ProCredit Bank
Georgia

ANNUAL REPORT
2024

OUR MISSION

We are a development-oriented commercial bank that provides tailor-made services to MSME clients and private individuals through sustainable and impact-oriented banking practices. In doing so, we want to generate long-term, sustainable returns and create a positive impact on the economy and society we operate in.

Contents

Mission statement

ProCredit Bank is a development-oriented commercial bank. We provide superior customer service to small and medium-sized businesses and private individuals. In our operations, we adhere to a number of core principles: we value transparency in our communication with customers, 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 focus of our main activities is on micro, 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. We provide easy-to-use deposit facilities and online banking services to streamline their daily banking routines, along with tailored solutions to meet their financial needs in an ethical manner.

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.

Who we are: ProCredit today

An international development-oriented group of banks

JSC 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 micro, 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 2024, Fitch Ratings affirmed the Government of Georgia's Short-Term Issuer Default Rating at 'B' and Long-Term Issuer Default Rating at 'BB,' while revising the outlook on Georgia's Long-Term Foreign-Currency Issuer Default Rating from Stable to Negative.

In December 2024, Fitch Ratings affirmed ProCredit Bank Georgia's rating at "BB+" and adjusted the Bank's outlook to Negative, reflecting changes in country outlook.

ProCredit Bank continues to maintain the highest possible rating in Georgia, which is 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 2024 ended up even stronger than in the previous year, reaching 9.5% annual rate according to the preliminary data. Unsurprisingly, this significantly exceeded the earlier forecasts, so those for 2025 (5% according to the National Bank of Georgia and 6% according to the International Monetary Fund) should be taken with the grain of salt. Unlike the previous year when the growth was mostly due to the increase in investment, 2024 was characterized by the importance of consumption contributing the bulk of the real growth[1]. On the contrary, due to the drop in the first half of the year, the contribution of investment to overall growth was negative as was that of net exports. On the production side trade (1.4% pp), transportation and storage (1.2%), manufacturing (1.1%), and real estate activities (1.1%) were the main contributors to growth. High economic growth was also conditioned by strong aggregate demand, coming both from domestic and external sources. Domestically increased demand showed up in growth of credit activity (both in GEL and FX), whereas growth in external demand was visible in export of services, both IT and transportation.

Real GDP Growth YoY (%)

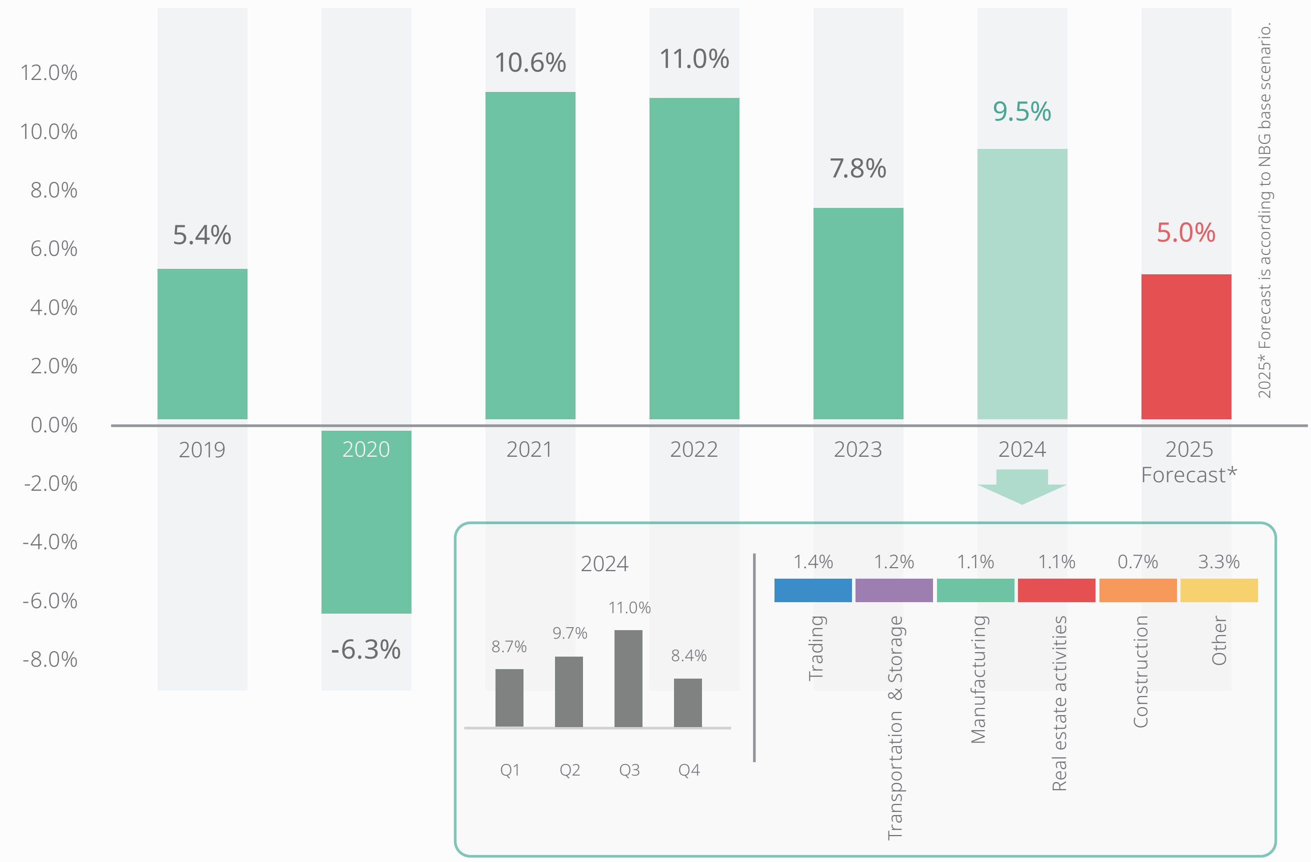


Figure 1. Real GDP Growth (Source: GeoStat, unless stated otherwise)

1. The data are only available for the first three quarters and the overall distribution might change once the annual data is available.

The trade balance in goods remains negative and growing in absolute terms, although it only grew by 8.4%, meaning that as a share of GDP it actually fell[2]. The volume of domestic exports grew since 2023, however slower than total exports and reexports, meaning that the share of domestic exports has fallen further, to 45.8%. As in 2023 the reexports have been driven by the motor cars, constituting 37% of total exports.

