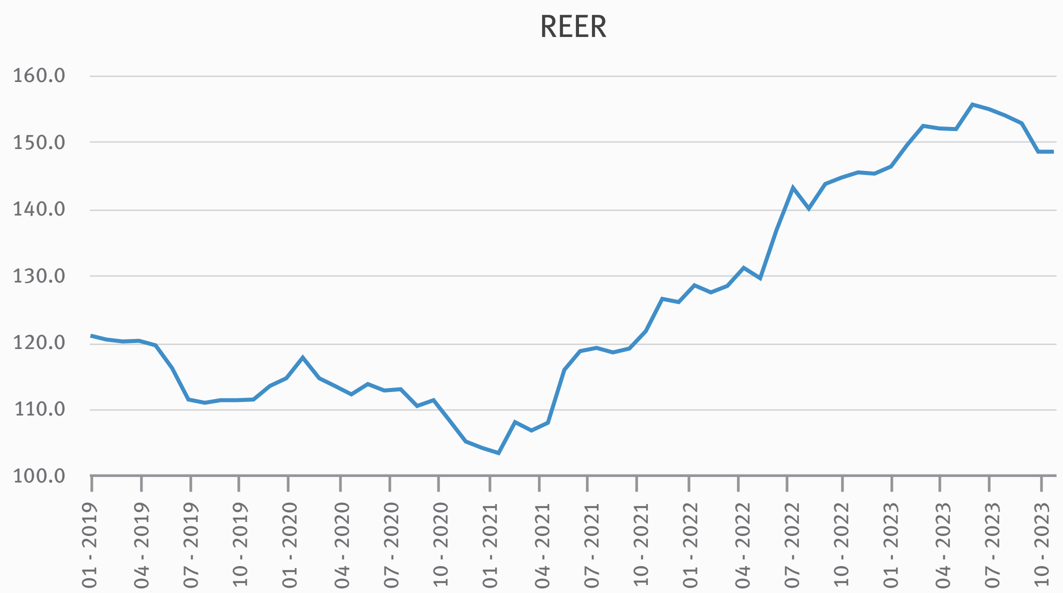


Figure 14. Real Effective Exchange Rate (Source: NBG)

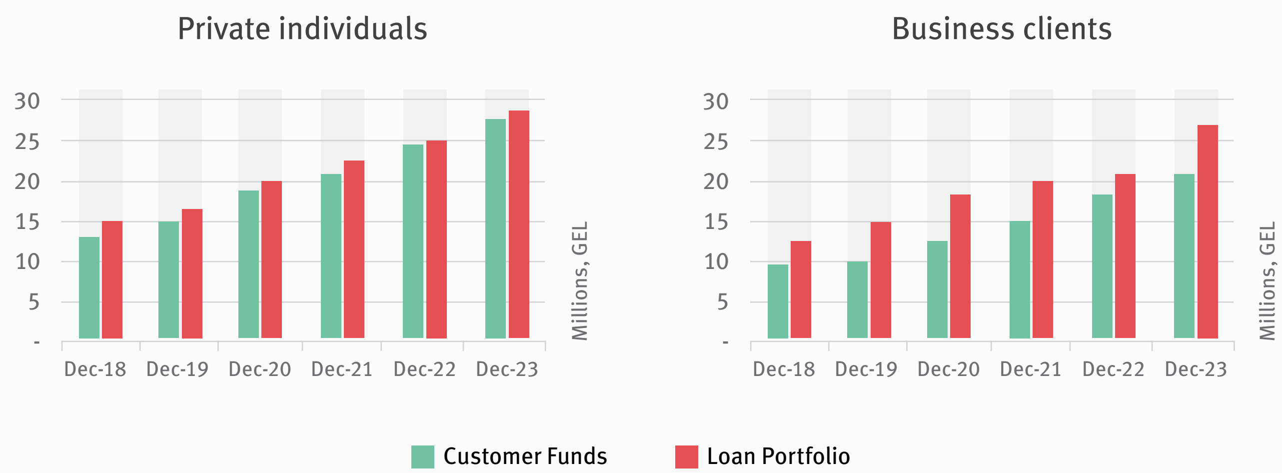
Banking Sector

The banking sector continued its solid growth, in line with nominal economic growth and maintaining a consistently high level of profitability, in 2023, with a return on equity (ROE) of 26.1%. The whole loan portfolio of the banking sector grew by 17.1% and customer funds – 14.1% (exc. FX rates effects), in 2023.

Private individuals Loan portfolio increased by 15.1% and Legal entities loan portfolio by 20.4%, in 2023. As for the depository structure, the proportion of customer funds that belonged to individuals and legal companies was 14.7% and 13.8%, respectively.

International Financial Reporting Standards (IFRS) replaced local reporting standards in the Georgian financial system on January 1, 2023. So, the banking industry's public and supervisory reporting will resemble the global standard of industrialized nations more closely.

The financial system remains resilient and holds solid capital buffers against the potential risks posed by the tense geopolitical situation in the region. The banking industry is well-capitalized, facilitating smooth lending to the economy without encountering obstacles. While dollarization has decreased notably, it remains a significant challenge for the financial sector. Nonetheless, it is expected that dollarization will continue to decrease, and the attendant risks will therefore be loosened.



Source: NBG statistics

Key Financial Figures of PCBG (according to IFRS)

Consolidated Statement of Financial Position (in 000 GEL)	31.12.2023	31.12.2022
Cash and balances with the NBG	176,536	162,437
Mandatory reserve deposits with NBG	170,304	199,513
Loans and advances to customers	1,197,607	1,156,358
Allowance for losses on loans and advances to customers	(29,287)	(30,290)
Assets other than listed above	278,230	226,604
Total assets	1,793,391	1,714,621
Liabilities to customers	1,059,767	970,388
Other borrowed funds	407,742	424,023
Total equity	300,793	297,331
Key Performance Indicators		
Deposit to Loan ratio	88.5%	83.9%
Return on average equity (ROAE)	15.5%	15.2%
Return on average asset (ROAA)	2.6%	2.4%
Net interest margin	4.4%	4.4%
Consolidated Statement of Profit or Loss (in '000 GEL)		
Total Interest Income	117,490	113,251
Total Interest Expense	(41,045)	(35,861)
Net interest income	76,445	77,390
Reversal of impairment losses on loans	6,972	1,385
Net Fee and commission income	2,151	1,678
Gains less losses from trading in foreign currency and foreign exchange translation	13,961	17,767
Operating income	102,372	99,615
Operating expenses	48,580	47,171
Profit of the period	46,244	42,991
Additional indicators		
Cost-income ratio	50.9%	48.0%
Cost of Credit risk	-0.6%	-0.1%
NBG (Basel III) Tier I capital adequacy ratio/requirement from NBG	21.4%/14.6%	19.6%/11.9%
NBG (Basel III) Total capital adequacy ratio/requirement from NBG	22.3%/18.2%	21.7%/15.4%

The bank's and the group's overall strategic goals for 2023 were to increase the deposit to loan ratio and improve financing independence. By employing this strategy, the bank shifted its emphasis to deposits and significantly increased its deposit portfolio. The deposits to loan ratio at the end of 2023 was 88.5%, up from 83.9% at the end of 2022.

ROAE - The bank generated a profit of GEL 46.2 million in 2023, up 7.6% YoY, with stable ROAE of 15.5%.

Net interest margin - The Net Interest Margin (NIM) demonstrates a steadfast consistency, maintaining a rate of 4.4%.

Operating expenses - In accordance with its strategic aims, the bank kept funding marketing and IT-related resources and digitization to optimize operations over the long run. The budget for salaries was also raised.

Minimum capital requirements - The Bank's capital adequacy ratios have remained comfortably above the minimum regulatory requirements. Stable capital development even after pandemics stress in the previous years, clearly indicates the financial stability of the bank.

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 a clear ownership structure, a sustainable business model and a 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 a positive impact on the country's economic and social background.

The Bank views itself as a trustful and professional provider of financial services giving long-term support to sound SMEs, and thus contributing to creating jobs, enhancing capacity for innovation, raising ecological awareness and assuming greater social responsibility.

Our purpose is, through professional business client advisors, to develop stable and long-term banking relationships between the Bank and its business clients. Accordingly, consultation or offers made by the bank are based on the profound analysis of the business and meet 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 being overindebted and support sustainable business expansion and job creation. Therefore, we pride ourselves on having historicaly better loan portfolio quality than the banking system. During the year 2023, the total loan portfolio of PCB Georgia increased by 3.6% and amounted to the loan portfolio of GEL 1.19 bln. Slight growth in loan portfolio is due to bank's focus on deposit side development in 2023 year. During 2023, Bank targeted with a priority to increase its Deposit to Loan Ratio, in order to reduce its dependence on borrowings. As a result, bank managed to increase Deposit to Loan Ratio by almost 4.4pp (84.1% in 2022, 88.5% in 2023). Although, for the next years, the bank plans to have strong growth in business loan portfolio and keep improvement of deposit-to-loan ratio.

The main target group of PCB Georgia is SME business customers. The total business Loan Portfolio is GEL 1.09 bln.

Increase of total deposit portfolio by 9.0% is in line with the banks strategy to increase deposit to loan ratio and comprises of GEL 1.05 bln, out of which deposits for business and institutional clients was GEL 564 mln. Regardless FX effect, the bank continues working on liability side development, meaning the growth of customer funds. The target of the bank to have at least 12% year-to-date growth in business client deposits for 2024.

The quality of our Loan Portfolio has always been remarkably good, the PAR›30 indicator in 2022 was 2.69% 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 business development and appreciate long-term, reliable partnership with PCB Georgia.

The goal of ProCredit Bank is to provide continues financial services to its partners, regardless of fluctuating economic circumstances.

Private Clients

The Bank cooperates with private individuals, who appreciate modern banking services, who have the willingness to save and prefer to do their banking through the modern electronic channels independently. Our target group comprises of such clients who are the shareholders of our business clients, self-employed private individuals, deposit holders and regular income receivers. The Bank promotes a Direct Banking concept, providing a modern digital services based on a responsible approach with a necessary human touch.

Private clients benefit from a strong international and local experience of a development-oriented group. Our services offered to private clients combine modern technologies, proactive approach towards day-to-day banking transactions and a responsible attitude to granting credit facilities. The Bank strives to achieve a positive impact through partnership with its private clients via large range of facilities, fair interest rates for loan products and stable environment for their savings, with highly transparent approach.

Hence, the bank has built a long-term and stable relationship with its private clients, who account for approximately 46.4% of the deposit base. This partnership is one of the core elements of a business strategy. Going forward, the bank intends to further increase its share of private clients, simultaneously expanding its deposit portfolio. The bank aims to establish itself as a trusted and preferred financial partner for its clients. To achieve this goal, the bank will continue to focus on attracting private individuals who are looking for reliable investment and savings opportunities and cultivate long-term relationship.

ProCredit Bank pursues a Direct Banking strategy for private clients, a completely different experience that provides a full range of banking services through electronic channels. By investing in developing modern technologies, the bank gives the opportunity to its clients to complete day to day transactions independently via remote channels. Simple services, a flat fee, easy access to banking services via online platforms and to multi-functional 24/7 self-service zones are advantages that customers can benefit from. A diversity of remote channels allows the clients to carry out nearly 99% of banking operations independently, whenever and wherever they like.

Our bank does not only provide the stable and safe environment for the individuals who would like to save, but offer the loan products to finance their long-term investments, such as housing and investment loans for renovation of their homes and improving their living standards. Additionally, the bank promotes and is eager to finance environmentally-friendly investments such as purchasing electric vehicles or installing rooftop solar panels.

Hence, establishing a long-term cooperation, which is based on trust and impeccable services that our clients experience with us, is a guarantee of success and a core pillar of our retail business strategy.

Corporate Governance

The General Meeting of Shareholders is the highest authority in decision-making. 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 November 12, 2021.

Shareholder structure

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

ProCredit Holding AG, the parent company of the ProCredit group, has the legal form of a Joint Stock Company.

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 activities provided by the Supervisory Board of the Bank, approves the audited annual financial statements of the Bank, makes decisions regarding profit distribution, provisioning, change of the capital 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	
ProCredit Holding AG	100%
List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares	
Zeitinger Invest GmbH	18.3%
KfW - Kreditanstalt für Wiederaufbau	13.2%
DOEN Paticipaties BV	12.5%
EBRD - European Bank for Reconstruction and Development	8.7%
TIAA-Teachers Insurance and Annuity Association	8.6%
Other	38.7%

Supervisory Board of the Bank

The Supervisory Board, whose members are appointed by the General Meeting of Shareholders (at 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 discretion, 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 the 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 the policy. The Supervisory Board approves any transaction, which is permitted by the Georgian legislation, between the Bank and its related parties.

The composition of the Supervisory Board as of December 2023 was as follows:

Marcel Zeitinger (Chairperson)

Gian Marco Felice

Sandrine Massiani

Nino Dadunashvili (independent member)

Rainer Peter Ottenstein (independent member)

The Supervisory Board meetings are held at least once a quarter. At the Supervisory Board meeting, the quorum is composed of at least two-thirds of the Supervisory Board members. Decisions on the Supervisory Board meetings are considered by a simple majority of votes present.

Board of Directors of the Bank

The composition of the Board of Directors as of December 2023 was as follows:

Zeinab Lomashvili (Director)
Alex Matua (General Director)

The Board of Directors of the Bank leads and performs activities related to the daily functioning of the Bank following the business strategy defined by the Supervisory Board. The members of the Board of Directors are appointed and dismissed by the Supervisory Board.The Board of Directors shall make decisions by a simple majority of votes present.

The composition of the Board of Directors as of December 2023 was as follows:

The increase of the number of the Management Board members up to four has been agreed with the Supervisory Board in Q1 - subject to the approval from the National Bank of Georgia and successful completion of the respective registration procedures with the Entrepreneurial Registry.

As stipulated by 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 at 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 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.

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 continues to be appropriate at all times no matter if external conditions are volatile, as well as to achieve steady business results. The overall risk profile of the Bank is low, which follows the Bank's Risk Appetite. This is based on an overall risk profile assessment of the individual risks.

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 of the Group are approved by the Management of ProCredit Holding following discussions with the Supervisory Board. The Bank's strategy documents are based on the Group's strategies and additionally represent local specifics. These documents are approved by the Supervisory Board of the Bank.

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.

A high degree of transparency, simplicity, and diversification

ProCredit focus 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 and client groups (SMEs and Private clients). 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 the staff. This is why we select our staff very carefully and have made significant investments in training our employees for many reasons. Our intensive trainings not only effort to produce a high level of professional competence but, also trainings 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 at 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 Risk Committee,** established at the Supervisory Board of the Bank 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 Audit Committee,** established at the Supervisory Board of the Bank, 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 Credit Portfolio Analysis and Management Committee** whose responsibility extends to conducting a thorough and comprehensive analysis of the bank's credit portfolio quality to enable precise management of credit risk.
- **The Loan Loss Provisions (IFRS) Committee** is responsible for coordinating and managing the development of a suitable loan loss provisioning strategy for the Bank, taking into account the future and expected dynamics of the credit portfolio, the development of the portfolio at risk, and the changes in the loan loss provisions.
- **The Credit Management Committee** reviews the analysis, collateral assessment and composition, the legal and AML opinion, assesses the creditworthiness of the client, and takes credit exposure decisions with respective conditions, covenants. Decides on forbearance measures for credit exposures.
- **The General Risk Management Committee** monitors the overall risk profile of the Bank, limit compliance and internal and regulatory capital adequacy. The Committee defines the risk tolerance limits within the limits set by the 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, information and IT security risks.

- **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 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 HR Committee** is responsible for the approval of the annual staffing and training plan, analysing 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 Environmental Committee** supports and advises the Management in connection with environmental impact resulted from lending activity, positioning of the Bank as an environmentally responsible organization and strengthening its reputation, increasing the level of the Bank energy efficiency and encouraging rational use of natural resources, hereby reduction of costs, mitigation of risks resulted from negative environmental impact, raising awareness and the level of knowledge about environmental and energy efficiency topics among the Bank staff and clients.

The Bank has an effective compliance management system which is supported by our Code of Conduct and our approach to staff selection and training. Compliance with the Code of Conduct is compulsory for all staff members. The compliance and risk management functions that bear responsibility for adhering to national banking regulations report regularly and on an ad-hoc basis to the Management of the Bank and 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 that 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 a risk assessment of Bank's activities 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.

Under the banking legislation, the Bank undergoes an external audit on an annual basis. The selection of an 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 experienced audit firms that are eligible and have rights to perform audit for financial institutions according to the Georgian law. However, in order to maintain impartiality of auditors, the bank consistently follows the practice of rotating audit firms.


EXIT

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 fulfil 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 a high-quality 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 24 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 analysing 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-indebtedness 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 granting 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 analysing the debt capacity of the Bank's clients and rigorously avoiding their over-indebtedness. 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 a particular model of FX stress at the individual client base. Thus, the availability of buffers for stress situations related to FX fluctuations is considered in the 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 Upper Medium exposures are approved by the bank's Board of Directors. The top five exposures require 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 total collateral, the main share is comprised of real estate, financial guarantees and cash collateral, which equals approximately 93% in 2023.

Loan portfolio quality

In order to efficiently monitor performing exposures and prevent a deterioration in credit quality, the bank implemented appropriate internal procedures and reporting rules to identify and manage exposures with a potential increase of credit risk at an early stage. The earlier the bank becomes aware of information indicating a potential credit risk deterioration, the higher the probability that the bank will be able to take timely action and potentially avoid a credit default or at least minimise the financial impact. Early detection of risk is a process to support the management of the Performing loan portfolio by identifying exposures with a potential credit risk deterioration at an early stage, assessing them and taking the required action. Early warning signs do not necessarily indicate a realised increase in credit risk, but they do help to identify the characteristics that exposures with a potential for increased credit risk typically exhibit.

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, recoveries, the coverage ratio (risk provisions in relation to default portfolio) and concentration risk. The Bank, mainly assesses the portfolio quality on bases of Asset Quality Indicator (AQI).

According to the Asset Quality Indicators loan portfolio is divided into performing, underperforming and default (non-performing) loan portfolio.

Underperforming exposures are those where banks identify increase in credit risk. When at least one of the following events is detected:

- customer has days past due (DPD) more than 30 days (including DPD 30 during month) but less than DPD90
- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- Performing Forborne (Standard and Watch) credit exposures

Defaulted credit exposures are those exposures for which at least one of the following events occurs:

- 90 days past due
- qualitative and quantitative criteria based on which the bank considers the clients' unlikeliness to pay in full without realizing collateral
- client is assigned to Risk Classification 8
- Non-Performing Forbearance (impaired restructured)
- bankruptcy procedure is initiated
- the bank has started legal proceedings against the client
- credit fraud event
- other signs of impairment

LLoan portfolio quality indicators are stable for 2023 and credit risk ratios stay at a 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.

In the portfolio analysis area, the bank regularly analysis following factors: macroeconomic environment, credit portfolio development by client segment and currency, credit portfolio structure and quality by economic sectors, competitive analysis, asset quality indicators, reclassifications, write offs and recoveries, repossession process and other ad-hoc analyses of the events that influence portfolio quality.

Exceptional events which could have an impact on large areas of the loan portfolio (common risk factor) are analysed and discussed at the 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

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 at ProCredit Bank mainly arises from keeping highly liquid assets for 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 and we use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. ProCredit Bank does not engage 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 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 limited scale, simple derivative instruments for liquidity management and hedging purposes (particularly foreign currency swaps).

The exposures towards counterparties and issuers are managed based on a limit system. ProCredit Bank has exposures 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 the 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 unfavourably. 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 a 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 depicts the effects of unfavourable 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.

To manage interest rate risk, ProCredit Bank focuses on issuing variable-rate and mixed 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 and mixed-rate loans in a transparent manner, the Bank uses a publicly available interest rate as a benchmark when adjusting the interest rates (SOFR/Term SOFR, EURIBOR, TIBR, 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 20% of the bank's projected net Interest Income of the current year as per ALCO Forecast Report (early warning indicator). The limit is set at 25%

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 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 comply 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 the 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, analysed and communicated effectively. All ProCredit banks document their risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

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

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

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

In order to limit IT risks, the ProCredit group has defined standards for IT infrastructure, business continuity and information security. At the 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.

In order to implement the highest standards in this area, any national anti-money laundering, counter-terrorism financing or customer due diligence legislation that is of a higher standard than that provided by the Group AML Policy must be applied by the respective ProCredit Bank.

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 a dedicated 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 training 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 embargoes as well as national and internal lists of politically exposed persons (PEP).
- ProCredit Bank applies consistent measures for data and transaction monitoring. A uniform IT-based monitoring system in all ProCredit Banks ensures an equally high standard in data, transaction and account monitoring throughout the group.
- 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 the 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 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 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 stressful situations. In general, liquidity and funding risk is limited in the Bank by the fact that we primarily issue instalment loans with monthly repayments, financed largely by customer deposits. Our deposit-taking operations focus on our target group of business clients and savers, with whom we establish strong relationships. The financial crisis has shown that our customer deposits are a stable and reliable source of funding. As of end-December 2023, 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 and expected inflows for the 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 local and hard currency, Interbank market indicator, Overnight funding indicator and Survival period, based on extended market stress scenario.

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".

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

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 the 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 ProCredit Bank Germany also offer bridge financing if a funding project is delayed. An important indicator to measure funding risk is deposit concentration. This is defined as the share of deposits of the 5 largest non-financial customer depositors or 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 can 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. 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. Currently it is set at zero, however according to the NBG requirements the buffer shall increase up to 1% with the following schedule: commercial banks are obliged to meet the countercyclical buffer rate of 0.25% by March 15, 2024, 0.5% by March 15, 2025, 0.75% by March 15, 2026, and 1% by March 15, 2027. 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 the 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. To formalize and establish this framework, the National Bank of Georgia introduced "Rule on Additional Capital Buffer Requirements for Commercial Banks within Pillar 2".

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

Besides the 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 determined through the supervisory process - General Risk Assessment Program (GRAPE) by NBG. The NBG introduced Credit Risk Adjustment (CRA) buffer after moving to IFRS reporting standards.

It's important to note, that all capital buffers under Pillar 2, besides CRA buffer, should be proportionately incorporated in capital requirements. CRA buffer should be fully covered with CET1 capital. For complying with these requirements, commercial banks have been given appropriate timeframes.

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-2023, 13.6% of the ProCredit Bank Georgia's loan portfolio consisted of Eco loans.

Environmental protection and awareness have been 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 for several years has been continuously granted certification 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.

Car fleet

For financial institutions, the main source of carbon emissions is usually emissions from transport. For several years ProCredit Bank Georgia has tried to reduce the impact from our car fleet by purchasing more and more electric vehicles. By the end of 2021 100% of our car fleet was already comprised of EVs. In past two years we replaced the low range EVs with higher range EVs. Also, we have arranged 273 EV charging stations in different regions of Georgia and in 2024 we plan to increase the number up to 33. Thus, as an institution, we contribute to development of EV infrastructure, which is considered as one of the main obstacles on the way of transition towards environmentally friendly transportation. Which also will help to achieve Net Zero in coming decades.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ProCredit Bank

Head Office building certification

Since December 2020, the Head Office of ProCredit Bank Georgia in Tbilisi has been entered into the list of green buildings around the world. It is the first building in Georgia to have its resource efficiency confirmed with an EDGE international certification. International energy experts audited the bank HQ, which combines modern architectural design with energy, water and material efficiency, following the environmentally oriented philosophy of ProCredit group.

ProCredit Bank Georgia hopes to become a role model for other companies in the market, encouraging them to take similar environmental initiatives with the aim to reduce their environmental footprint.

Solar power plant project

ProCredit Bank operate its own solar power plant – with the system being used not only to generate electricity for internal use but also to charge its fleet of electric vehicles.

In June 2020, a 500 müsolar panel array has been installed on the roof of its head office building in the centre of Tbilisi at 21 Alexander Kazbegi Avenue. In 2023 the station generated more than 116000 kWh of electricity, avoided emitting 9.6 tons of CO2 and replaced 10.6% of electricity consumption in head office. The bank's contribution to environmental protection, from the solar power plant project, is clearly visible. Data on solar energy generation, reduced emissions and other saved resources is collated in real-time and displayed on a special-purpose screen on the side of the building, thus making the information available to everyone. In coming years we are considering further replacing our electricity consumption by green electricity generated from renewable energy sources.

Water resource management

Water consumption management is one of the most important aspects of our environmental management system. For years we have been introducing measures to use the least possible amount of water in our head office and other buildings. Since June 2018, we collect rainwater from the Head Office (HO) building roof. In 2021 we installed water flow measurement sensors on main water pipes to be able to closely monitor consumption and instantly detect any possible leaks. The water collected by the rain water harvesting system significantly reduces utility water consumption in 2023.

Waste management

Waste management is an activity that we value due to its positive impact on the environment, especially in Georgia, where the proper waste management is not quite common. We guide with the principle "waste producer pays waste placement/elimination costs." In 2023, Procredit Bank handed over to the waste management company for processing 2472 kg paper and cardboard, 31 kg e-waste and 290 kg glass waste.

Sustainable suppliers

Procredit Bank recognises that ethical, social and environmental impacts reside within the supply chain. Moreover, positive impacts can be achieved through purchasing more responsible products or services and working collaboratively with suppliers to positively influence mutual ethical, social and environmental performance. Therefore, it is the goal of the group to favour sustainable procurement procedures and products associated with such. During the procurement processes we are assessing the company's environmental and social responsibility and we make choices in favour of those companies who has sustainable vision about abovementioned issues. It must be noted, that all suppliers are expected to adhere to the core values of the ProCredit group. Therefore, the Code of Conduct sets the basis for any business relationship with any potential supplier. One of our sustainability goals is to improve the existing evaluation system, make it more comprehensive and increase the number of sustainable suppliers. As of December 31, 2023, 67% of service and product suppliers are sustainable.

General Green training

As a development-oriented bank, we continuously strive to promote empowerment knowledge and raise awareness among our staff regarding with environmental and social issues. In 2023 we have conducted 10 training sessions, introduce them our sustainability goals and achievements, challenging circumstances and emphasising the role of each individual in environmental protection issues. During the training, topics of climate change effects and challenges and ESG concept have been discussed.

Pillar II - Management of environmental and social risk in lending

We operate in a country that is often characterized by businesses that are at a developing level of enforcement of environmental and social standards. However, ProCredit Bank Georgia has been operating in this environment for the 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 labour, child labor, involuntary resettlement, prostitution, etc., are also unacceptable. They are summarized 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.

As a development-oriented commercial group of banks, ProCredit, including PCB Georgia, wants to support the transition to a low-plastic economy, both by reducing the direct usage of plastic (i.e. by changing to sustainable alternatives and increasing recycling) and by reducing the indirect production of plastic by refraining from financing certain plastic-producing clients or activities. For this purpose, the company has developed a guideline - financing clients engaged in plastic related activities. According to the mentioned guideline, Clients and activities that fall under the Blacklist shall no longer be financed unless they present a credible business plan towards a different business model. Clients and activities that fall under the Gray List need to be judged on an individual basis in terms of their environmental sustainability. Clients and activities that fall under the Whitelist can be supported with financing as usual.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 four 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. Screen the client's business activities against our Watch List Criteria.
4. 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 assign 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. Considering E&S risks and exposures of the business activity, participation of an external environmental consultant becomes necessary in the evaluation process. 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 labour 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 the 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.