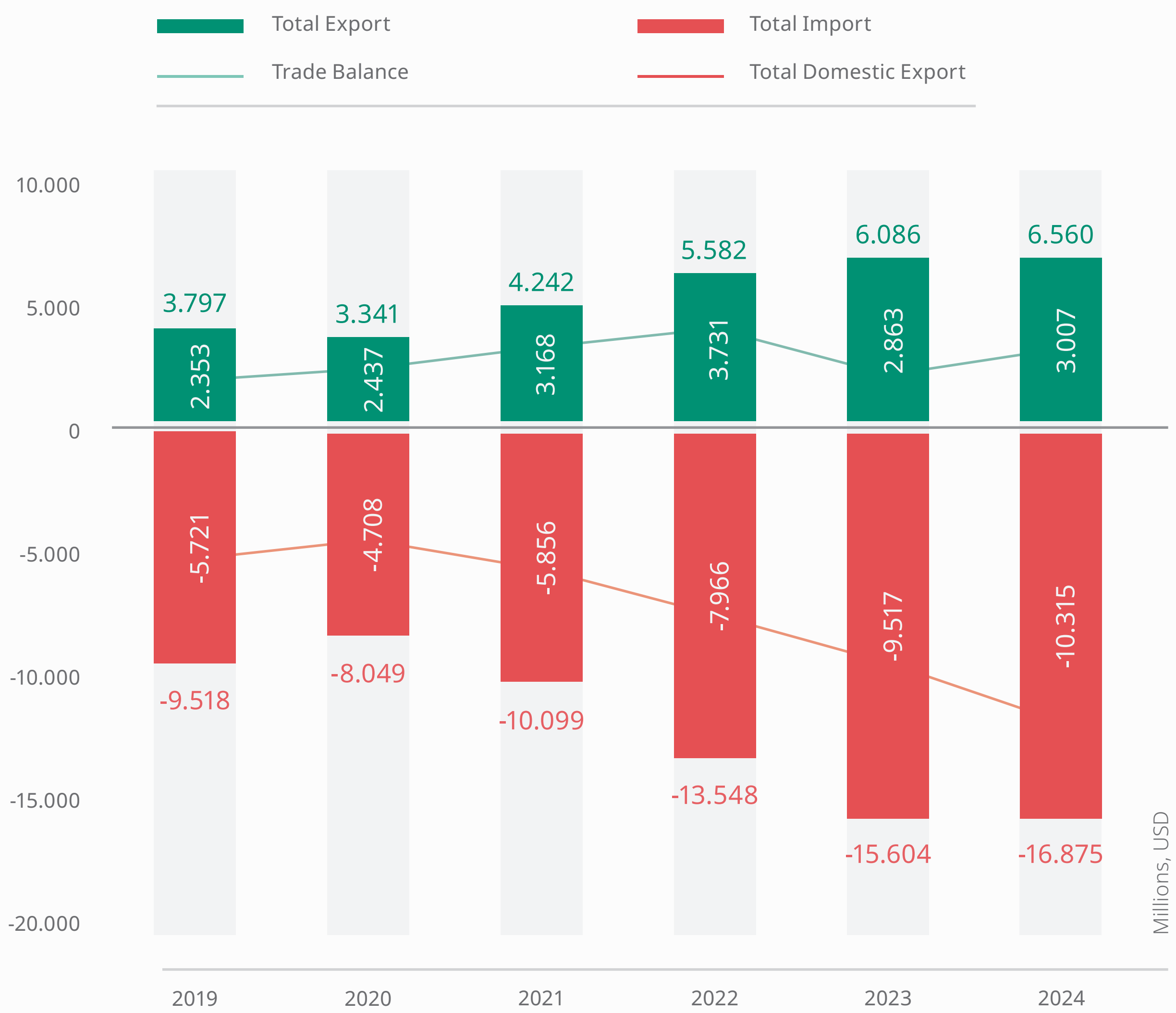


Figure 2. Trade in Goods

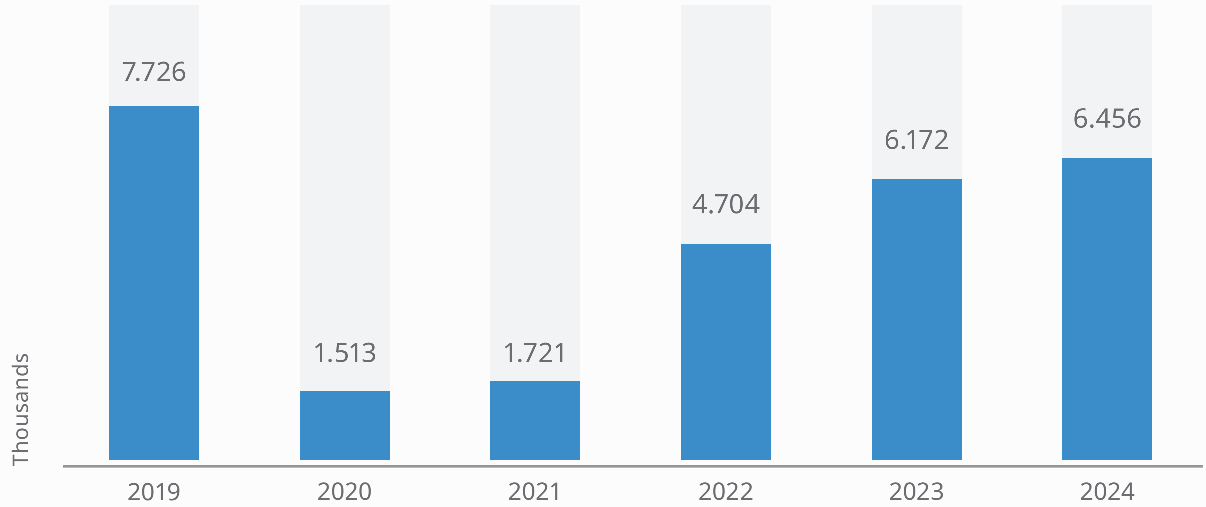
2. More precise numbers will be available once the official data on GDP is out in late March.

The CIS countries remain main export destination for Georgia (69% of total exports - a significant increase since last year's 61%), with Kyrgyzstan (19.6%) and Kazakhstan (13.1%) ahead of Azerbaijan (11%), Russia (10.4%) and Armenia (9.4%). As mentioned above, the motor cars constituted 37% of total exports, followed by ferroalloys (4.9%) spirits and liquors (4.4%), and wines (4.2%). Surprisingly the second highest export commodity of 2023 - copper - dropped by 80.2% and didn't even make the top-10 of exports.

As for imports, Türkiye remains the main importer (16.4% of total), followed by the US (12.1%), Russia (11%), China (9.6%), and Germany (7.8%). Just as in the case of the exports, the imports are dominated by the motor cars (20.5%), followed by petroleum (7.7%), medicaments (3.7%), and natural gas (2.6%).

Figure 3. Decomposition of Exports and Imports

The number of international visitors continues to grow, albeit in 2024 this growth was only 4.6% and the total still falls quite short of 2019 figures. Revenues from international travel continue to grow, with the annual growth in 2024 of 7.3%, and total growth since 2019 of 35.4%. International visitors come mostly from Russia, Türkiye, and Armenia (58% of total), with the EU being a far fourth at just 6% of total visitors[3]. However, as before, an EU visitor seems to spend almost twice as much as a Russian one, given the share of EU visitors in total revenues from tourism (13%).



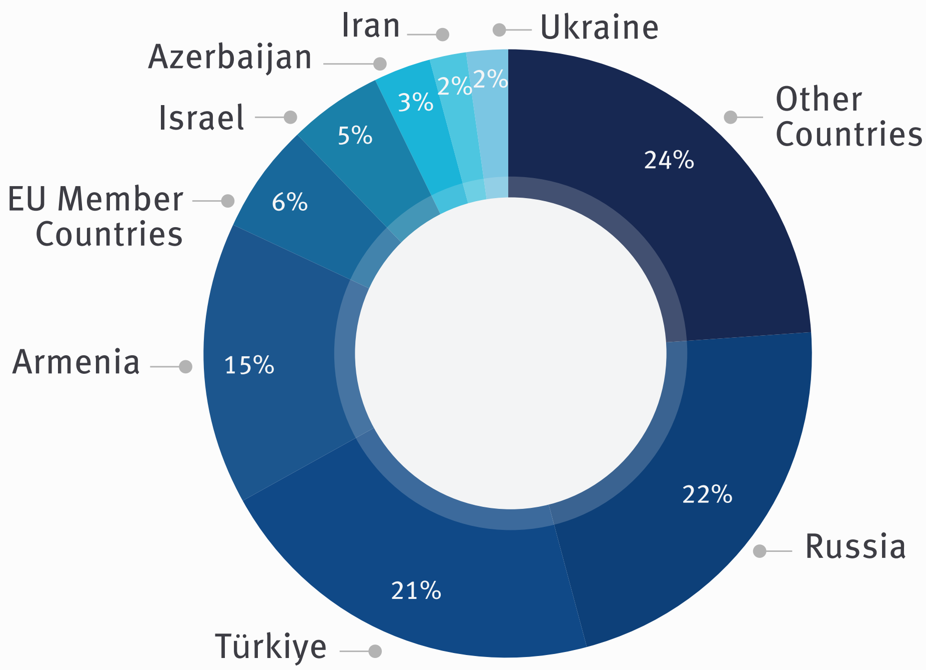
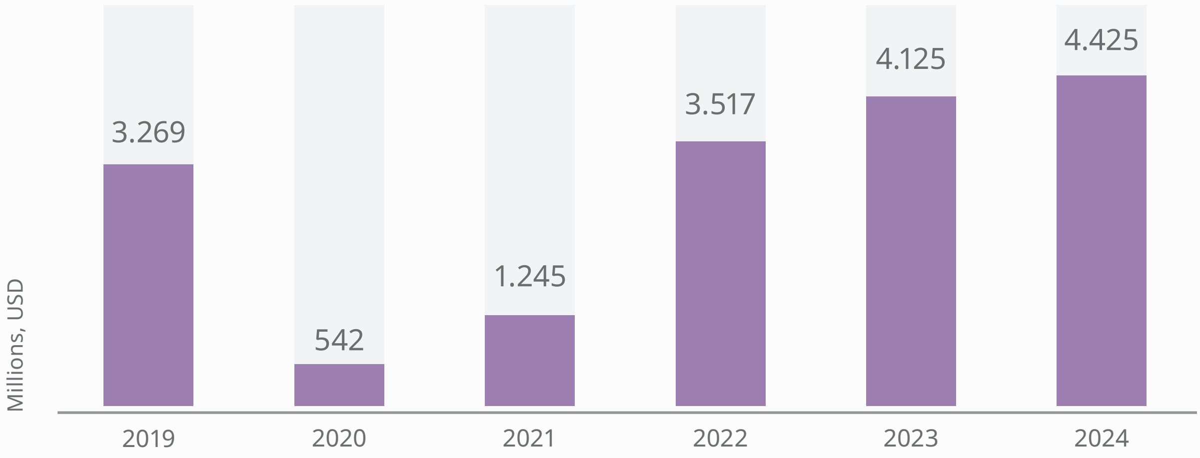