By 31 December 2023, 82% of the financed activities in the Bank have a low environmental risk and 16 % of activities bear a medium environmental risk, 2% of the loans go towards financing activities with a high environmental risk. 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 analyse the complexity of their business activity.

The share of the financed activities with high environmental risk in volume consists of 4% of total portfolio in 2023 and mainly includes mining stone and sand, importing and distributing of agriculture fertilizers and pesticides related activities, production of pharmaceutical products-bacteriophages and plastic production.

Generally, we don't refuse the clients with high ecological and environmental risks on financing; instead, we profoundly analyse 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 eco 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.

In 2023 we have significantly increased PV portfolio. With the instalment of our own solar station on the roof of our head office ProCredit Bank Georgia has always been an innovator on the market and with increased interest from clients we have established our institution as one of the leaders in the field.

One of the main prospects of green portfolio development is development in the electric vehicle financing market. The market for electric vehicles is growing with considerable pace in Georgia, creating new business opportunities in the field. To show our commitment to EV future and reduce the discomforts of switching to electric, ProCredit Bank installed free to use electric chargers in several region of Georgia.

In 2023 we have developed special product for EVs with preferential conditions, simplified process and technical support for the clients. The feedback from clients and first results are promising which gives us confidence that EV portfolio will grow significantly in coming years.

By 31 December 2023, the volume of the Green Finance share in the total portfolio consists of 13.6%.

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 our core values.

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 that 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 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 a university background in humanities and social 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 branches 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 recruits in place and the six-month stipend-supported “ProCredit Onboarding Programme” provided in the Training Centre 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 as shown in the 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 pieces of training 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 centres;
- 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;

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 organisational structure, transparent promotion opportunities; it is our standard practice to announce internal vacancies for job openings and filling 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 a stimulating and professional working environment.

Approved for issue and signed on behalf of the Board of Directors on 13 May 2024.

Alex Matua
General Director

JSC ProCredit Bank

International Financial Reporting Standards
Consolidated and Separate Financial Statements,
Management Report and
Independent Auditors' Report
31 December 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC ProCredit Bank

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

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

- the consolidated and separate statements of financial position as at 31 December 2023;
- the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, and consolidated and separate statements of cash flows for the year then ended; and
- notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2023, and their consolidated and separate financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

- The information given in the Group's and the Bank's 2023 consolidated and separate management report is consistent in all material respect with the 2023 consolidated and separate financial statements; and
- The 2023 consolidated and separate management report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing in all material respect.

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

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

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

Auditor’s responsibilities for the Consolidated and Separate Management report

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

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

Ivane Zhuzhunashvili (Registration # SARAS-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

13 May 2024

TABLE OF CONTENTS

Consolidated and Separate Statements of Financial Position

in '000 GEL		Consolidated		Separate	
	Notes	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Assets					
Cash and balances with the NBG	6	176,536	162,437	176,536	162,437
Mandatory reserve deposits with NBG		170,304	199,513	170,304	199,513
Investments in debt securities	8	114,302	82,486	114,302	82,486
Investments in equity securities	9	139	139	139	139
Investments in associates	9	2,836	2,547	2,836	2,547
Investment in Subsidiaries		-	-	6,100	6,100
Due from banks	7	106,603	84,713	106,601	84,712
Financial Assets at fair value through profit or loss		3	3	3	3
Loans and advances to customers	10	1,168,320	1,126,068	1,168,320	1,126,068
Current tax asset		-	3,302	-	3,302
Investment properties	11	4,283	4,382	4,274	4,372
Intangible assets	12	1,993	1,370	1,993	1,370
Property and equipment	13	38,778	40,268	38,777	40,267
Right-of-use assets	14	1,773	1,431	1,773	1,431
Other assets	15	7,521	5,963	7,105	5,472
Total assets		**1,793,391**	**1,714,622**	**1,799,063**	**1,720,219**
Liabilities					
Financial liabilities at fair value through profit or loss		4	8	4	8
Customer accounts	16	1,059,767	970,388	1,068,398	976,474
Other borrowed funds	17	407,742	424,024	407,742	424,024
Subordinated debt	20	14,886	14,399	14,886	14,399
Lease liabilities		1,818	1,426	1,818	1,426
Current tax liability		1,807	-	1,807	-
Other liabilities	18	2,438	2,704	2,336	2,571
Other provisions		2,170	768	2,169	768
Deferred tax liability	19	1,966	3,573	1,966	3,572
Total liabilities		**1,492,597**	**1,417,290**	**1,501,125**	**1,423,242**
Equity					
Share capital	21	112,483	112,483	112,483	112,483
Share premium	21	72,118	72,118	72,118	72,118
Retained earnings		116,193	112,731	113,337	112,376
Total equity		**300,794**	**297,332**	**297,938**	**296,977**
Total equity and liabilities		**1,793,391**	**1,714,622**	**1,799,063**	**1,720,219**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2024.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

The notes set out on pages 5 to 61 form an integral part of these Financial Statements.

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

in '000 GEL		Consolidated		Separate	
	Notes	2023	2022	2023	2022
Interest income calculated using effective interest rate method		117,490	113,250	117,490	113,250
Interest expense		(41,045)	(35,860)	(41,045)	(35,860)
Net interest income	23	**76,445**	**77,390**	**76,445**	**77,390**
Reversal of impairment losses on loans	10	6,972	1,385	6,972	1,385
Net interest income after provision for loan impairment		**83,416**	**78,775**	**83,416**	**78,775**
Fee and commission income	24	12,329	13,204	12,331	13,206
Fee and commission expenses	24	(10,178)	(11,527)	(10,178)	(11,527)
Net gain from trading in foreign currency		13,696	24,257	13,696	24,260
Net foreign exchange translation loss		264	(5,302)	264	(5,302)
Fair value change of derivatives		-	(1,188)	-	(1,188)
Personnel expenses		(18,209)	(17,177)	(18,135)	(17,106)
Other administrative expenses	25	(30,371)	(29,994)	(30,329)	(29,945)
Other operating income	26(a)	5,124	5,130	2,505	4,626
Other operating expense	26(b)	(2,280)	(3,734)	(2,280)	(1,561)
Profit before income tax		**53,792**	**52,444**	**51,291**	**54,238**
Income tax expense	19	(7,548)	(9,453)	(7,548)	(9,453)
Profit and total comprehensive income for the year		**46,244**	**42,991**	**43,743**	**44,785**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2024.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

The notes set out on pages 5 to 61 form an integral part of these Financial Statements.

Consolidated and Separate Statements of Changes in Equity

in '000 GEL	Consolidated				Separate			
	Share capital	Share premium	Retained earnings	Total	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2022	**112,483**	**72,118**	**84,240**	**268,841**	**112,483**	**72,118**	**82,091**	**266,692**
Total comprehensive income								
Profit for the year	-	-	42,991	**42,991**	-	-	44,785	**44,785**
Total comprehensive income for the year	**-**	**-**	**42,991**	**42,991**	**-**	**-**	**44,785**	**44,785**
Dividends declared	**-**	**-**	(14,500)	**(14,500)**	**-**	**-**	(14,500)	**(14,500)**
Transactions with owners, recorded directly in equity	**-**	**-**	**(14,500)**	**(14,500)**	**-**	**-**	**(14,500)**	**(14,500)**
Balance at 31 December 2022	**112,483**	**72,118**	**112,731**	**297,332**	**112,483**	**72,118**	**112,376**	**296,977**
Balance at 1 January 2023	**112,483**	**72,118**	**112,731**	**297,332**	**112,483**	**72,118**	**112,376**	**296,977**
Total comprehensive income								
Profit for the year	-	-	46,244	**46,244**	-	-	43,743	**43,743**
Total comprehensive income for the year		-	**46,244**	**46,244**	**-**	**-**	**43,743**	**43,743**
Dividends declared	-	-	(42,782)	**(42,782)**	**-**	**-**	(42,782)	**(42,782)**
Transactions with owners, recorded directly in equity	**-**	**-**	**(42,782)**	**(42,782)**	**-**	**-**	**(42,782)**	**(42,782)**
Balance at 31 December 2023	**112,483**	**72,118**	**116,193**	**300,794**	**112,483**	**72,118**	**113,337**	**297,938**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2024.

Alex Matua General Director	Nana Chikvaidze Chief Accountant

The notes set out on pages 5 to 61 form an integral part of these Financial Statements.

Consolidated and Separate Statements of Cash Flows

in '000 GEL		Consolidated		Separate	
	Notes	2023	2022	2023	2022
Profit before income tax		**53,792**	**52,444**	**51,291**	**54,238**
Release of provision for loan impairment	10	(6,972)	(1,385)	(6,972)	(1,385)
Depreciation and amortization		4,546	4,788	4,545	4,788
Net foreign exchange translation loss		(264)	5,302	(264)	5,302
Fair value change of derivatives		-	1,188	-	1,188
Accrual of other provisions		1,408	70	1,408	70
Gain from disposal of property and equipment		(243)	(243)	(243)	(243)
Net interest income		(76,445)	(77,390)	(76,445)	(77,390)
Operating cash flows before changes in operating assets and liabilities		**(24,178)**	**(15,226)**	**(26,680)**	**(13,432)**
Net change in assets and liabilities from operating activities after non-cash items:					
Mandatory reserve deposit with the NBG		29,405	(25,586)	29,405	(25,586)
Loans and advances to customers		(32,314)	44,392	(32,314)	44,392
Other assets		(1,596)	1,551	(1,672)	38
Due to banks		-	(1,432)	-	(1,432)
Financial liabilities at fair value through profit or loss		(294)	(2,429)	(294)	(2,429)
Customer accounts		89,236	79,686	91,780	79,446
Other liabilities		(282)	(3,708)	(251)	(3,749)
Total net change in assets and liabilities from operating activities after non-cash items		**84,154**	**92,474**	**86,654**	**90,680**
Interest received		118,489	116,363	118,489	116,363
Interest paid		(34,264)	(30,788)	(34,264)	(30,788)
Income tax paid		(4,045)	(16,558)	(4,045)	(16,558)
Net cash from operating activities		**140,156**	**146,265**	**140,156**	**146,265**
Purchase of property and equipment and intangible assets		(4,019)	(3,120)	(4,019)	(3,120)
Proceeds from sale of property and equipment and investment properties		342	3,534	342	3,534
Purchase of investments in debt securities		(256,608)	(61,957)	(256,608)	(61,957)
Proceeds from sale of investments in debt securities		223,565	20,069	223,565	20,069
Cash flows used in investing activities		**(36,720)**	**(41,474)**	**(36,720)**	**(41,474)**
Dividends paid	21	(42,782)	(14,500)	(42,782)	(14,500)
Payment of lease liabilities		(462)	(497)	(462)	(497)
Proceeds from other borrowed funds		44,636	57,735	44,636	57,735
Repayments of other borrowed funds		(69,922)	(70,318)	(69,922)	(70,318)
Payments of subordinated debts		-	(6,832)	-	(6,832)
Cash flows used in financing activities		**(68,531)**	**(34,412)**	**(68,531)**	**(34,412)**
Net increase in cash and cash equivalents		**34,905**	**70,379**	**34,905**	**70,379**
Cash and cash equivalents at the beginning of the year		247,150	201,766	247,150	201,766
Effects of exchange rate changes		1,083	(24,995)	1,083	(24,995)
Cash and cash equivalents at the end of the year		**283,138**	**247,150**	**283,138**	**247,150**

Approved for issue and signed on behalf of the Board of Directors on 13 May 2024.

Alex Matua
General Director

Nana Chikvaidze
Chief Accountant

The notes set out on pages 5 to 61 form an integral part of these Financial Statements.

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 license number 233 issued on 13 May 1999 and is therefore supervised by the National Bank of Georgia (the NBG).

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

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

The Bank is wholly owned by its immediate and ultimate parent company ProCredit Holding AG (the Parent).
As of 31 December 2023 and 31 December 2022, the following shareholders directly owned more than 5% of the total outstanding shares of the Parent:

	% of ownership interest held as of 31 December	
	2023	**2022**
Zeitinger Invest GmbH	18.3	17
KfW - Kreditanstalt für Wiederaufbau	13.2	13.2
DOEN Foundation	12.5	12.5
IFC - International Finance Corporation	-	10
EBRD - European Bank for Reconstruction and Development	8.7	-
TIAA-CREF - Teachers Insurance and Annuity Association	8.6	8.6
Other	38.7	38.7
Total	**100**	**100**

Other shareholders individually owned less than 5% of the outstanding shares. As at 31 December 2023 and 31 December 2022 the Group and Bank had no ultimate controlling party.

Refer to Note 30 for related party transactions.

2. BUSINESS ENVIRONMENT

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Company in Georgia. As a result, the management believes that the going concern assumption is appropriate for the Company.

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 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 undertake to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group and Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, and how risks are assessed and managed. Refer to Note 4 for critical judgements applied by the Group and Bank in determining the business models for its financial assets.

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

Financial assets – classification and subsequent measurement – cash flow characteristics

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

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

Financial assets – reclassification

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

Expected Credit Losses – ECL

The Group and Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group and Bank measures ECL and recognises credit loss allowance at each reporting date.

Expected credit loss (ECL) – an unbiased and probability-weighted amount, calculated as the difference between the cash flows due to the bank in accordance with contractual terms of a financial instrument and the cash flows that the bank expects to receive. ECL is based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions. ECL is calculated using the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and is discounted to a present value.

Non-financial guarantees such as performance letters of guaranteeı are treated within the IAS 37 framework (Provisions, Contingent Liabilities and Contingent Assets) and are thus excluded from the IFRS 9 impairment scope

Debt instruments measured at AC are presented in the consolidated and separate statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated and separate statements of financial position.

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 27 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 considering a 100% probability of default (lifetime ECL credit impaired). The Group's and Bank's definition of credit impaired assets and definition of default is explained in Note 27. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 27 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.

Financial assets – write-off

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

Financial assets – derecognition

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

Financial assets – modification

The Group and Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group and Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, change of debtor, prolongation of maturity or changes in payment dates or in the overall payment plan.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group and Bank derecognizes the original financial asset and recognizes a new asset at its fair value. 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 derecognized and fair value of the new substantially modified asset is recognized in profit or loss.

The following qualitative factors are considered within the Group and Bank as substantial modifications:
▪ Change of the existing debtor of the credit facility (loan, Credit Line, Overdraft). Exception would be change within the same group of consolidated entities (e.g. from daughter to mother company).
▪ Modifications to the currency on which the financial instrument is denominated for future debt repayments.
▪ Contractual changes that are non-compliant with the SPPI criterion
The quantitative analysis for the substantial modification is so called "10% NPV test". For the 10% NPV test, the GCA at the date of modification (without NPV calculation of the remaining cash flows of the original financial asset as the current GCA before its first modification equals the present value of the discounted remaining cash flow) is compared with the present value of the modified cash flows discounted at OEIR.

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

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

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

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

Financial instruments – offsetting

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

Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

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

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

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

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

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

The reporting exchange rates and average rates for the period used in the consolidated and separate statement of financial position and the consolidated and separate statement of profit or loss and other comprehensive income are listed in Note 27.

Cash and cash equivalents

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

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

Mandatory reserve deposits with the National Bank of Georgia

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

Due from banks

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

Repossessed collateral

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

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

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

Investments in debt securities

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

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

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

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

Release of loss allowances

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

Write-offs, recoveries and direct write-offs

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

Non-substantial modification

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

Property and equipment

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

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

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

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

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

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

Investment properties

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Income tax

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

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

From 1 January 2023 the income tax on companies of Georgia's financial sector is set at 20 percent, with taxation of banks and other entities no longer set to be switched to the Estonian tax model.

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

Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Liabilities to banks and customers and other borrowed funds

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

Provisions

Provisions are recognised if:

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

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

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

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

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

Share capital and share premium

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

Dividends

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

Interest income and expense

Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The Group and Bank does not have interest income on debt instruments at FVTPL calculated at nominal interest rate during 2023.

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

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

Fee and commission income and expenses

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

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

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

Leases

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

As a lessee

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

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

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

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

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

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

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

4. USE OF ESTIMATES AND JUDGEMENTS

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

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

Judgements

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

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

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

- **ECL:** Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimations uncertainty

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

- Establishing the criteria for determining whether credit risk on financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of model used in ECL.– Note 27(a);

5. NEW STANDARS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group and Bank has not early adopted the new or amended standards in preparing these consolidated and separate financial statements.

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

(a) Standards, amendments and interpretations that are already effective

- Amendments to IAS 1 and to IFRS Practice Statement 2: "Making Materiality Judgements" have a negligible impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8: "Definition of accounting estimates" have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 12: "Deferred Taxes related to Assets and Liabilities arising from a Single Transaction" have a minor impact on the measurement of deferred taxes. The amendments are effective for annual periods beginning on or after 1 January 2023.
- IFRS 17 "Insurance Contracts" will not have an impact on the consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.

(b) Standards, amendments and interpretations issued but not yet effective

- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" and "Non-current Liabilities with Covenants" have a minor impact on the consolidated financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2024.
- Amendments to IFRS 16: "Lease Liability in a Sale and Leaseback" have a minor impact on the consolidated financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 7 and IFRS 7: "Supplier Finance Arrangements" have no impact on the consolidated financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 21: "Lack of Exchangeability" have no impact on the consolidated financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2025.

There was no early adoption of any standards, amendments and interpretations not yet effective.

6. CASH AND BALANCES WITH THE NBG

Consolidated and Separate

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

in '000 GEL	31 December 2023	31 December 2022
Cash on hand	40,270	36,007
Balances at the NBG excluding mandatory reserves	76,869	67,376
Nostro accounts other than with NBG	59,532	59,213
Loss allowance for balances with NBG and Nostro accounts	(135)	(159)
Total cash and balances with the NBG in the statement of financial position	**176,536**	**162,437**

In 2023, Fitch Ratings affirmed the Government of Georgia's short term Issuer Default Rating of "B" and long-term Issuer Default Rating of "BB" with a Positive Outlook.

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

in '000 GEL	31 December 2023	31 December 2022
Cash and balances with NBG, net	176,536	162,437
Due from banks with a maturity up to three months (Note 7)	106,602	84,713
Total cash and cash equivalents in the consolidated and separate statement of cash flows	**283,138**	**247,150**

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 28 for the estimated fair value of cash and cash equivalents. The interest rate analysis of cash and cash equivalents is disclosed in Note 27. As at 31 December 2023 the Group and Bank has one bank (2022: one bank), whose balance exceeds 10% of equity. The gross amount of the balance as at 2023 was GEL 46,460 thousand (2022: GEL 55,809 thousand).

As at 31 December 2023 the Group and Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2022 Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. DUE FROM BANKS

Consolidated and Separate

in '000 GEL	31 December 2023	31 December 2022
Due from Banks in OECD* countries	48,056	49,692
Due from Banks in non-OECD countries	58,549	35,022
Loss allowance for loans to banks	(2)	(1)
Total due from banks	**106,603**	**84,713**

* 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-	B+	BB	BB-	Total
31 December 2023	48,056	20,015	38,532	-	**106,603**
31 December 2022	49,692	-	-	35,021	**84,713**

Refer to Note 28 for the estimated fair value of each class of amounts due from banks. The interest rate analysis is disclosed in Note 27. Information on related party balances is disclosed in Note 30.

8. INVESTMENTS IN DEBT SECURITIES

Consolidated and Separate

Figures below represent Investment securities measured at amortized cost.

in '000 GEL	31 December 2023	31 December 2022
Certificates of deposit of the NBG	23,794	21,672
Treasury bills issued by the Government of Georgia	90,508	60,814
Total investments in debt securities	**114,302**	**82,486**

No investment in debt securities are past due or impaired. As at 31 December 2023 the Group and Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2022: Stage 1). Management estimates that ECL is immaterial at reporting dates.

9. INVESTMENTS

Investments in subsidiaries

Separate

Investment in subsidiaries (related to separate financial statements)

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

Subsidiary	Country of incorporation	Ownership as at 31 December 2023	Investment as at 31 December 2023 ('000 GEL)
LLC ProCredit Property	Georgia	100.00%	6,100

Subsidiary	Country of incorporation	Ownership as at 31 December 2022	Investment as at 31 December 2022 ('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 2023 net assets of the Subsidiary is GEL 13,120 thousand (2022: GEL 12,152 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 2023	Ownership interest	Amount At 31 December 2022
JSC United Clearing Center Georgia	6.25%	54	6.25%	54
JSC American Academy in Tbilisi	4.73%	50	4.73%	50
S.W.I.F.T.SCRL	0.12%	35	0.12%	35
Total		**139**		**139**

The Bank has significant influence over JSC Creditinfo Georgia.

in '000 GEL	Ownership interest	Amount At 31 December 2023	Ownership interest	Amount At 31 December 2022
JSC Creditinfo Georgia	21.08%	2,836	21.08%	2,547

The Group applies equity method to account for its investments in associates and adjusts the carrying amount by recognizing share of the profit or loss of the investee after the date of the investment.

10. LOANS AND ADVANCES TO CUSTOMERS

Consolidated and Separate

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2023:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2023**	**Gross amount**	**ECL allowance for impairment**	**Net amount**	**Share of total portfolio**
Wholesale and trade loans				
loan size up to EUR 100,000	42,274	(383)	41,891	3.59%
loan size EUR 100,000 to EUR 250,000	90,310	(947)	89,363	7.65%
loan size more than EUR 250,000	239,093	(2,940)	236,153	20.21%
Total wholesale and trade loans	**371,677**	**(4,270)**	**367,407**	**31.45%**
Agricultural, forestry and fishing loans				
loan size up to EUR 100,000	5,853	(68)	5,785	0.50%
loan size EUR 100,000 to EUR 250,000	9,221	(147)	9,074	0.78%
loan size more than EUR 250,000	15,498	(95)	15,403	1.32%
Total agricultural, forestry and fishing loans	**30,572**	**(310)**	**30,262**	**2.59%**
Production loans				
loan size up to EUR 100,000	23,075	(1,119)	21,956	1.88%
loan size EUR 100,000 to EUR 250,000	51,537	(3,164)	48,373	4.14%
loan size more than EUR 250,000	124,255	(2,428)	121,827	10.43%
Total production loans	**198,867**	**(6,711)**	**192,156**	**16.45%**
Transportation and storage loans				
loan size up to EUR 100,000	5,925	(27)	5,898	0.50%
loan size EUR 100,000 to EUR 250,000	13,933	(35)	13,898	1.19%
loan size more than EUR 250,000	30,210	(5,320)	24,890	2.13%
Total transportation and storage loans	**50,068**	**(5,382)**	**44,686**	**3.82%**
Other economic activities				
loan size up to EUR 100,000	38,750	(795)	37,955	3.25%
loan size EUR 100,000 to EUR 250,000	79,343	(3,192)	76,151	6.52%
loan size more than EUR 250,000	330,072	(6,814)	323,258	27.67%
Total other economic activities loans	448,165	(10,801)	437,364	37.44%
Total Business loans	**1,099,349**	**(27,474)**	**1,071,875**	**91.74%**
Housing loans				
loan size up to EUR 100,000	49,928	(889)	49,039	4.20%
loan size EUR 100,000 to EUR 250,000	29,390	(427)	28,963	2.48%
loan size more than EUR 250,000	9,815	(199)	9,616	0.82%
Total housing loans	**89,133**	**(1,515)**	**87,618**	**7.50%**
Investment loans				
loan size up to EUR 100,000	5,753	(164)	5,589	0.48%
loan size EUR 100,000 to EUR 250,000	704	(6)	698	0.06%
Total investment loans	**6,457**	**(170)**	**6,287**	**0.54%**
Consumer loans				
loan size up to EUR 100,000	2,667	(127)	2,540	0.22%
loan size EUR 100,000 to EUR 250,000	-	-	-	-
Total Consumer loans	**2,667**	**(127)**	**2,540**	**0.22%**
Total Private loans	**98,257**	**(1,812)**	**96,445**	**8.26%**
Total	**1,197,606**	**(29,286)**	**1,168,320**	**100.00%**

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2022:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December** 2022	**Gross amount**	**ECL allowance for impairment**	**Net amount**	**Share of total portfolio**
Wholesale and trade loans				
loan size up to EUR 100,000	45,072	(610)	44,462	3.95%
loan size EUR 100,000 to EUR 250,000	92,873	(987)	91,887	8.16%
loan size more than EUR 250,000	247,192	(2,790)	244,402	21.70%
Total wholesale and trade loans	**385,137**	**(4,387)**	**380,751**	**33.81%**
Agricultural, forestry and fishing loans				
loan size up to EUR 100,000	8,645	(87)	8,557	0.76%
loan size EUR 100,000 to EUR 250,000	9,361	(211)	9,151	0.81%
loan size more than EUR 250,000	19,284	(467)	18,817	1.67%
Total agricultural, forestry and fishing loans	**37,290**	**(765)**	**36,525**	**3.24%**
Production loans				
loan size up to EUR 100,000	27,323	(1,399)	25,923	2.30%
loan size EUR 100,000 to EUR 250,000	50,814	(4,102)	46,713	4.15%
loan size more than EUR 250,000	134,833	(3,386)	131,447	11.67%
Total production loans	**212,970**	**(8,887)**	**204,083**	**18.12%**
Transportation and storage loans				
loan size up to EUR 100,000	6,948	(63)	6,885	0.61%
loan size EUR 100,000 to EUR 250,000	12,559	(52)	12,507	1.11%
loan size more than EUR 250,000	24,276	(5,969)	18,307	1.63%
Total transportation and storage loans	**43,783**	**(6,084)**	**37,699**	**3.35%**
Other economic activities				
loan size up to EUR 100,000	39,296	(551)	38,746	3.44%
loan size EUR 100,000 to EUR 250,000	78,805	(1,926)	76,878	6.83%
loan size more than EUR 250,000	269,133	(5,289)	263,844	23.43%
Total other economic activities loans	387,234	(7,766)	379,468	33.70%
Total Business loans	**1,066,414**	**(27,891)**	**1,038,523**	**92.23%**
Housing loans				
loan size up to EUR 100,000	48,082	(1,438)	46,644	4.14%
loan size EUR 100,000 to EUR 250,000	26,620	(594)	26,026	2.31%
loan size more than EUR 250,000	6,195	(66)	6,129	0.54%
Total housing loans	**80,897**	**(2,098)**	**78,799**	**7.00%**
Investment loans				
loan size EUR 100,000 to EUR 250,000	4,876	(144)	4,732	0.42%
loan size more than EUR 250,000	1,271	(14)	1,257	0.11%
Total investment loans	**6,147**	**(158)**	**5,989**	**0.53%**
Consumer loans				
loan size up to EUR 100,000	2,900	(143)	2,757	0.24%
loan size EUR 100,000 to EUR 250,000	-	-	-	-
Total Consumer loans	**2,900**	**(143)**	**2,757**	**0.24%**
Total Private loans	**89,944**	**(2,399)**	**87,545**	**7.77%**
Total	**1,156,358**	**(30,290)**	**1,126,068**	**100.00%**

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

As at 31 December 2023 and 2022 the Group and the Bank had no borrowers or groups of connected borrowers whose loan balances exceeded 10% of equity.