Figure 4. International Visitors by years (upper) and the decomposition by country of citizenship in 2023 (lower). (Source: Geostat and NBG)

3. A drop from the last year.



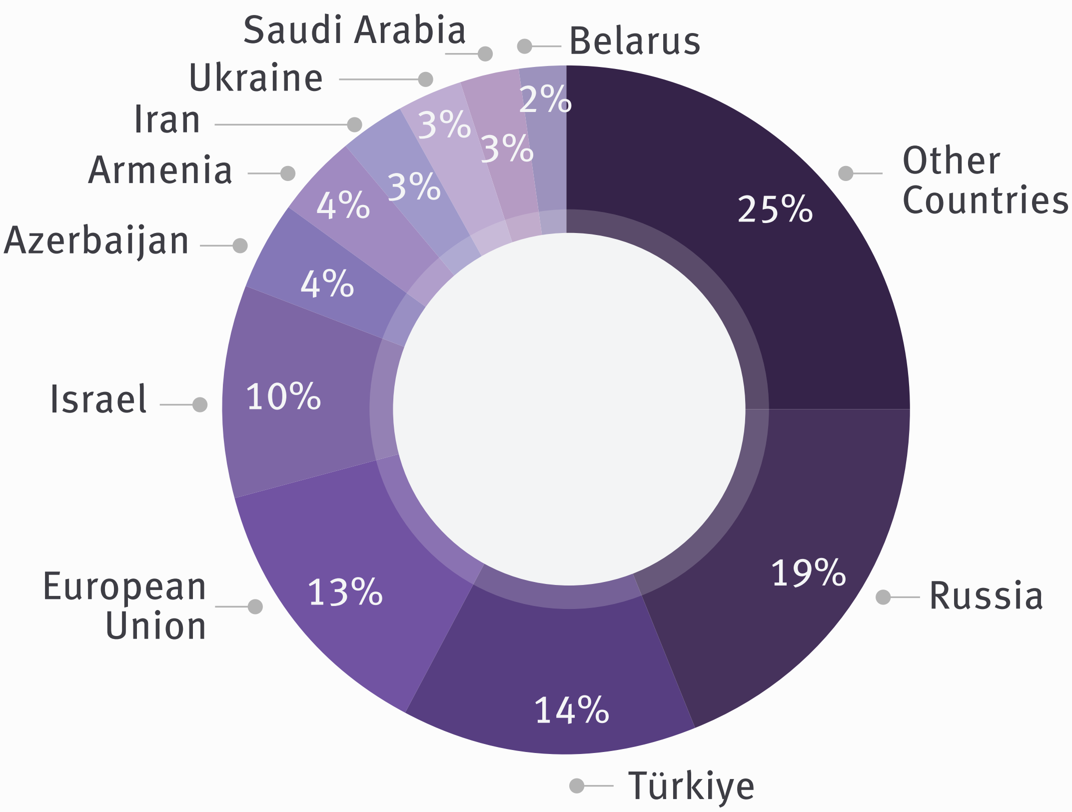
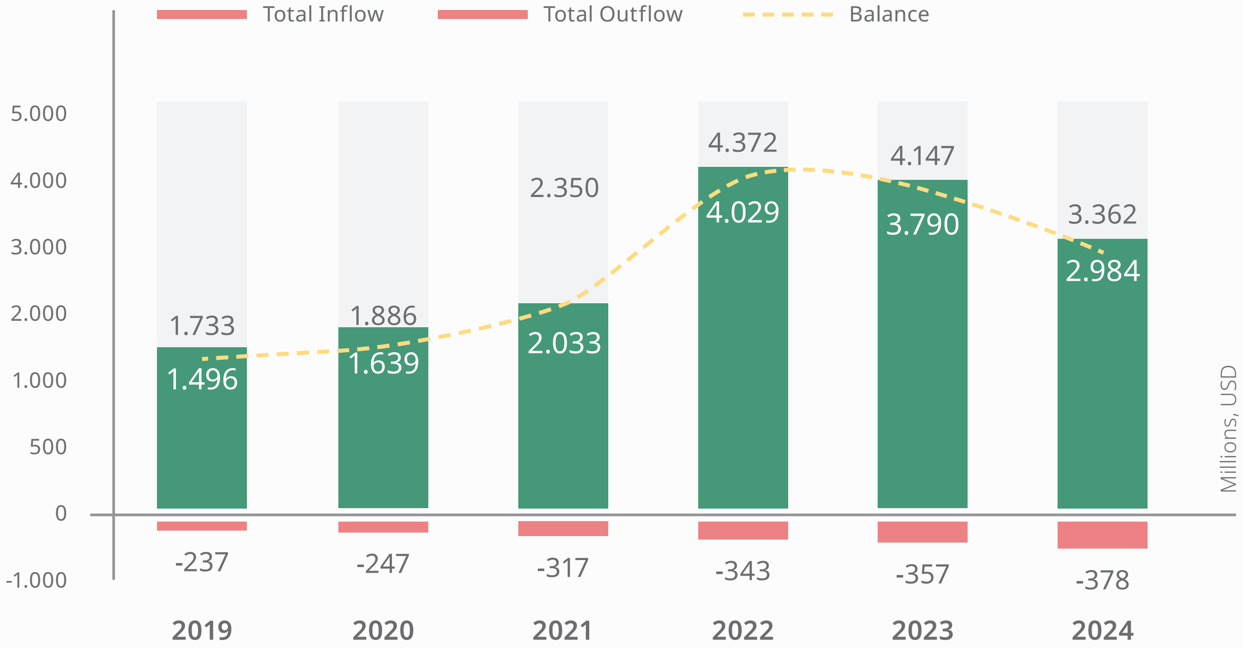


Figure 5. FDI by quarters since 2021(upper) and by country in 2024 (lower). (Source: Geostat, NBG).

The volume of instant money transfers declined by 21.3% in 2024, although it is 46.8% than in 2021 – last pre-migrant year. One could confidently say that the effect of transfer of own funds by the migrants (as opposed to the classical definition of remittances) has finally faded away. As for the country composition of remittances, due to the aforementioned fading out the share of the Russian Federation dropped to 16.1%, which is the third-highest contribution after the USA (17%) and Italy (16.9%).