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

Consolidated and Separate

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2023	**1,072,131**	**48,819**	**34,740**	**668**	**1,156,358**
New financial assets originated	358,046	-	-	-	**358,046**
Modification of contractual cash flows of financial assets	522	43	(80)	-	**485**
Derecognitions	(136,287)	(13,308)	(1,508)	-	**(151,103)**
Write-offs	-	-	(4,361)	-	**(4,361)**
Changes in interest accrual	2,023	92	610	(39)	**2,686**
Repayments	(167,308)	(4,854)	(2,550)	(177)	**(174,889)**
Transfer from Stage 1 to Stage 2	(26,342)	26,342	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	-	**-**
Transfer from Stage 2 to Stage 1	13,619	(13,619)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(10,305)	10,305	-	**-**
Transfer from Stage 3 to Stage 2	-	240	(240)	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Foreign exchange and other movements	10,153	(83)	302	12	**10,384**
Gross outstanding amount as at 31 December 2023	**1,126,557**	**33,367**	**37,218**	**464**	**1,197,606**

in '000 GEL	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2022	**1,250,181**	**78,271**	**30,512**	**1,559**	**1,360,523**
New financial assets originated	315,530	-	-	-	**315,530**
Modification of contractual cash flows of financial assets	(244)	(359)	(730)	-	**(1,333)**
Derecognitions	(178,036)	(12,431)	(706)	-	**(191,173)**
Write-offs	-	-	(4,625)	-	**(4,625)**
Changes in interest accrual	1,557	625	655	88	**2,925**
Repayments	(168,610)	(3,387)	(9,047)	(625)	**(181,668)**
Transfer from Stage 1 to Stage 2	(21,514)	21,514	-	-	**-**
Transfer from Stage 1 to Stage 3	(2,742)	-	2,742	-	**-**
Transfer from Stage 2 to Stage 1	6,620	(6,620)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(19,169)	19,169	-	**-**
Transfer from Stage 3 to Stage 2	-	80	(80)	-	**-**
Transfer from Stage 3 to Stage 1	163	-	(163)	-	**-**
Foreign exchange and other movements	(130,774)	(9,706)	(2,987)	(354)	**(143,821)**
Gross outstanding amount as at 31 December 2022	**1,072,131**	**48,819**	**34,740**	**668**	**1,156,358**

The total amount of loans recoveries of amounts previously written off during the year 2023 was GEL 7,898 thousand (2022: GEL 6,929 thousand).

Further analysis of loans is detailed in Note 27.

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 2023	**(5,643)**	**(3,480)**	**(20,524)**	**(643)**	**(30,290)**
New financial assets originated	(1,108)	-	-	-	**(1,108)**
Release due to derecognition	401	693	514	-	**1,608**
Transfer from Stage 1 to Stage 2	235	(235)	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	-	**-**
Transfer from Stage 2 to Stage 1	(115)	115	-	-	**-**
Transfer from Stage 2 to Stage 3	-	731	(731)	-	**-**
Transfer from Stage 3 to Stage 2	-	(26)	26	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	-	**-**
Increase in PDs/LGDs/EaDs	(2,782)	(1,593)	(8,789)	(51)	**(13,215)**
Decrease in PDs/LGDs/EaDs	4,246	2,238	2,754	242	**9,480**
Usage of allowance	-	-	4,361	-	**4,361**
Increase due to modification without derecognition	(2)	(29)	(7)	-	**(38)**
Decrease due to modification without derecognition	118	99	43	-	**260**
Foreign exchange and other movements	-	3	(334)	(13)	**(344)**
Balance at 31 December 2023	**(4,650)**	**(1,484)**	**(22,687)**	**(465)**	**(29,286)**

	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2022	**(8,195)**	**(4,341)**	**(16,878)**	**(1,379)**	**(30,794)**
New financial assets originated	(1,740)	-	-	-	**(1,740)**
Release due to derecognition	972	634	667	-	**2,272**
Transfer from Stage 1 to Stage 2	259	(259)	-	-	**-**
Transfer from Stage 1 to Stage 3	16	-	(16)	-	**-**
Transfer from Stage 2 to Stage 1	(67)	67	-	-	**-**
Transfer from Stage 2 to Stage 3	-	1,060	(1,060)	-	**-**
Transfer from Stage 3 to Stage 2	-	(13)	13	-	**-**
Transfer from Stage 3 to Stage 1	(4)	-	4	-	**-**
Increase in PDs/LGDs/EaDs	(4,808)	(2,410)	(17,382)	490	**(24,601)**
Decrease in PDs/LGDs/EaDs	7,069	1,689	12,003	-	**21,252**
Usage of allowance	-	-	4,625	-	**4,625**
Increase due to modification without derecognition	(29)	(615)	(5,317)	-	**(5,962)**
Decrease due to modification without derecognition	392	118	282	-	**404**
Foreign exchange and other movements	693	390	2,536	246	**(4,252)**
Balance at 31 December 2022	**(5,643)**	**(3,480)**	**(20,524)**	**(643)**	**(30,290)**

Analysis by credit quality of loans outstanding at 31 December 2023 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	352,610	24,946	183,922	40,325	414,842	85,307	6,325	2,416	**1,110,693**
- less than 30 days overdue	5,859	3,435	2,392	394	3,375	351	34	24	**15,864**
Total Stage 1 loans	**358,469**	**28,381**	**186,314**	**40,719**	**418,217**	**85,658**	**6,359**	**2,440**	**1,126,557**
Stage 2									
Not in Arrears	6,319	1,558	2,178	1,334	14,754	2,576	4	53	**28,776**
- less than 30 days overdue	2,068	340	-	-	404	122	-	-	**2,934**
- 31 to 90 days overdue	325	-	210	-	1,094	17	-	12	**1,658**
Total Stage 2 loans	**8,712**	**1,898**	**2,388**	**1,334**	**16,252**	**2,715**	**4**	**65**	**33,368**
Stage 3									
Not in Arrears	434	-	1,095	-	3,857	211	45	119	**5,761**
- less than 30 days overdue	526	-	77	-	248	-	-	-	**851**
- 31 to 90 days overdue	-	269	-	-	6,174	352	8	4	**6,807**
- over 90 days overdue	3,536	26	8,993	8,015	2,952	196	41	38	**23,797**
Total Stage 3 loans	**4,496**	**295**	**10,165**	**8,015**	**13,231**	**759**	**94**	**161**	**37,216**

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	-	-	-	-	465	-	-	-	**465**
- over 90 days overdue	-	-	-	-	-	-	-	-	**-**
Total POCI loans	**-**	**-**	**-**	**-**	**465**	**-**	**-**	**-**	**465**
Less impairment provisions	**(4,270)**	**(310)**	**(6,711)**	**(5,382)**	**(10,801)**	**(1,515)**	**(170)**	**(127)**	**(29,286)**
Total loans and advances to customers	**367,407**	**30,262**	**192,156**	**44,686**	**437,364**	**87,618**	**6,287**	**2,540**	**1,168,320**

Analysis by credit quality of loans outstanding at 31 December 2022 is as follows:

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transport ation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 1									
Not in Arrears	371,250	29,252	193,430	32,768	346,700	77,486	5,978	2,638	**1,059,502**
- less than 30 days overdue	4,738	4,871	2,401	-	191	394	30	2	**12,626**
Total Stage 1 loans	**375,988**	**34,123**	**195,831**	**32,768**	**346,891**	**77,880**	**6,008**	**2,640**	**1,072,129**
Stage 2									
Not in Arrears	3,368	1,688	3,012	2,691	33,875	1,212	49	88	**45,983**
- less than 30 days overdue	732	388	-	-	1,462	168	-	13	**2,763**
- 31 to 90 days overdue	61	-	-	-	-	-	12	-	**73**
Total Stage 2 loans	**4,161**	**2,076**	**3,012**	**2,691**	**35,337**	**1,380**	**61**	**101**	**48,819**
Stage 3									
Not in Arrears	3,582	301	1,784	8,323	3,227	805	63	117	**18,203**
- less than 30 days overdue	360	-	2,867	-	-	382	-	15	**3,624**
- 31 to 90 days overdue	-	-	4,907	-	-	61	-	28	**4,996**
- over 90 days overdue	1,046	791	4,569	-	1,111	390	1	-	**7,921**
Total Stage 3 loans	**4,988**	**1,092**	**14,127**	**8,323**	**4,338**	**1,638**	**77**	**160**	**34,743**

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transport ation and storage	Other economic activities	Housing	Investment	Other	Total
POCI									
Not in Arrears	-	-	-	-	24	-	-	-	**24**
- over 90 days overdue	-	-	-	-	643	-	-	-	**643**
Total POCI loans	**-**	**-**	**-**	**-**	**667**	**-**	**-**	**-**	**667**
Less impairment provisions	**(4,387)**	**(766)**	**(8,887)**	**(6,084)**	**(7,767)**	**(2,098)**	**(158)**	**(143)**	**(30,290)**
Total loans and advances to customers	**380,750**	**36,524**	**204,083**	**37,699**	**379,467**	**78,799**	**5,989**	**2,757**	**1,126,068**

Loans 90 days past due are classified as impaired loans. Loans past due 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.

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 2023 and 2022:

in '000 GEL **At 31 December 2023**	**Real estate**	**Financial guarantees ***	**Cash collateral**	**Other**	**Guarantors**	**No collateral**	**Total**
Wholesale and trade	304,559	22,947	163	8,575	26,750	4,412	367,407
Agriculture, forestry and fishing	18,534	3,963	4,450	133	1,650	1,533	30,262
Production	124,050	33,852	3,547	17,817	12,063	827	192,156
Transportation and storage	35,003	2,531	-	6,901	236	15	44,686
Other economic activities	385,623	21,339	175	17,264	11,853	1,111	437,364
Housing	85,727	-	269	-	114	1,509	87,618
Investment loans	4,341	-	-	309	103	1,534	6,287
Other	781	-	128	-	37	1,594	2,539
Total	**958,618**	**84,632**	**8,731**	**50,999**	**52,806**	**12,535**	**1,168,320**

in '000 GEL **At 31 December 2022**	**Real estate**	**Financial* guarantees**	**Cash collateral**	**Other**	**Guarantors**	**No collateral**	**Total**
Wholesale and trade	305,765	34,512	141	7,211	25,849	7,272	380,750
Agriculture, forestry and fishing	24,964	4,717	2,969	95	1,682	2,098	36,524
Production	136,344	34,106	3,362	17,295	11,383	1,593	204,083
Transportation and storage	25,978	3,078	13	7,305	1,259	66	37,699
Other economic activities	319,484	26,022	1,991	18,258	13,533	178	379,467
Housing	77,770	-	-	63	171	794	78,799
Investment loans	4,578	-	-	61	262	1,088	5,989
Other	682	-	765	-	91	1,219	2,757
Total	**895,564**	**102,435**	**9,242**	**50,288**	**54,229**	**14,310**	**1,126,068**

*From international financial institutions.

As at 31 December 2023 and 2022 'Other' collateral consists from: Shares in companies, Movable properties (Vehicles, Equipment), Household Goods, Livestock, Inventory, Receivables.

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

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

Refer to Note 28 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 27.

11. INVESTMENT PROPERTIES

Consolidated

in '000 GEL	**2023**	**2022**
Net book value at 1 January	**4,382**	**4,949**
Additions	43	-
Disposals	-	(586)
Depreciation for the year	(142)	(149)
Disposal of depreciation	-	167
Net book value at 31 December	**4,283**	**4,382**
Total acquisition costs	5,880	5,837
Accumulated depreciation	(1,597)	(1,455)
Net book value at 31 December	**4,283**	**4,382**

Rental income in 2023 under operating leases was GEL 1,159 thousand (2022: GEL 1,159 thousand).

Separate

in '000 GEL	2023	2022
Net book value at 1 January	**4,372**	**4,940**
Additions	43	-
Disposals	-	(586)
Depreciation for the year	(142)	(149)
Disposal of depreciation	-	167
Net book value at 31 December	**4,274**	**4,372**
Total acquisition costs	5,870	5,826
Accumulated depreciation	(1,596)	(1,454)
Net book value at 31 December	**4,274**	**4,372**

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2022. The valuation was carried out by external valuators who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. Based on the valuation fair value of the investment properties are estimated to amount USD 4,415,000. As of December 2023 there have been no major changes in the market and the fair value was approximately same. In the process of comparison, they have used comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of unobservable adjustments used in the valuation method.

12. INTANGIBLE ASSETS

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

Consolidated and Separate

in '000 GEL	2023	2022
Net book value as at 1 January	**1,370**	**1,519**
Additions	1,897	962
Disposal	(803)	(5,534)
Amortisation for the year	(1,274)	(1,111)
Disposal of amortisation	803	5,534
Net book value as at 31 December	**1,993**	**1,370**
Total acquisition costs as at 31 December	3,517	2,423
Accumulated amortisation as at 31 December	(1,524)	(1,053)
Net book value as at 31 December	**1,993**	**1,370**

13. PROPERTY AND EQUIPMENT

The development of property and equipment was as follows:

Consolidated and Separate

in '000 GEL	Land &buildings	Other fixed assets	Total
Net book value at 1 January 2022	**37,144**	**7,103**	**44,247**
Additions	-	2,029	2,029
Disposals - at cost	(4,082)	(477)	(4,559)
Depreciation for the year	(892)	(2,254)	(3,146)
Disposals - accumulated depreciation	1,224	473	1,697
Net book value at 31 December 2022	**33,394**	**6,874**	**40,268**
Total acquisition costs	42,019	35,164	77,183
Accumulated depreciation	(8,625)	(28,290)	(36,915)
Net book value at 1 January 2023	**33,394**	**6,874**	**40,268**
Additions	6	1,284	1,290
Disposals - at cost	(43)	(2,462)	(2,505)
Depreciation for the year	(859)	(1,877)	(2,736)
Disposals - accumulated depreciation	-	2,461	2,461
Net book value at 31 December 2023	**32,498**	**6,280**	**38,778**
Total acquisition costs	41,982	33,986	75,968
Accumulated depreciation	(9,484)	(27,706)	(37,190)
Net book value at 31 December 2023	**32,498**	**6,280**	**38,778**

14. RIGHT-OF-USE ASSETS

Consolidated and Separate

Right-of-use assets

in '000 GEL	2023	2022
Net book value at 1 January	**1,431**	**1,694**
Additions	789	129
Disposals	(285)	(195)
Depreciation for the year	(394)	(381)
Disposals - accumulated depreciation	232	184
Net book value at 31 December	**1,773**	**1,431**

15. OTHER ASSETS

At 31 December 2023 and 2022, other assets were as follows:

Consolidated

in '000 GEL	31 December 2023	31 December 2022
Accounts receivable from credit card and online payment system companies and money transfer agencies	2,173	1,119
Security deposit	754	486
Other	623	199
other financial assets	(13)	(12)
Total other financial assets	**3,537**	**1,792**
Non-current		
Repossessed properties	356	408
Prepayments for court fees and charges, net of provision	133	102
Prepayments for fixed assets	619	394
Current		
Prepayments for various services	2,469	2,716
Inventory and other	407	551
Total other non-financial assets	**3,984**	**4,171**
Total	**7,521**	**5,963**

Separate

in '000 GEL	31 December 2023	31 December 2022
Accounts receivable from credit card and online payment system companies and money transfer agencies	2,173	1,119
Security deposit	754	486
Other	623	199
Loss allowance for account receivables	(13)	(12)
Total other financial assets	**3,537**	**1,792**
Non-current		
Repossessed properties	69	59
Prepayments for court fees and charges, net of provision	133	102
Prepayments for fixed assets	619	394
Current		
Prepayments for various services	2,34	2,574
Inventory and other	407	551
Total other non-financial assets	**3,568**	**3,680**
Total	**7,105**	**5,472**

The Group and Bank allocates other financial assets under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 January 2022: Stage 1). ECL at the year ends is shown in the above table.

Refer to Note 28 for the estimated fair value of other financial assets. Information on related party balances is disclosed in Note 30.

16. 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 2023	31 December 2022
Current accounts	**261,913**	**254,180**
- private individuals	49,426	61,236
- legal entities	212,487	192,944
Savings accounts	**474,159**	**413,507**
- private individuals	223,336	224,962
- legal entities	250,823	188,545
Term deposit accounts	**320,914**	**300,583**
- private individuals	214,771	176,769
- legal entities	106,143	123,814
Other liabilities to customers	**2,781**	**2,118**
Total	**1,059,767**	**970,388**

Separate

in '000 GEL	31 December 2023	31 December 2022
Current accounts	**270,544**	**260,266**
- private individuals	49,426	61,236
- legal entities	221,118	199,030
Savings accounts	**474,159**	**413,507**
- private individuals	223,336	224,962
- legal entities	250,823	188,545
Term deposit accounts	**320,914**	**300,583**
- private individuals	214,771	176,769
- legal entities	106,143	123,814
Other liabilities to customers	**2,781**	**2,118**
Total	**1,068,398**	**976,474**

At 31 December 2023, the Group and Bank had included pending client transfers of GEL 2,781 thousand (2022: GEL 2,118 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 2023	31 December 2022
Private individuals	487,533	462,967
Trade and services	405,400	365,203
Transportation and communications	44,733	27,501
Construction	47,414	42,791
Manufacture	31,194	30,303
Government	22,456	22,456
Agriculture and forestry	16,558	13,043
Mining and mineral processing	199	134
Other	4,280	5,990
Total	**1,059,767**	**970,388**

Separate

in '000 GEL	31 December 2023	31 December 2022
Private individuals	487,533	462,967
Trade and services	414,031	371,289
Transportation and communications	44,733	27,501
Construction	47,414	42,791
Manufacture	31,194	30,303
Government	22,456	22,456
Agriculture and forestry	16,558	13,043
Mining and mineral processing	199	134
Other	4,280	5,990
Total	**1,068,398**	**976,474**

At 31 December 2023, the Group and Bank had 191 customers (2022: 113 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 552,408 thousand (2022: GEL 369,401 thousand) or 38 % (2022: 38 %) of total customer accounts.

At 31 December 2023, customer accounts included deposits of GEL 8,892 thousand (2022: GEL 9,242 thousand) held as collateral for on-balance exposures and GEL 18,153 thousand (2022: GEL 4,258 thousand) held as collateral for irrevocable commitments under financial and performance guarantees and letters of credit refer to Note 29.

Interest rate analysis is disclosed in Note 27. Information on related party balances is disclosed in Note 30. Refer to Note 28 for the estimated fair value of each class of customer accounts.

17. 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 2023	31 December 2022
Ministry of Finance of Georgia	December 2026	810	1,045
European Investment Bank (EIB)	March 2023	-	3,343
European Investment Bank (EIB)	April 2024	2,014	6,056
European Investment Bank (EIB)	July 2022	-	-
European Investment Bank (EIB)	October 2024	3,551	7,118
European Investment Bank (EIB)	February 2024	494	1,486
European Investment Bank (EIB)	December 2026	14,935	17,406
European Investment Bank (EIB)	August 2027	14,941	14,435
Council of Europe Development Bank (CEB)	April 2027	29,779	36,013
European Bank for Reconstruction and Development (EBRD)	August 2024	44,704	43,173
ProCredit Holding AG	May 2027	45,886	44,393
ProCredit Bank AG, Frankfurt am Main	April 2024	13,443	13,006
ProCredit Bank AG, Frankfurt am Main	August 2027	25,592	24,758
ProCredit Bank AG, Frankfurt am Main	April 2024	13,444	13,007
Total liabilities with fixed interest rates		**209,593**	**225,239**
Liabilities with variable interest rates			
European Bank for Reconstruction and Development(EBRD)	July 2026	26,015	28,821
European Bank for Reconstruction and Development(EBRD)	February 2024	6,927	20,612
European Bank for Reconstruction and Development(EBRD)	September 2023	-	8,797
GREEN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2025	16,990	24,603
ProCredit Bank AG, Frankfurt am Main	July 2027	27,494	26,262
Council of Europe Development Bank (CEB)	March 2029	37,632	36,189
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	20,121	27,822
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	18,572	25,679
The European Fund For Southeast Europe S.A., SICAV-SIF	June 2027	29,597	-
GN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2027	14,801	-
Total liabilities with variable interest rates		**198,149**	**198,785**
Total liabilities		**407,742**	**424,024**

Below table shows maturity analysis of other borrowed funds as at 31 December 2023 and 31 December 2022 based on carrying amount.

As at 31 December 2023 (in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	136,076	264,227	7,439	**407,742**
As at 31 December 2022(in '000 GEL)	**less than 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Other borrowed funds	75,584	334,044	14,396	**424,024**

Refer to Note 28 for the estimated fair value of other borrowed funds. The interest rate analysis is disclosed in Note 27. Information on related party balances is disclosed in Note 30. Undiscounted cash flows are shown in note 27.

18. OTHER LIABILITIES

Consolidated

in '000 GEL	31 December 2023	31 December 2022
Account payable	789	626
Other	1,428	1,877
Total other financial liabilities	**2,217**	**2,503**
Received prepayments and deferred fees from guarantees issued	221	201
Total other liabilities	**2,438**	**2,704**

Guarantee amounts received from EIF against defaulted exposures are reflected in the loan portfolio in 2023.

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 2023 and 2022.

Refer to Note 28 for the estimated fair value of other financial liabilities.

19. INCOME TAXES

The applicable income tax rate is 20 % for Georgian companies. Income tax expenses recorded in profit or loss for the year comprise the following:

Consolidated

in '000 GEL	2023	2022
Current tax charge	9,154	7,171
Deferred tax charge	(1,606)	2,282
Income tax expense for the year	**7,548**	**9,453**

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

in '000 GEL	2023	2022
Profit before tax	**53,792**	**52,443**
Theoretical tax charge at statutory rate of 20%	10,759	7,867
Tax effect of items which are not deductible:		
− Non-tax deductible expenses/(income)/ effects of change of tax legislation	(3,211)	1225
Income tax expense for the year	**7,548**	**9,453**

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 2023 and 2022.

20. SUBORDINATED DEBT

Consolidated and Separate

The subordinated debt can be broken down as follows:

in '000 GEL	Due	31 December 2023	31 December 2022
Subordinated debt with fixed interest rates			
ProCredit Holding AG	September 2028	14,886	14,399
Total		**14,886**	**14,399**

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 28 for the disclosure of the fair value of subordinated debt. The interest rate analysis is disclosed in Note 27. Information on related party balances is disclosed in Note 30.

21. SHARE CAPITAL AND SHARE PREMIUM

Shareholder structure is as follows:

in '000 GEL (except for the number of shares)	31 December 2023			31 December 2022		
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	100%	22,496,561	112,483	100%	22,496,561	112,483
Total	**100%**	**22,496,561**	**112,483**	**100%**	**22,496,561**	**112,483**

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2022	**22,496,561**	**112,483**	**72,118**
At 31 December 2023	**22,496,561**	**112,483**	**72,118**

Dividends

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

In 2023 dividends were declared and paid GEL 42,782 thousand GEL 1.90 per share (2022: 14,500).

22. 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 2023	**424,024**	**14,399**	**1,426**	**439,849**
Proceeds	44,635	-	-	**44,635**
Repayments	(69,923)	-	(462)	**(70,385)**
Total changes from financing cash flows	**(25,288)**	**-**	**(462)**	**(25,750)**
The effect of changes in foreign exchange rates	**2,415**	**510**	**(1)**	**2,924**
Other changes				
Interest expense	16,244	855	75	**17,174**
New lease liability	-	-	779	**779**
Interest paid	(9,653)	(878)	-	**(10,531)**
Balance at 31 December 2023	**407,742**	**14,886**	**1,817**	**424,445**

	Liabilities from financing activities			
	Other borrowed funds	Subordinated debt	Lease Liabilities	Total
Balance at 1 January 2022	**514,936**	**25,400**	**1,886**	**542,222**
Proceeds	57,737	-	-	**57,737**
Repayments	(70,318)	(6,832)	(497)	**(77,647)**
Total changes from financing cash flows	**(12,581)**	**(6,832)**	**(497)**	**(19,910)**
The effect of changes in foreign exchange rates	**(82,669)**	**(4,057)**	**(183)**	**(86,909)**
Other changes				
Interest expense	12,460	1,433	91	**13,984**
New lease liability	-	-	129	**129**
Interest paid	(8,122)	(1,545)	-	**(9,667)**
Balance at 31 December 2022	**424,024**	**14,399**	**1,426**	**439,849**

23. NET INTEREST INCOME

Consolidated and Separate

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

in '000 GEL

Interest and similar income calculated using effective interest rate method	**2023**	**2022**
Loans and advances to customers	97,905	101,437
Investment in debt securities	9,670	5,320
Cash and cash equivalents and due from banks	9,915	6,493
Total interest income calculated using effective interest rate method	**117,490**	**113,250**
Interest and similar expenses		
Customer accounts	(23,871)	(21,548)
Other borrowed funds	(15,623)	(12,460)
Subordinated debt	(855)	(1,433)
Due to banks	(621)	(328)
Lease liabilities	(75)	(91)
Total interest expenses	**(41,045)**	**(35,860)**
Net interest income	**76,445**	**77,390**

24. FEE AND COMMISSION INCOME AND EXPENSES

Consolidated and Separate

in '000 GEL

Fee and commission income	**2023**	**2022**
Payment transfers and cash transactions	3,253	3,450
Account maintenance fee	3,943	4,172
Debit/credit card service fee	2,772	3,036
Letters of credit and guarantees	2,182	2,364
Internet bank fee	27	21
SMS service fee	3	4
Other fee and commission income	149	157
Total fee and commission income	**12,329**	**13,204**
Fee and commission expenses		
Debit/credit card service fee	(5,187)	(5,723)
Account maintenance fee	(1,538)	(1,263)
Letters of credit and guarantees	(116)	(122)
Payment transfers and transactions	(21)	(21)
Service fee	(3,316)	(4,398)
Total fee and commission expenses	**(10,178)**	**(11,527)**
Net fee and commission income	**2,151**	**1,677**

25. OTHER ADMINISTRATIVE EXPENSES

Consolidated and Separate

Other administrative expenses include the following items:

in '000 GEL	2023	2022
Communication and IT expenses	8,666	9,456
Personnel recruitment, training and other staff-related expenses	6,150	5,092
Depreciation and amortization	4,404	4,639
Consulting and legal services	3,860	3,678
Taxes other than on income	1,997	2,115
Marketing, advertising and entertainment	1,782	1,832
Utilities and electricity	977	933
Transport	967	778
Insurances	345	373
Repair and maintenance	519	364
Audit and other financial services	152	131
Office rent	126	123
Security service	19	20
Other	407	460
Total	**30,371**	**29,994**

Administrative expenses above includes GEL 152 thousand (2022: GEL 131 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 2,745 thousand were incurred on staff training and related activities during 2023 (2022: GEL 2,396 thousand).

In 2023 the monthly average number of persons employed by the Group and Bank was 271 people (2022: 265).