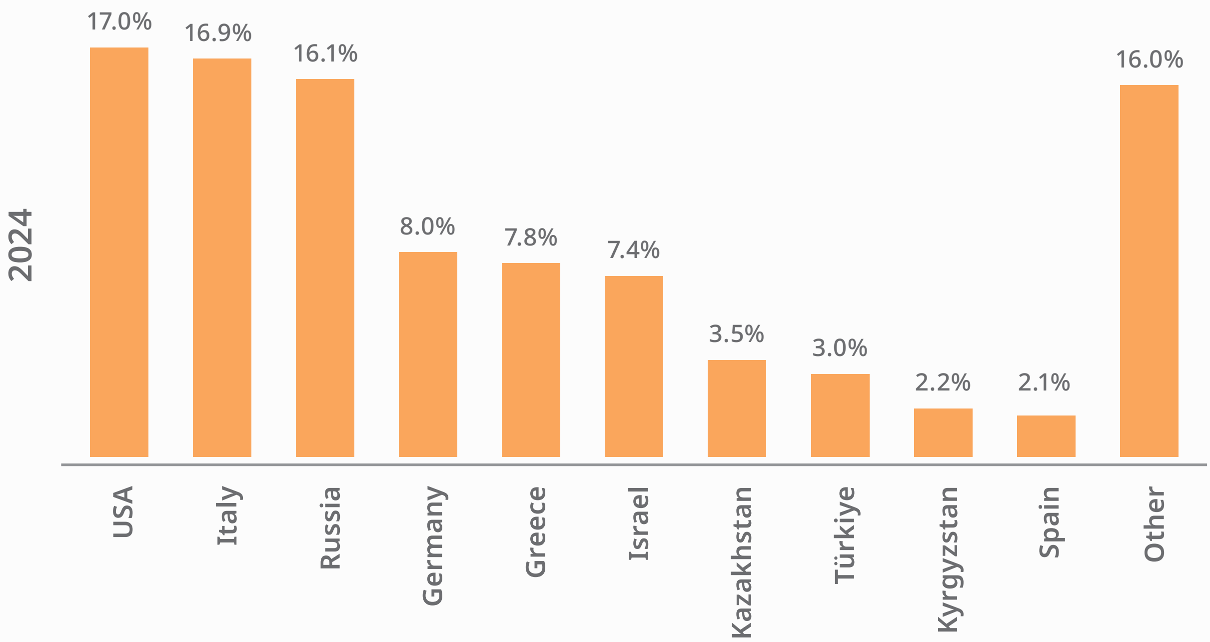
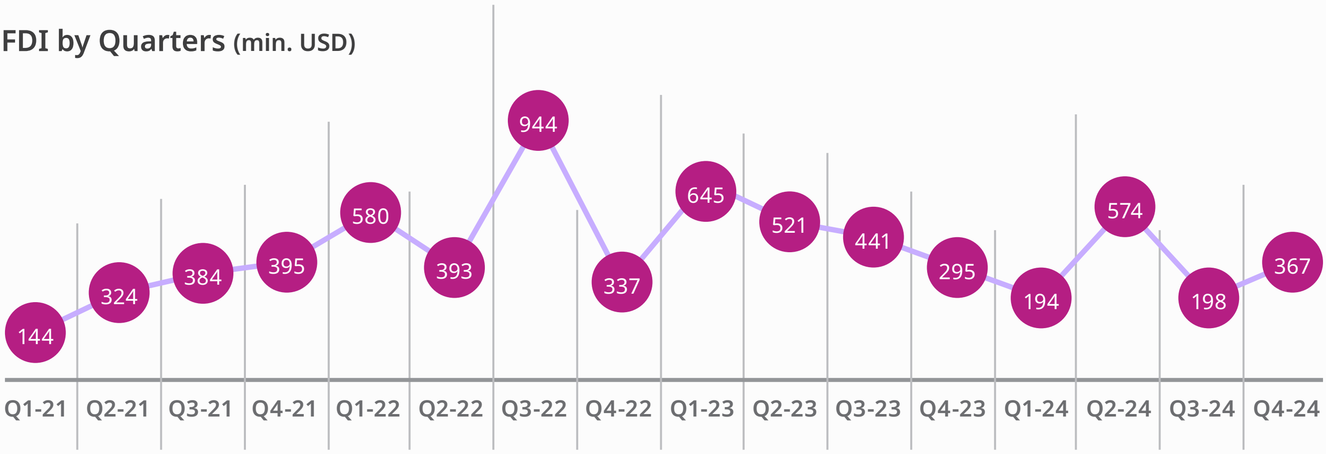


Figure 6. Remittance by years (upper) and by country in 2024 (lower). (Source: Geostat, NBG).

Like in 2023 the volume of foreign direct investment again declined in 2024, this time by 29.9%, and while the previous year's drop can be explained by the strong base effect, this time it indicates the reduced interest of the foreign investors, which is further emphasized by the fact that 87.8% of the FDI has been reinvested earnings. The main source of the FDI in 2024 traditionally has been the UK, with 448.2 mln USD (33.6% of total), followed by Malta (175.8 mln USD, 13.2%) and Netherlands (151.7 mln USD, 11.4%).

The sectoral distribution of the FDI remains traditionally skewed toward investment in financial and insurance activities, with 39.5% of total FDI directed there. Together with mining and manufacturing (12.9%) and construction and real estate activities (12.6%) these sectors cover almost two thirds of total FDI.

FDI by Quarters (mln. USD)



FDI by Countries (Top 10, 2024)

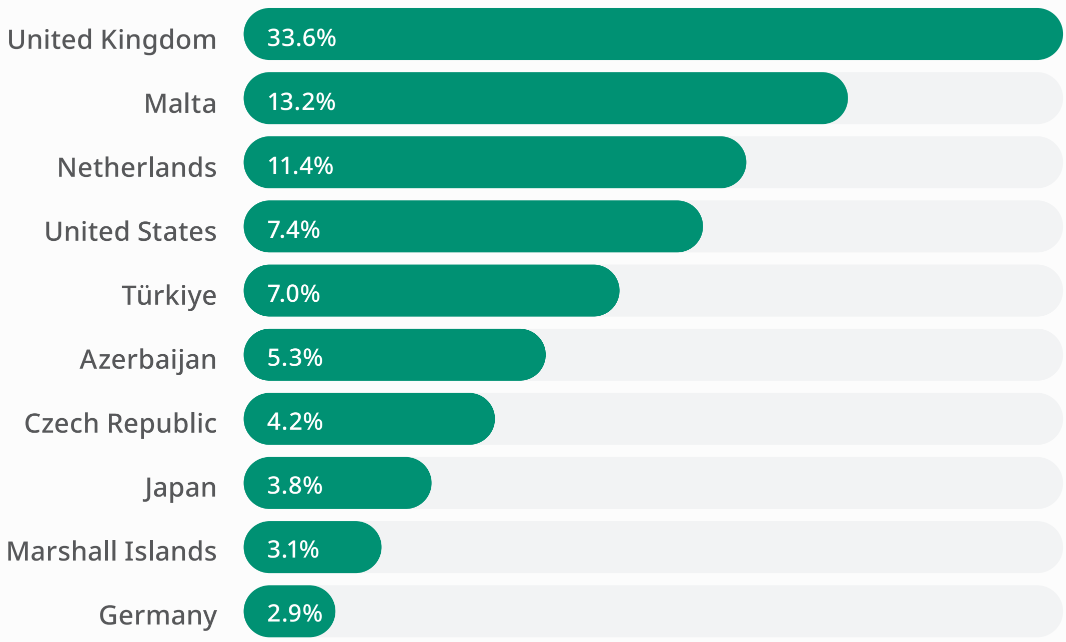
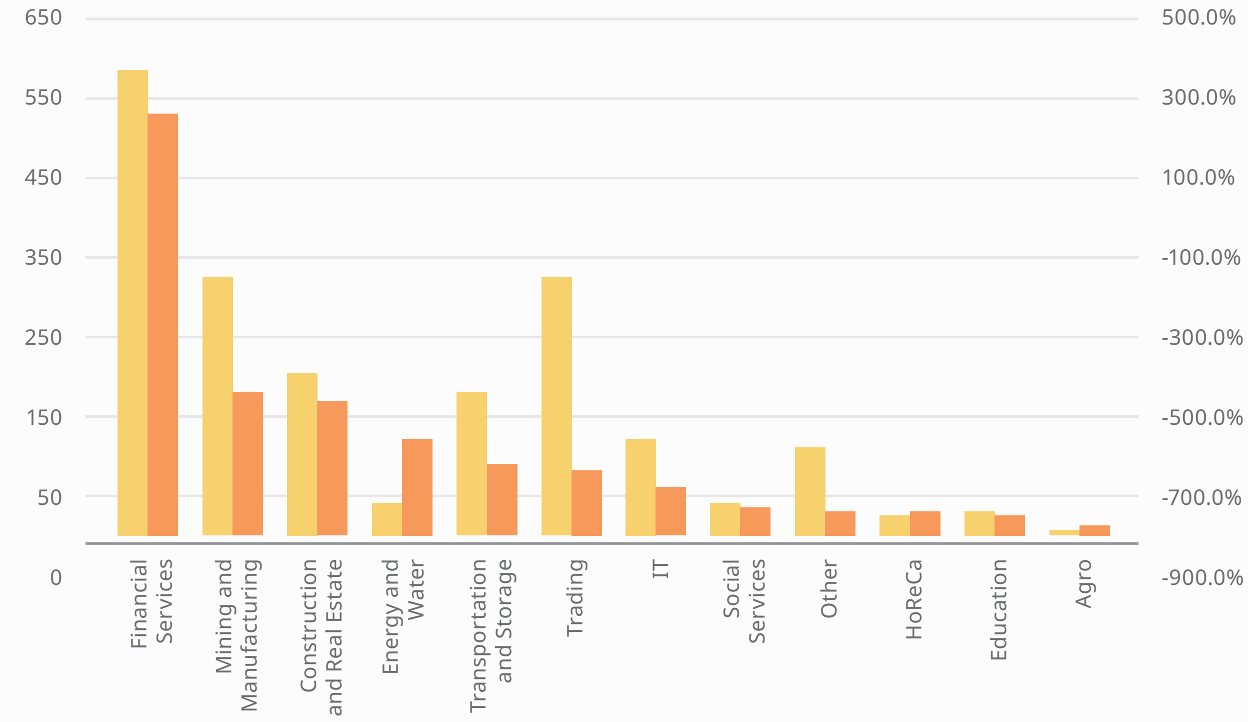


Figure 7. FDI by quarters since 2021(upper) and by country in 2024 (lower). (Source: Geostat, NBG).