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

	2023	2022
Senior Management	2	3
Middle Management	23	23
Other staff	246	258
Total	**271**	**284**

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

26. OTHER OPERATING INCOME AND EXPENSES

Consolidated

(a) Other operating income

in '000 GEL	2023	2022
Share of the investee's profit recognized under the equity method	985	2,940
Rental income from investment properties	1,041	1,159
Income from sale of repossessed properties	2,655	507
Gain from disposal of property, and equipment	65	243
Other operating income	378	281
Total	**5,124**	**5,130**

(b) Other operating expenses

in '000 GEL	2023	2022
Loss related to write/sale off of repossessed property	23	2,346
Expenses for provisions on non-financial off-balance items	1,286	-
Expenses related for deposit insurance fund	468	514
Expenses from disposal of property and equipment	1	28
Other operating expense	502	846
Total	**2,280**	**3,734**

Separate

(a) Other operating income

in '000 GEL	2023	2022
Share of the investee's profit recognized under the equity method	985	2,940
Rental income from investment properties	1,020	1,150
Income from sale of repossessed properties	47	2
Gain from disposal of property, and equipment	65	243
Other operating income	388	291
Total	**2,505**	**4,626**

(b) Other operating expenses

in '000 GEL	2023	2022
Expenses for provisions on non-financial off-balance items	1,286	-
Expenses related for deposit insurance fund	468	514
Loss related to write/sale off of repossessed property	23	173
Expenses from disposal of property and equipment	1	28
Other operating expense	502	846
Total	**2,280**	**1,561**

27. 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, as well as keeping capital indicators within the acceptable levels under risk management framework.
- 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 Department 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 quarterly basis. These reports include rolling forecasts to ensure not only current but also future compliance (quarterly). Regulatory Tier 1 and total capital ratios are also reported to the Bank's ALCO on a monthly basis.

As at 31 December 2023 the Group and Bank was in compliance with the regulatory capital adequacy requirements imposed by the NBG. As of 2022 NBG requirements are in accordance with the guidelines of the Basel Committee (Basel II /III), however, as of 2023 NBG requirements were transitioned into IFRS. The following table shows the capital adequacy ratios as calculated in accordance with those requirements:

As at 31 December (Pillar I + Pillar II)	2023 Actual	2023 Requirement	2022 Actual	2022 Requirement
Tier 1 Capital /RWA	21.39%	11.93%	19.58%	11.90%
Tier 1 + Tier 2 Capital /RWA	22.27%	18.22%	21.70%	15.36%

NBG introduced Pillar II buffers which were to be maintained from December 2017. As of 31 December 2023, the minimum requirements including set buffers for Tier 1 equals to 14.63% and for Regulatory capital 18.22% of the total risk weighted assets. Unhedged credit risk is excluded from total risk weighted assets for Pillar I and added as a buffer.

In relation to IFRS transition, buffers have been changed from 2022. Under the framework of Pillar 2, CRA (credit risk adjustment) buffer was introduced in the IFRS guidelines effective from January 2023

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	2023*	2022*
Tier 1 Capital / RWA	21.45%	20.56%
Tier 1 + Tier 2 Capital / RWA	22.52%	21.72%

in '000 GEL

As at 31 December	2023*	2022*
Ordinary share capital	112,483	112,483
Share premium	72,118	72,118
Prior period retained earnings	112,731	84,240
Profit for first nine months	40,569	32,998
Less other adjustments	-	-
Less dividends paid in current year	(42,782)	(14,500)
Less planned dividends in next year	(11,056)	(30,634)
Less intangible assets	(1,993)	(1,370)
Tier I capital	**282,070**	**255,335**
Adjusted Tier I capital	**282,070**	**255,335**
Subordinated loans	**14,121**	**14,395**
Tier II capital	**14,121**	**14,395**
Total regulatory capital	**296,191**	**269,730**

in '000 GEL

As at 31 December	2023*	2022*
RWA on balance	1,139,277	1,081,302
RWA off balance	28,666	30,108
RWA from open currency position	67	40
RWA from operational risk	147,255	130,361
Total RWA	**1,315,265**	**1,241,811**

* 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 2023 and 2022 the Group and Bank's leverage ratio was above 10%.

ICAAP

In addition to regulatory capital ratios, the Group and Bank assesses its capital adequacy by using the concept of ICAAP to reflect the specific risk profile of the Group and Bank, i.e. comparing potential losses arising from its operations with its total Resources Available to Cover Risk (RAtCR). The economic capital requirement is determined on the basis of statistical models or other procedures which enable quantification of the risks incurred. The Bank considers the significant risks which it faces, i.e. credit risk, counterparty risk, interest rate, currency risk and operational risk, to be quantifiable.
As of 2022 the risk bearing potential of the Group and Bank was defined as balance sheet equity less planned dividend payments, less balance sheet intangibles ,less deferred tax assets, added balance sheet subordinated debt. As of 2023, balance sheet subordinated debt is not added to the risk-taking potential. In order to ensure sufficient internal capital adequacy, a maximum of 60% (limit) of the risk-taking potential was made available as resources (RAtCR) as of 2022 which can be used to cover credit, market and operational risks. As of 2023, the limit was increased from 60% to 80% in relation to removing subordinated debt from the risk-taking potential calculation. Risk-taking potential was GEL 284 million as at 31 December 2023 (2022: GEL 264 million). The Resources Available to Cover Risk (RAtCR) was set at 80% of the risk-taking potential, i.e. GEL 227 million, unaudited for 2023 (2022: GEL 158 million, unaudited 60% of the risk-taking potential). For calculating potential losses in the different risk categories the following concepts are used:

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

Credit Risk 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 80% 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 2023.

Risk Factor	**Risk Detail**	**Limit** (in %) *	**Limit** (in '000 GEL)*	**Actual** (in '000 GEL)*	**Limit Used** (in % of risk taking potential)*
Credit Risk	Credit Risk (Clients)	44.0%	124,988	50,043	17.6%
Counterparty Risk	Sovereign and Commercial Banks	7.0%	19,884	5,489	1.9 %
Market Risk	Interest Rate Risk	13.0%	36,928	7,257	2.6%
Market Risk	Currency Risk	3.0%	8,522	736	0.3%
Operational Risk	Operational Risk	13.0%	36,928	11,780	4.1%
Resources Available to Cover Risk		80.0%	227,250	75,305	26.5%

As at the end of December 2022 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 taking potential)*
Credit Risk	Credit Risk (Clients)	33.0%	87,034	33,993	12.9%
Counterparty Risk	Sovereign and Commercial Banks	5.0%	13,187	4,777	1.8 %
Market Risk	Interest Rate Risk	10.0%	26,374	7,608	2.8%
Market Risk	Currency Risk	2.0%	5,275	728	0.3%
Operational Risk	Operational Risk	10.0%	26,374	10,429	4.0%
Resources Available to Cover Risk		**60.0%**	**158,244**	**57,535**	**21.8%**

* These amounts are unaudited.

(a) Credit risk

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

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

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

- Analysis of the debt capacity of borrowers.
- Documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties.
- Avoidance of over indebting the Group and Bank's borrowers.
- Building a personal and long term relationship with the client and maintaining regular contact.
- Regular monitoring of borrower's capacity.
- Monitoring of loan repayment, fulfilment of covenants.
- Practicing 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 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 core business of the Group and Bank, lending to small and medium enterprises, necessitated a high degree of standardization in lending processes and ultimately led to a high degree of diversification of these exposures in terms of economic sectors.

The Group and Bank offer financial services to business clients, typically the very small, small and medium-sized businesses which provide livelihoods for many families and which drive economic growth and job creation in country. The group also offers its financial services to ordinary private clients in those countries, primarily to clients who receive their salaries at the bank, self employed and/or owners of very small, small and medium-sized businesses.

The Group and Bank have developed robust processes for its lending operations under which it is able to successfully manage the specific credit risks. Different methods of credit risk management are applied when dealing with different categories of clients and credit exposures. The key features of the credit processes for business and private clients are as follows: segregation of duties, informational basis for credit analysis, criteria for credit exposure decisions (The decision to grant credit exposures to clients is based mainly on an assessment of the quality and capacity of the management of the company, an assessment of creditworthiness, the purpose of the loan, collateral (serves as protection for the Group and the Bank from losses due to a borrower's default).

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 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 in such a way that allows direct inclusion of collaterals and financial guarantees in the calculation of the loss rate as well as it incorporates explicit modelling of the probability of cured defaults. In addition, this setting accounts for the fact that not all collaterals are sold by the bank after a non-cured default.
- 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 27 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.

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.

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 based on the quantity or quality of collateral used for securitization of that exposure. 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 1 consist of the portfolio that does not show any signs of increased credit risk

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

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

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

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

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

- performing forborne standard or watch restructuring event(s)

- customer is assigned to Risk Classification 6 / 7

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

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:

- Exposure more than 90 days past due
- 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
- Non-Performing Forborne (Impaired)
- Bankruptcy procedure is initiated
- The bank has started legal proceedings against the client
- Credit fraud event
- Other signs of impairment

After being transferred into Stage 3, the lifetime expected credit loss considering a 100% probability of default (lifetime ECL credit impaired) 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.:

- Non-Performing Forborne (Impaired)
- 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.

Risk classification process

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

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

	Stage 2	Stage 3 and POCI
At 31 December 2023	**2.8%**	**3.1%**
At 31 December 2022	**4.2%**	**3.1%**

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.

The structure of the loan portfolio is regularly reviewed by the Credit Risk Department, in order to identify potential events which could have an impact on large portion of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.
The maximum credit exposure which a bank may grant to a single borrower or a group of connected clients other than financial institutions shall only in exceptional circumstances exceed 10% of the bank's total Tier 1 capital. Credit exposures equal to or exceeding 10% of the bank's Tier 1 capital are defined as large credit exposures and the bank shall request the Group Risk Management Committee (or the Risk Management Sub-committee) to authorise in principle the credit exposure before the case is analysed and before the Credit Committee takes a decision on the credit exposure in question. No large credit exposure may exceed 25% of the bank's Tier 1 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.

Credit risk from interbank placements and issuer risk

Conceptual risk management framework

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

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

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

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

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

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

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

in '000 GEL	31 December 2023	In %	31 December 2022	In %
Banking groups	**166,012**	**32%**	**143,771**	**29%**
OECD banks	94,570	18%	105,885	21%
Non-OECD banks	71,442	14%	37,886	8%
NBG	**270,955**	**51%**	**288,557**	**59%**
Mandatory reserve	170,304	32%	199,513	40%
Other exposures	100,651	19%	89,044	18%
Government of Georgia	**90,507**	**17%**	**60,814**	**12%**
Treasury bills	90,507	17%	60,814	12%
Total counterparty and issuer exposure	**527,474**	**100%**	**493,142**	**100%**

The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 63% (2022: 69%) of the NBG's exposure. The distribution of the NBG and government exposures across currencies can be seen in the following table:

in '000 GEL **31 December 2023**	GEL	EUR	USD	Total
NBG	**100,631**	**57,719**	**112,605**	**270,955**
Mandatory reserve	-	57,707	112,597	170,304
Balances at NBG excluding mandatory reserves	76,836	12	8	76,857
Certificates of deposits of NBG	23,794	-		23,794
Government of Georgia	**90,507**	-	**-**	**90,507**
	191,138	**57,719**	**112,605**	**361,463**

in '000 GEL **31 December 2022**	GEL	EUR	USD	Total
NBG	**88,971**	**59,558**	**140,028**	**288,557**
Mandatory reserve	-	59,529	139,984	199,513
Balances at NBG excluding mandatory reserves	67,299	29	44	67,372
Certificates of deposits of NBG	21,672	-		21,672
Government of Georgia	**60,814**	-	**-**	**60,814**
	149,785	**59,558**	**140,028**	**349,371**

(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 and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the General Risk Department.

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 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 are 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, considering the liquidity gaps of the later time buckets and additional sources of potential liquidity. The respective key indicator is defined as the Liquidity Position.

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 NSFR and Liquidity Coverage Ratio (set forth under Basel III), also several external indicators. If one of the reporting triggers is passed the ALCO or General Risk Management Committee must be involved in decisions on appropriate measures.

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 to avoid dependencies on a few large depositors.

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

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

in '000 GEL **At 31 December 2023**	**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)	291,923	5,546	27,734	19,829	1,807	346,840	346,840
Due from banks	106,649	-	-	-	-	106,649	106,603
Loans and advances to customers	50,274	90,183	381,401	592,449	296,077	1,410,384	1,168,320
Investments in debt securities	20,103	21,998	54,026	29,704	-	125,830	114,302
Other financial assets	3,537	-	-	-	-	3,537	3,537
- Inflow	6,738		-	-	-	6,738	4
- Outflow	(6,739)		-	-	-	(6,739)	(4)
Total Financial Assets	**472,484**	**117,727**	**463,162**	**641,982**	**297,884**	**1,993,239**	**1,739,601**
Non-derivative Financial Liabilities							
Due to banks	-	-	-	-	-	-	-
Customer accounts	737,310	33,377	166,909	119,336	10,876	1,067,808	1,059,767
Other borrowed funds	13,747	9,001	123,590	291,495	7,587	445,421	407,742
Other financial liabilities	1,561	315	342	-	-	2,217	2,217
Lease liability	26	69	303	1,361	160	1,919	1,818
Subordinated debt	-	-	893	18,241	-	19,134	14,886
Total Financial Liabilities	**752,644**	**42,761**	**292,037**	**430,434**	**18,623**	**1,536,499**	**1,486,430**
Liquidity Gap	**(280,160)**	**74,966**	**171,125**	**211,548**	**279,261**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(280,160)**	**(205,194)**	**(34,069)**	**177,479**	**456,741**		
Credit related commitments and guarantees	**171,459**	**-**	**-**	**-**	**-**	**171,459**	

in '000 GEL **At 31 December 2022**	**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)	304,840	7,708	22,540	25,591	1,271	361,950	361,950
Due from banks	84,795	-	-	-	-	84,795	84,713
Loans and advances to customers	34,864	93,533	354,914	625,624	219,311	1,328,246	1,126,068
Investments in debt securities	15,023	11,740	34,467	8,389	23,451	93,069	82,486
Other financial assets	1,790	-	-	-	-	1,790	1,790
- Inflow	9,282		-	-	-	9,282	3
- Outflow	(9,287)		-	-	-	(9,287)	(8)
Total Financial Assets	**441,307**	**112,981**	**411,921**	**659,604**	**244,032**	**1,869,845**	**1,657,001**
Non-derivative Financial Liabilities							
Due to banks	-	-	-	-	-	-	-
Customer accounts	686,696	39,598	115,788	131,464	6,528	980,074	971,212
Other borrowed funds	8,927	16,680	58,470	349,142	14,715	447,935	424,023
Other financial liabilities	1,747	414	344	-	-	2,505	2,505
Lease liability	36	62	280	1,004	283	1,664	1,426
Subordinated debt	-	-	432	3,901	15,042	19,376	14,399
Total Financial Liabilities	**697,406**	**56,754**	**175,314**	**485,511**	**36,568**	**1,451,554**	**1,413,566**
Liquidity Gap	**(256,099)**	**56,226**	**236,607**	**174,093**	**207,463**		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	**(256,099)**	**(199,873)**	**36,735**	**219,828**	**418,290**		
Credit related commitments and guarantees	**153,817**	**-**	**-**	**-**	**-**	**153,817**	

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 2023, total current accounts within 'Customer accounts' amounted to GEL 261,913 thousand (2022: GEL 255,004 thousand). Within amounts of the customer accounts for the period of the preceding three years on a monthly basis, current accounts end-of-month balances have not fallen below GEL 214,332 thousand. Significant part of total current accounts represents current accounts from legal entities (around 81%) 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 2022, 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.