2023	584	312	197	44	165	314	120	46	83	17	20	1
2024	527	173	169	126	97	80	57	40	24	21	15	5
Share	39.5%	12.9%	12.6%	9.5%	7.3%	6.0%	4.3%	3.0%	1.8%	1.6%	1.1%	0.3%
Growth	-10%	-45%	-14%	188%	-41%	-74%	-53%	-13%	-72%	-27%	-24%	303%

Figure 8. FDI by Economy Sectors and respective growth rates

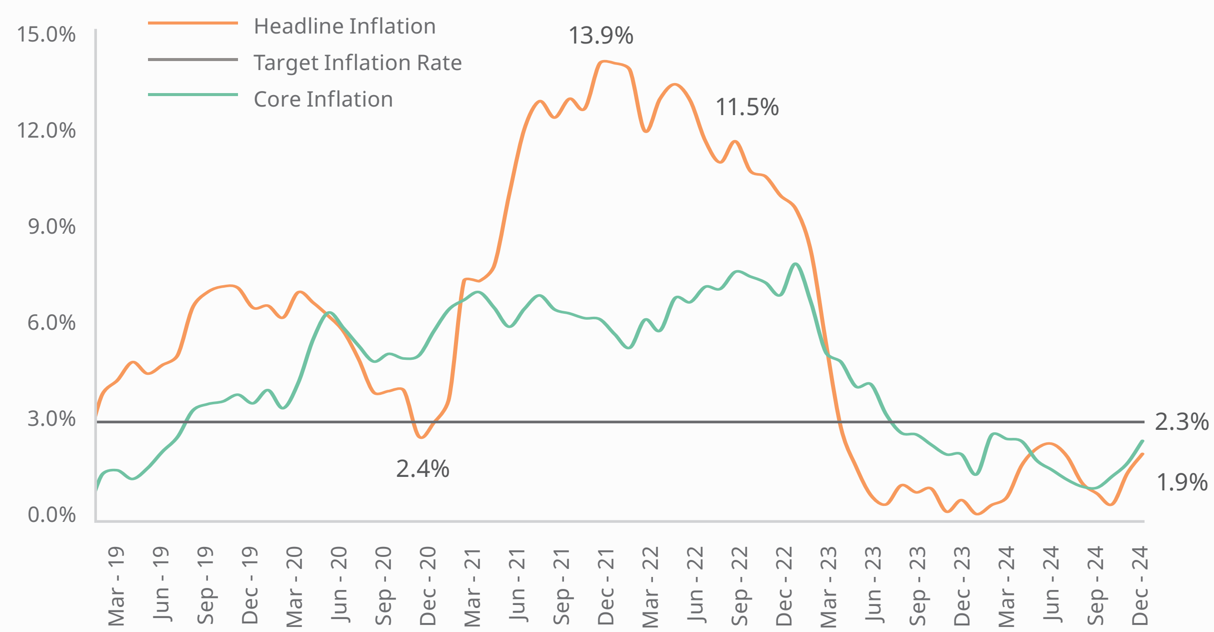


Figure 9. CPI Inflation (Source: GeoStat)

Throughout 2024 the annual inflation remained below its target value of 3% and In December 2024 headline inflation was 1.9%, whereas the core inflation (inflation less the volatile prices of food, energy, and tobacco) was 2.3%. Despite the rising trend in end of the year (and in the beginning of 2025) the inflation is expected to remain below the target in the first half of 2025 than temporarily exceed it in the second half (NBG forecasts average inflation of 4.2% in that period) and then go back to the target in the medium run.

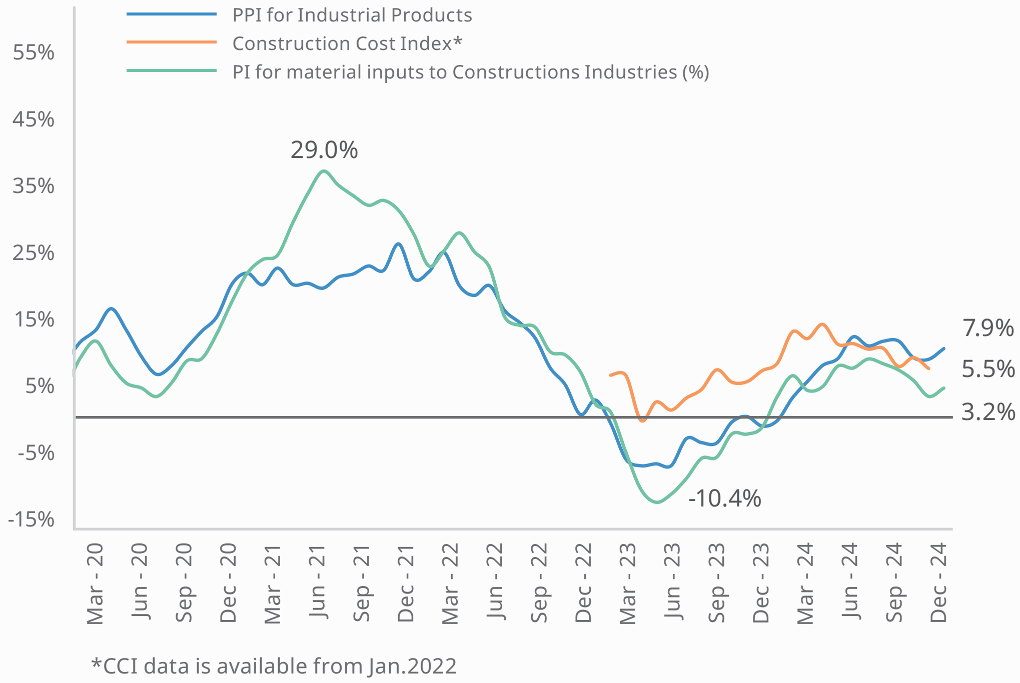
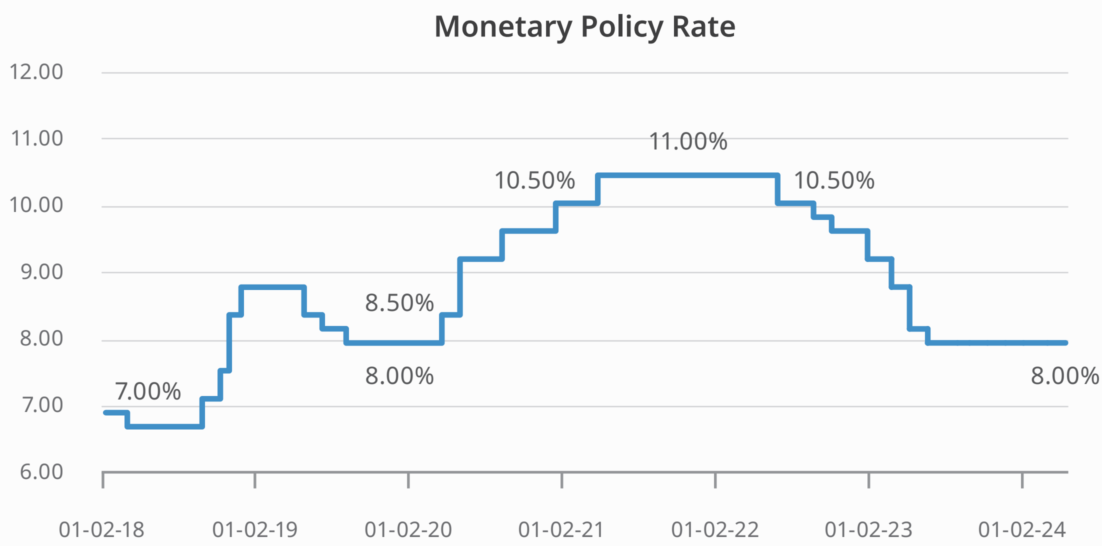


Figure 10. PPI Inflation (Source: GeoStat)

The dynamic of the Producer Price Index, as expected, somewhat mirrors the CPI, however, with higher volatility and consistently above it.



Note: *NBG forecast for the Monetary Policy Rate at the end of 2024 year was 8.4%, but as shown on the chart above, it was already 8.00% from May 2024*

Figure 11. Monetary Policy Rate of the NBG (Source: NBG).

Having started 2024 with the monetary policy rate of 9.5%, the National Bank of Georgia reduced interest rate to 8% in a series of three consecutive reductions (50, 75 and 25 basis points respectively). Since March 2024 the refinancing rate has been kept at 8% without any indication of any change in the near future. By the end of 2024 the inflation has been below the target for quite a while and the Lari exchange rate has also been quite stable. Nevertheless, given possible upside risks, coming both from domestic and external uncertainty the NBG decided against phasing out from the tight monetary policy regime. Still, even given the inflation forecast in which it will exceed its target in the second half of 2025 the NBG forecast of the monetary policy rate in such a case involves its reduction this year so that the average for 2025 is 7.9%.

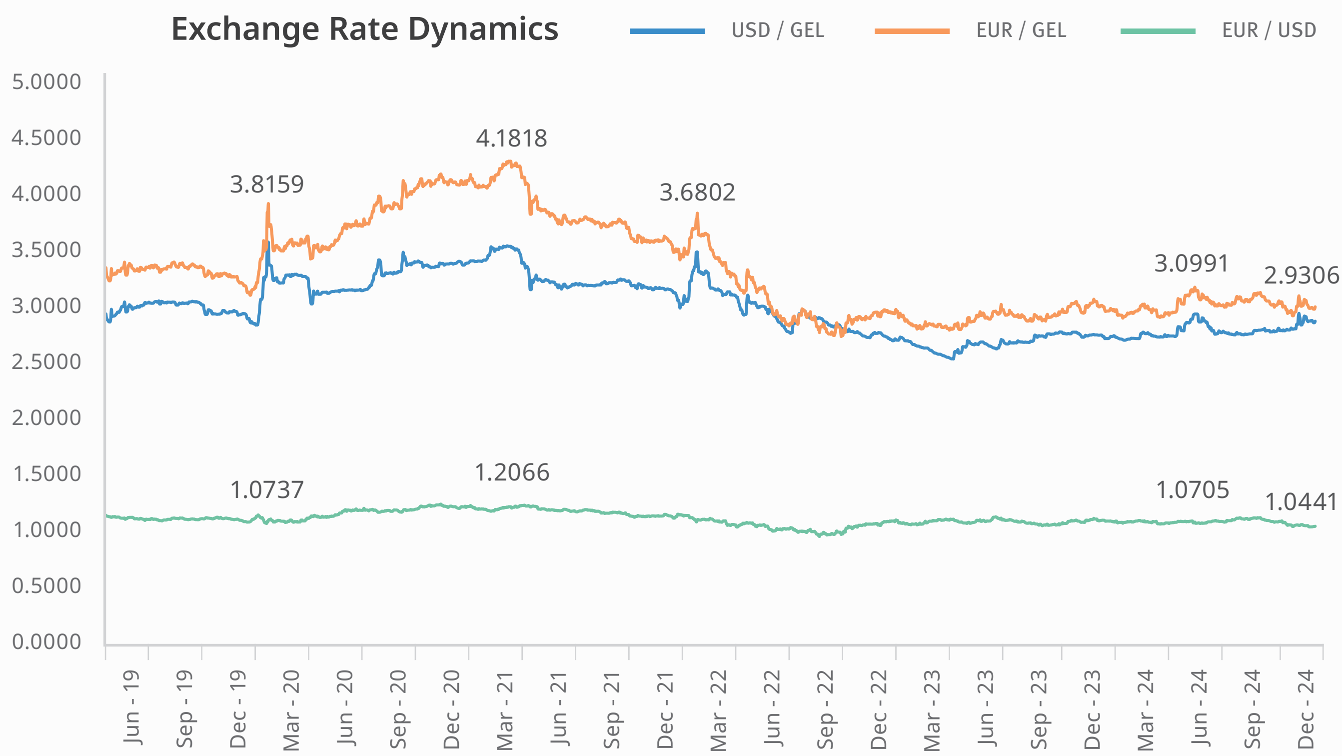


Figure 12. Nominal Exchange Rates (Source: NBG)

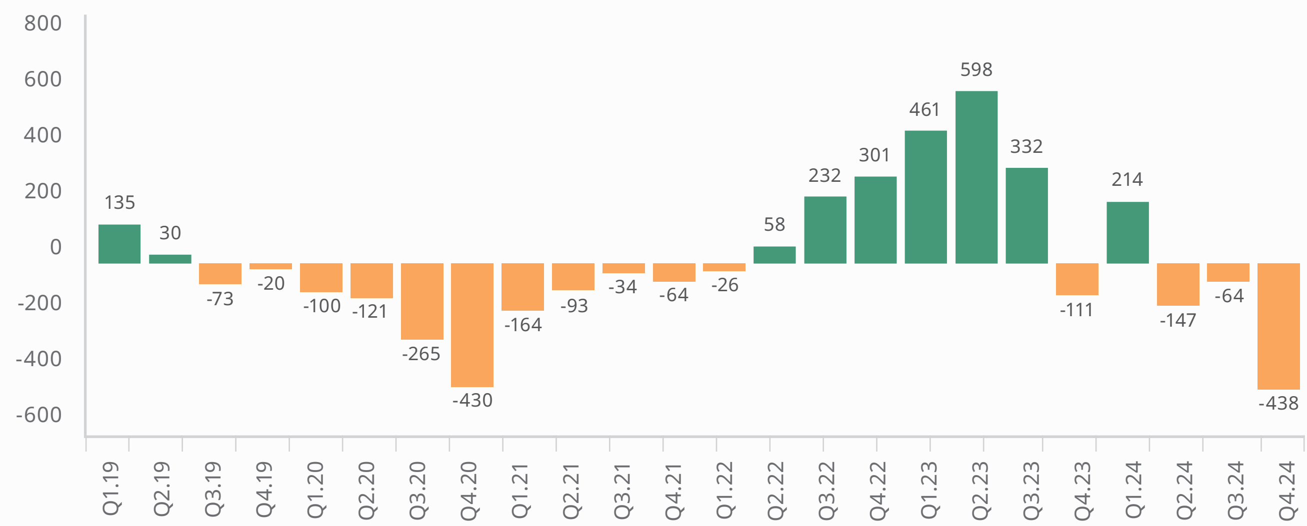


Figure 13. Net FX Purchases by the NBG (Quarterly data; Source: NBG)

The USD/GEL exchange rate has been relatively stable in the first three quarters of 2024, however by the elections the volatility increased. In order to alleviate the pressure on the exchange rate and stabilize GEL the NBG heavily intervened in the forex market in October, with the total sales in the fourth quarter of 438 mln USD – a record sale for a quarter, exceeding even sales in the pandemic 2020 year. After October, however, the NBG drastically reduced its FX sales and, due to the increased political instability in the country, the USD/GEL volatility increased again. Nevertheless, compared to the previous years Lari has been quite stable.

Unlike 2023 the real effective exchange rate in 2024 depreciated a little (7.4%), meaning a slight increase in the overall competitiveness of the country, whereas the nominal effective exchange rate remained relatively stable (appreciation of 1.6%), indicating that the inflation in Georgia throughout the year remained lower than in major trading partners.