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 2023and 2022. 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 2023	31 December 2022
Customer deposits	73.3%	69.5%
Liabilities to the companies under Parent's control	8.2%	8.7%
Liabilities to IFIs	18.3%	21.6%
Other liabilities	0.2%	0.2%

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. 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 unfavorable 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. 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 nondeliverable 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 Department.

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

The Group's OCPs were within the aforementioned limits as at 31 December 2023.

The following significant exchange rates applied during the year:

in GEL	**Average rate 2023**	**Average rate 2022**	**Reporting date spot rate 31 December 2023**	**Reporting date spot rate 31 December 2022**
USD 1	2.6235	2.9094	2.6929	2.6991
EUR 1	2.8368	3.0709	2.9757	2.8789

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

in '000 GEL **As at 31 December 2023**	**EUR**	**USD**	**Other currencies**	**GEL**	**Total**
Assets					
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	104,780	146,477	1,710	93,874	346,840
Investments in debt securities	-	-	-	114,302	114,302
Due from banks	23,811	24,244	-	58,547	106,603
Loans and advances to customers	371,170	442,053	-	355,098	1,168,320
Other financial assets	490	2,042	-	1,006	3,537
Total financial assets	**500,251**	**614,816**	**1,710**	**622,827**	**1,739,601**
Liabilities					
Due to banks					
Customer accounts	148,127	562,446	1,748	347,446	1,059,767
Other borrowed funds	341,128	51,679	-	14,935	407,742
Subordinated debt	14,886	-	-	-	14,886
Lease liability	32	1,786	-	-	1,818
Other financial liabilities	1,157	61	-	999	2,217
Total financial liabilities	**505,330**	**615,972**	**1,748**	**363,381**	**1,486,430**
Net position	**(5,079)**	**(1,157)**	**(39)**	**259,445**	**253,171**
The effect of derivatives	**2,381**	**798**	**587**	**(3,766)**	**(1)**
Net position after derivatives	**(2,698)**	**(359)**	**549**	**255,679**	**253,170**

in '000 GEL **As at 31 December 2022**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and balances with the NBG (including mandatory reserve)	93,273	187,867	1,034	79,776	361,950
Investments in debt securities	-	-	-	82,486	82,486
Due from banks		49,692		35,021	84,713
Loans and advances to customers	376,986	403,180	-	345,902	1,126,068
Other financial assets	125	1,033	-	632	1,790
Total financial assets	**470,384**	**641,772**	**1,034**	**543,817**	**1,657,007**
Liabilities					
Due to banks	147,628	559,253	822	262,685	970,388
Customer accounts	305,705	92,115	-	26,203	424,023
Other borrowed funds					
Subordinated debt	14,399				14,399
Lease liability	84	1,342	-	-	1,426
Other financial liabilities	1,460	146	-	900	2,506
Total financial liabilities	**469,276**	**652,856**	**822**	**289,788**	**1,412,742**
Net position	**1,108**	**(11,083)**	**211**	**254,029**	**244,265**
The effect of derivatives	**-**	**9,087**	**(177)**	**(8,915)**	**(5)**
Net position after derivatives	**1,108**	**(1,996)**	**34**	**245,114**	**244,260**

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

1-year holding period are applied to current currency positions:

in '000 GEL **As at 31 December 2023**	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(804)	(936)
Average loss in case confidence interval is exceeded	(718)	(799)

in '000 GEL **As at 31 December 2022**	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(51)	(128)
Average loss in case confidence interval is exceeded	(116)	(148)

During 2023, the local currency depreciated by 3.3% to EUR and appreciated by 0.2 % to USD.The Bank maintains its "closed-positions" policy, any fluctuations on the foreign currency markets will have a minor effect on the Bank's financial results.

ii. Interest rate risk

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

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

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

Economic value risk

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

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

Interest earnings risk

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

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

The Group's interest rate risk position is monitored by the General Risk Management Committee and ALCO. 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 2023**	**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)	277,088	-	-	-	-	-	69,752	346,840
Due from banks	106,542	-	-	-	-	-	61	106,603
Investments in debt securities	19,905	21,693	27,127	23,221	22,354	-	-	114,302
Loans and advances to customers	34,827	261,047	188,392	285,059	375,603	15,698	7,694	1,168,320
Other financial assets							3,537	3,537
Total financial assets	**438,362**	**282,740**	**215,520**	**308,280**	**397,958**	**15,698**	**81,044**	**1,739,601**
Liabilities								
Customer accounts	484,225	33,985	46,904	117,598	96,968	9,723	270,365	1,059,767
Other borrowed funds	62,725	44,851	100,243	77,648	116,663	-	5,613	407,742
Other financial liabilities	-	-	-	-	-	-	2,217	2,217
Lease liability	-	-	-	-	-	-	1,818	1,818
Subordinated debt	-	-	-	-	-	14,879	7	14,886
Total liabilities	**546,950**	**78,835**	**147,147**	**195,246**	**228,509**	**9,723**	**280,020**	**1,486,430**
Net interest sensitivity gap	**(108,588)**	**203,905**	**68,373**	**113,034**	**169,449**	**5,976**		

in '000 GEL **As at 31 December 2022**	**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)	81,757	-	-	-	-	-	279,435	361,192
Due from banks	84,712	-	-	-	-	-	1	84,713
Investment securities available-for-sale	14,880	11,740	33,419	-	22,401	-	47	82,486
Loans and advances to customers	223,899	113,280	155,601	219,117	366,252	40,444	7,475	1,126,068
Other financial assets							1,790	1,790
Total financial assets	**405,247**	**125,020**	**189,020**	**219,117**	**388,653**	**40,444**	**288,748**	**1,656,249**
Liabilities								
Customer accounts	433,460	37,645	26,593	89,903	88,240	34,995	260,376	971,212
Other borrowed funds	81,272	32,860	35,773	32,688	223,238	14,395	3,798	424,024
Other financial liabilities	-	-	-	-	-	-	2,505	2,505
Lease liability	-	-	-	-	-	-	1,426	1,426
Subordinated debt	-	-	-	-	-	14,395	5	14,399
Total liabilities	**514,731**	**70,506**	**62,366**	**122,591**	**311,478**	**63,784**	**268,110**	**1,413,566**
Net interest sensitivity gap	**(109,484)**	**54,514**	**126,654**	**96,527**	**77,175**	**(23,340)**		

In quantitative terms, the risks associated with interest rate fluctuations are currently limited by stipulating that the interest rate risk exposure (economic value impact in present value) of the Group and the Bank following an interest rate shock of +/- 200 bps on EUR/USD and historical worst case for local currency, may not exceed 15% of total capital for all currencies. As at 31 December 2022, the Group and the Bank were in compliance with these requirements. According to new model, positive effects are considered as zero. Cumulative interest earnings impact for 12 months shows the following figures as at 31 December 2023:

in '000 GEL	**Impact on profit or loss (equals impact on equity)**			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
EUR	-	(1,180)	-	(2,800)
USD	-	(615)	-	(2,520)
GEL	-	(6,327)	-	(14,462)
	-	**(8,122)**	**-**	**(19,782)**

As at 31 December 2022, the impact of cumulative interest earnings was as follows:

in '000 GEL	**Impact on profit or loss (equals impact on equity)**			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
EUR	-	(943)	-	(1,991)
USD	-	(920)	-	(3,738)
GEL	-	(5,512)	-	(13,532)
	-	(7,375)	-	(19,261)

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 2023			
in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	3.00	4.00	9.73
Loans and advances to customers	6.42	6.83	13.06
Financial liabilities			
Customer accounts	0.66	1.98	4.72
Other borrowed funds	3.45	6.70	8.45
Subordinated debt	5.94	-	-

At 31 December 2022			
in % p.a.	**EUR**	**USD**	**GEL**
Financial assets			
Due from banks	-	4.10	11.10
Loans and advances to customers	5.61	6.52	14.03
Financial liabilities			
Customer accounts	0.50	1.58	4.80
Other borrowed funds	2.22	4.19	9.47
Subordinated debt	5.94	-	-

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 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).

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 as well as international sanctions.

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 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.

28. 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 2023 and 2022. Results are provided in the following table:

in '000 GEL		2023		2022	
	Level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets					
Cash and cash equivalents	Level 2	176,536	176,536	162,437	162,437
Mandatory reserve deposits with NBG	Level 2	170,304	170,304	199,513	199,513
Due from other banks	Level 2	106,603	106,603	84,713	84,713
Financial Assets at fair value through profit or loss	Level 2	4	4	3	3
Investments in debt securities	Level 2	114,302	115,078	82,486	83,403
Loans and advances to customers	Level 3	1,168,320	1,167,566	1,126,068	1,105,470
Other financial assets	Level 3	3,537	3,537	1,790	1,790
Total financial assets		**1,739,605**	**1,739,628**	**1,657,010**	**1,637,330**

in '000 GEL		2023		2022	
	Level	**Carrying Value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities					
Due to other banks	Level 2	-	-	-	-
Customer accounts					
Current accounts	Level 2	261,913	261,913	254,180	254,180
Savings accounts	Level 2	474,159	474,159	413,507	413,507
Term accounts	Level 3	320,914	318,199	300,583	297,241
Other liabilities to customers	Level 2	2,781	2,781	2,118	2,118
Financial liabilities at fair value	Level 3	4	4	8	8
Other borrowed funds	Level 3	407,742	394,227	424,024	410,381
Other financial liabilities	Level 3	2,217	2,217	2,505	2,505
Subordinated debt	Level 3	14,886	10,350	14,399	10,252
Total financial liabilities		**1,484,617**	**1,463,850**	**1,411,324**	**1,390,192**

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

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

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

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

29. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

in '000 GEL

As at 31 December	2023	2022
Financial guarantees and stand-by letters of credit	9,873	10,616
Performance guarantees	69,268	53,178
Commitments to extend credit:		
- Original term to maturity of one year or less	91,202	87,801
- Original term to maturity of more than one year	1,116	2,223
Total	**171,459**	**153,817**

As at 31 December 2022 the Group/Bank allocates commitments to extend credit, financial guarantees and stand-by letters of credit in Stage 1 and 2 (major part of this exposures are in stage 1) for the purposes of identifying expected credit loss under IFRS 9 (1 January 2022: Stage 1and 2). The Group/Bank calculates provision of performance guarantees according to IAS 37. Management estimates that ECL is immaterial at reporting dates. The table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. The management believes that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements.

Tax legislation

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

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

Litigation

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

30. RELATED PARTY TRANSACTIONS

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

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

The Group and Bank had the following balances outstanding as at 31 December 2023 and 2022 with related parties:

in '000 GEL **As at 31 December**	**Contractual interest rate, p.a.**	**2023**	**2022**
Assets			
Due from banks and cash			
- Entities under common control	(0.25%) to 3.25 %	46,460	55,809
Loans and advance to customers			
- Key management	4.3%-12 %	484	501
Due to banks			
- Entities under common control		-	-
Customer accounts			
- Key management	0.0%-6%	158	152
Other borrowed funds			
- Parent	2.78%-3.97%	45,886	44,393
- entities under common control	2.28%-3.2%	79,974	77,033
Subordinated debt			
- Parent	5.93%	14,886	14,399

Included in the profit or loss for the year ended 31 December 2023 and 2022 are the following amounts which arose due to transactions with related parties:

in '000 GEL	**2023**	**2022**
Interest expense		
- Parent	2,095	2,890
- entities under common control	3,062	2,396
- key management	5	6
Fees and commission expenses		
- Parent	3,014	3,833
- entities under common control	1,798	1,769
Personnel expenses		
- Key management	876	809
Other administrative expenses		
- Parent	2,820	2,820
- entities under common control	6,598	7,201

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 2023 and 2022 with it subsidiary:

in '000 GEL **As at 31 December**	**2023**	**2022**
Assets		
Investment in Subsidiaries - Subsidiary	6,100	6,100
Liabilities		
Customer accounts - Subsidiary	8,630	6,337

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

- **New Fund Acquired from EBRD**

  On February 9, the Bank obtained the first portion of the USD 10 million loan from the EBRD under the SME Competitiveness Programme, in the amount of USD 5 million.

- **New Member of Management Board**

  A new member of the management board since January, responsible for overseeing the Finance, Accounting and MIS, Financial Analysis and Budgeting, Administration, Correspondent Banking, and Centralized Back Office departments.