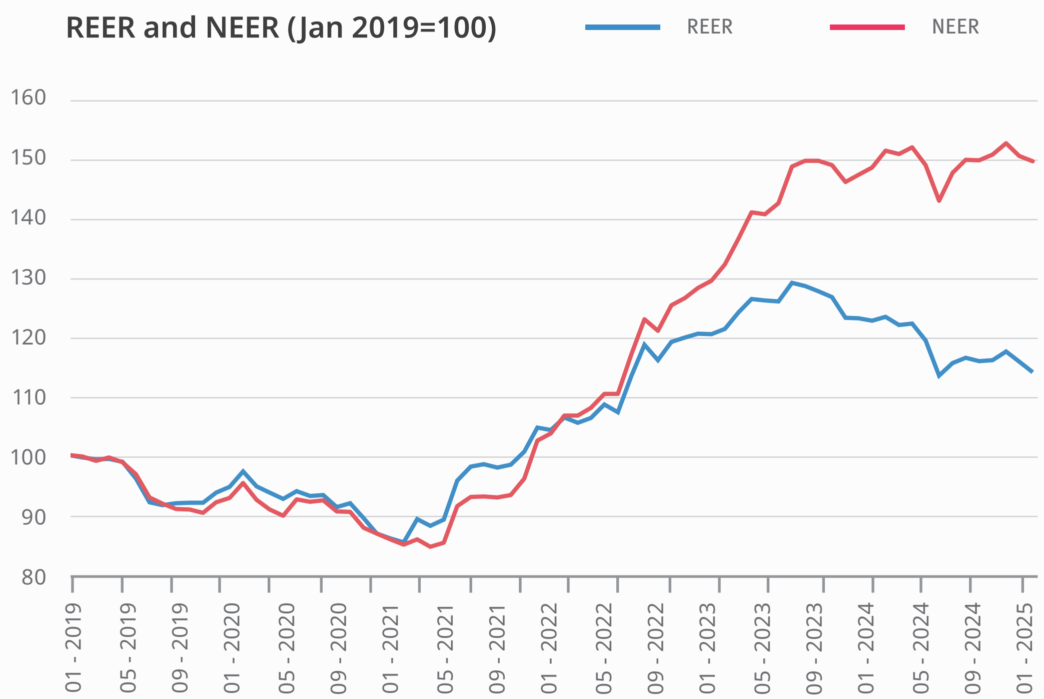
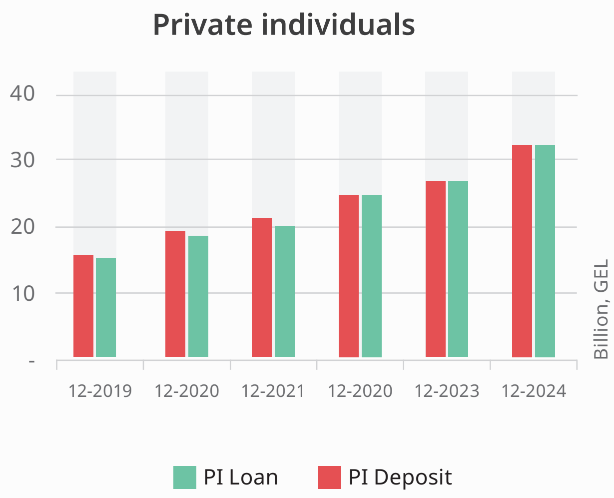
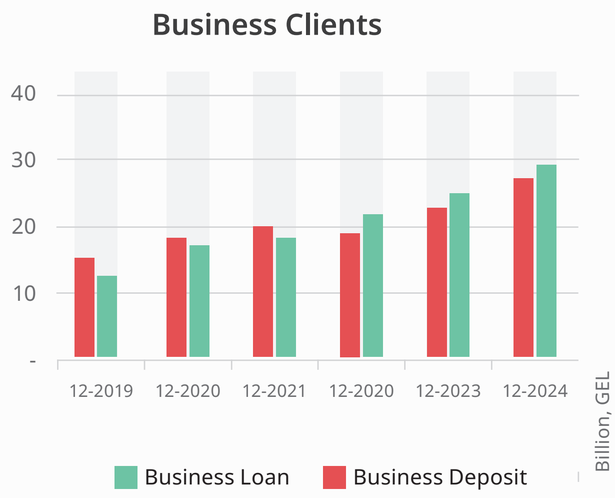


Figure 14. Real and Nominal Effective Exchange Rates (Source: NBG)

Banking Sector

The banking sector continued its solid growth, in line with nominal economic growth and maintaining a consistently high level of profitability, in 2024, with a return on equity (ROE) of 23.99%. The whole loan portfolio of the banking sector grew by 20.2% and customer funds – 17.3% in 2024. MSME portfolio grew by 13.9%. As for the depository structure, the proportion of customer funds that belonged to individuals and legal companies was 18.7% and 15.7%, respectively.





Source: NBG statistics

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.

Key Financial Figures of PCBG (according to IFRS)

Consolidated Statement of Financial Position (in 000 GEL)	**31.12.2024**	**31.12.2023**
Cash and balances with the NBG	148,473	176,536
Mandatory reserve deposits with NBG	224,526	170,304
Loans and advances to customers	1,341,948	1,197,607
Allowance for losses on loans and advances to customers	(28,760)	(29,287)
Assets other than listed above	281,205	278,230
Total assets	1,967,393	1,793,391
Liabilities to customers	1,300,349	1,059,767
Other borrowed funds	316,563	407,742
Total equity	319,011	300,793
Key Performance Indicators		
Deposit to Loan ratio	96.9%	88.5%
Return on average equity (ROAE)	10.7%	15.5%
Return on average asset (ROAA)	1.8%	2.6%
Net interest margin	3.9%	4.4%
Consolidated Statement of Profit or Loss (in '000 GEL)		
Total Interest Income	131,070	117,490
Total Interest Expense	(57,177)	(41,045)
Net interest income	73,893	76,445
Reversal of impairment losses on loans	3,360	6,972
Net Fee and commission income	2,884	2,151
Gains less losses from trading in foreign currency and foreign exchange translation	16,496	13,961
Operating income	100,952	102,372
Operating expenses	62,869	48,580
Profit of the period	33,218	46,244
	-	
Additional indicators		
Cost-income ratio	64.4%	50.9%
Cost of Credit risk	-0.3%	-0.6%
NBG (Basel III) Tier I capital adequacy ratio/requirement from NBG	20.1%	21.4%
NBG (Basel III) Total capital adequacy ratio/requirement from NBG	21.4%	22.3%

The bank's and the group's overall strategic goals for 2024 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 2024 was 96.9%, up from 88.5% at the end of 2023.

ROAE - The bank generated a profit of GEL 33.2 million in 2024, with ROAE of 10.7%.

Net interest margin - In 2024, the Net Interest Margin (NIM) stood at 3.9%, reflecting the impact of declining Market Reference Rates (MRR).

Operating expenses - In accordance with its strategic aims, the bank kept funding marketing and IT-related resources for digitization - to optimize operations over the long run. Staff related expenses were also raised in line with updated strategy.

Minimum capital requirements - The Bank's capital adequacy ratios have remained comfortably above the minimum regulatory requirements. Stable capital development 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.


DASTA

Private Clients

In line with our long-standing commitment to providing modern, reliable banking services, ProCredit Bank continues to serve individuals who value digital convenience, financial independence, and secure options for saving and investing-emphasizing digital banking experiences while maintaining a personal touch for our private clients. While retail banking has always been part of our offering, in 2024 we strengthened our strategic focus on this segment, marking an important step toward expanding our footprint in the retail market and deepening our engagement with private clients.

This renewed focus was reflected in the year's solid performance, with the retail segment contributing significantly to overall growth. The loan portfolio grew by **32%**, and the deposit portfolio increased by **20.4%**, driven by the successful execution of our strategic priorities and our commitment to addressing the evolving needs of our clients.

To support this strategic shift, we identified and will continue to prioritize our initiatives around four key pillars: enhancing our customer-centric service model to meet the needs of targeted segments, delivering a seamless and high-quality customer experience across all channels, advancing digitalization through improved platforms and self-service solutions, and strengthening brand recognition through targeted marketing and internal empowerment. These pillars are central to our ambition to deepen client relationships and expand our retail presence.

We remain dedicated to building strong, long-term relationships with retail clients by offering tailored financial solutions and delivering consistent, high-quality service.

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 (indirectly), 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 (one third, however, at least two of which shall be the 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 3/4 of present votes, the Supervisory Board defines the Bank's business strategy, approves policy guidelines, approves the annual business plan (including the annual operating budget) presented by the Board of Directors of the Bank, discusses and approves the business operations report presented by the Board of Directors during the financial year and prepares the Bank's annual report for submitting to the 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 2024 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 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 2024 was as follows:

Ketevan Burduli (Director)
Zeinab Lomashvili (Director)
Elene Tsintsadze (Director)
Alex Matua (General Director)

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.

All ProCredit institutions apply a single common risk management framework. This framework reflects the group's risk philosophy and defines group-wide minimum standards for risk management. The principles and standards comprising this framework are based on those formulated in the CRR (EU regulation 575/2013 - Capital Requirement Regulation) and EU directive 2013/36/EU (Capital Requirement Directive - CRD IV), German Banking Act and the German Federal Financial Supervisory Authority's policy document "Minimum Requirements for Risk Management", commonly referred to as "MaRisk". The ProCredit group's risk management framework is in a process of continuous development in line with changes in the relevant legislation and international best practice in risk management. A core aspect of the group's risk management system is the review of all processes and areas of operations (including branches) by the Internal Audit department on a regular basis, i.e. at least once every three years, subject to a risk assessment.

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

Given its business focus on small and medium-sized businesses, ProCredit's concept of responsible banking entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification is across regions, urban and rural areas within country. In terms of client groups, this diversification is across economic sectors, client groups (small and medium-sized businesses, private individuals and institutions) and income groups. The diversification of the loan portfolio is a central pillar of the Bank's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients simple, easily understandable products. 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 products and procedures reduce the overall risk profile of the Bank.

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

ProCredit Bank's supervisory Board, together with Risk and Audit Committees, oversee the overall risk profile of the bank and risk management practices.

- **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.

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 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.

Risk management framework in the Bank is implemented and developed by a General Risk Department, together with the other controlling functions, which all of them are autonomous departments within the organization and are not involved in any way with the Bank's customer service operations (credit or deposit business) or treasury operations. The controlling functions of the Bank report regularly to the different risk departments at ProCredit Holding. In operational terms, risks are managed by three lines of defence. For key processes, risks are addressed by functions that own and manage them directly (first line of defence), they are supported by the controlling and risk functions (the second line of defence) and finally, the processes are monitored and checked by the internal audit (the third line of defence).

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.

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 25 years, the Bank has extensive expertise to limit customer credit risk effectively.

ProCredit Bank Georgia serves a broad spectrum of clients, ranging from Very 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 the Bank's clients by using a credit rating (risk classification) system that provides a thorough assessment of a borrower's creditworthiness, which is essential for understanding their ability to meet financial commitments.
- Building a personal and long-term relationship with the client, maintaining regular contact
- Conducting regular financial monitoring to identify potential risks at an early stage
- Close monitoring early warning indicators
- Conducting a structured portfolio-level analysis, including an assessment of the macroeconomic environment and the overall banking system, to identify potential vulnerabilities in the credit portfolio
- Applying a customer-oriented, intensified loan management approach
- 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 95% in 2024.

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.

To assess credit risk effectively, the Bank has established a robust system of Key Risk Indicators (KRIs), utilizing a traffic light system that provides a clear and actionable view of potential risks. This system is focused on three primary areas: portfolio quality, risk mitigation measures, and concentration risk.

The portfolio quality KRI evaluates the performance of the loan portfolio, considering factors such as the share of underperforming, default, watchlist, and restructured exposures, as well as write-offs and the overall cost of risk. The mitigation measures KRI examine the effectiveness of strategies designed to reduce or offset potential credit losses, including the non-performing loan (NPL) coverage ratio and collateralization levels. The concentration risk KRI monitors exposure to specific sectors, high environmental risks, foreign exchange composition, and the concentration of top exposures.

As of December 2024, the majority of KRIs are in the green zone, confirming that credit risk is assessed as low, with a stable outlook.

In the area of portfolio analysis, the Bank systematically analyzes multiple key factors that affect both the performance and overall risk profile of its credit portfolio. This process involves a detailed assessment of the macroeconomic environment, where global and local economic trends are carefully analyzed to determine their potential impact on credit risk exposure. The Bank also performs a comparative analysis, allowing it to benchmark its portfolio performance and assess its competitive position within the local banking sector. In addition, the Bank conducts an in-depth and detailed analysis of the quality of its credit portfolio, evaluating a variety of key factors that contribute to its overall risk profile. This includes a comprehensive evaluation of the portfolio's composition across different client segments, ensuring that performance and risk are understood in the context of diverse borrower profiles. The currency composition of the portfolio is also carefully examined to assess the potential impact of exchange rate fluctuations and the associated risks to the Bank's overall exposure. A thorough review of the economic sectors within which the portfolio's credit exposures are concentrated is performed, identifying any sector-specific risks or vulnerabilities that may arise from macroeconomic shifts, regulatory changes, or market trends. Additionally, other relevant variables, such as any early warning sings, payment delays, restructuring events, credit ratings, expected credit losses, collateral adequacy, write off events, possible recovery measures are rigorously assessed to provide a comprehensive view of the portfolio's overall quality and stability.

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 scenario analysis: On an annual basis the Operational Risk Management performs/updates the scenario analysis with the help of respective process owners, in order to re-assess the operational risk of various business processes and plan for the improvement of controlling measures when necessary.

New Risk Approval Process (NRA): An NRA is required to ensure that all new risks are assessed, and all necessary preparations and tests are completed prior to implementation. The NRA is initiated as soon as the decision has been taken concerning the respective project. This enables the project team to include the mitigating measures for identified risks in its project plan.

Risk Event Database (RED): PCBG maintains and updates a group-wide Risk Event Database (RED) which contains comprehensive information on operational risk events which have been experienced, including fraud.

The Bank has established an escalation rule for every relevant operational risk event that has been detected, which is binding for all employees. In addition to the escalation of the event, the main factors of each relevant risk event must be recorded in the RED without undue delay.

The Key Risk Indicators (KRIs): An instrument which is an integral part of the framework for management of operational risks in the Bank. KRIs are measurable metrics or indicators that track exposure or loss. KRIs which are used in the Bank cover the key processes.

Whistleblowing: Is the term used when an employee of ProCredit passes, a business partner, or a member of the general public passes on information concerning acts committed with criminal energy such as criminal infringements of policy or procedure or significant violations of applicable law. The Bank calls that “making a disclosure” or “blowing the whistle”. Acts committed with criminal energy will typically (although not necessarily) be something a ProCredit employee witnessed at work, or something perceived by business partners or the general public. Therefore, making a disclosure and blowing the whistle about such behaviour must be in the interest of the Bank, the ProCredit Group as a whole or in the public interest.

The Bank and the group provide different channels for whistleblowers for them to have an opportunity to pass the information without disclosing themselves. On the annual risk trainings all employees are informed regarding whistleblowing channels, their rights and responsibilities.

Outsourcing Risk analysis: Is performed by the Bank for every outsourced activity. The analysis covers the essence of the service, risk profile of the company, its impact on the various risks and business flow. The Bank has developed an outsourcing policy and is managing the process accordingly.

Client-oriented safeguards: The potential fraud risk associated with customers is reflected in the Customer Due Diligence (CDD) procedures of the Bank, in accordance with the risk-based approach to establishing customer relationships defined in the Anti-Money Laundering Policy.

Operational risk awareness trainings: The Bank pays a great attention to the risk awareness training for its staff. The training, which covers all types of operational risks, is conducted in every two years. As for the training, which covers IT and Informational security is conducted annually. These trainings provide participants with updates in operational risk management area.

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.

The prevention of money laundering and terrorist financing is a key function of the Bank. The business ethics and strong corporate values of the ProCredit group and the Bank play a key role in this regard.

The AML/CTF procedures of ProCredit banks, which are themselves subject to AML/CTF legislation at their location, collectively referred to as the AML/CTF Programme of the ProCredit group, have been prepared to comply with legal requirements and market standards (best practices) of the Federal Republic of Germany serving as minimum standard for all ProCredit banks. It describes the basic principles and minimum standards governing the following elements of the group-wide AML/CTF Programme:

- AML/CTF governance framework
- Customer Due Diligence (CDD) implementing the Know Your Customer (KYC) principle
- The Group Money Laundering and Terrorism Financing Risk Analysis (Group ML/TF Risk Analysis)
- Prohibitions and restrictions regarding business relationships (ProCredit Code of Conduct, incl. Exclusion List and Group Blacklist)
- Management information and group-wide AML reporting
- Documentation and information retention
- Submission of suspicious activity reports (SAR)
- AML/CTF training for AML staff of ProCredit banks
- Independent controls of the Group Anti-Money Laundering Officer.

Group-wide applicable minimum standards as per Policy as well as local anti-money laundering and counter terrorism financing laws and regulations are implemented by ProCredit Bank Georgia and aligned to each other.

In order to implement the highest standards in AML/CTF, the prevention of financial crime and other acts punishable by law, and as a matter of principle, any national AML/CTF or customer due diligence (CDD) legislation which is of a higher standard than that provided by Group Policy must be applied by the respective ProCredit bank.

The management board of PCBG appoints an Anti-Money Laundering Officer and Deputy Anti-Money Laundering Officer in accordance with the applicable local legislation and Group Policy. The Anti-Money Laundering Officer and Deputy Anti-Money Laundering Officer of the bank are responsible for compliance with AML/CTF provisions under Group Policy as well as national AML/CTF legislation and regulations.

The AML/CTF Programme of the bank ensures that:

- AML Officer/Deputy Anti-Money Laundering Officer regularly reports to the Management Board as well as to the Group AML Officer at ProCredit Holding.
- The Bank applies a strict Know Your Customer and Know Your Correspondent approach in its customer due diligence and correspondent banking procedures.
- Group AML and the Bank annually assesses the risk of money laundering and terrorist financing throughout the ProCredit group on the basis of a distinct risk model.
- The Bank staff members receive AML training when they first join the institution and thereafter on an ongoing basis within the framework of the Risk-Based training plans.
- The Bank maintains a risk classification of its customers to prevent money laundering and terrorist financing and applies due diligence and monitoring procedures accordingly.
- The bank applies adequate and uniform risk-oriented procedures for monitoring accounts in order to identify unusual or otherwise conspicuous transactions carrying potential risks of money laundering or terrorism financing, including the use of IT-based monitoring systems.

Bank monitors customer-related transactions in order to identify conspicuous payments and comply with all financial sanctions and embargoes against certain persons, entities and countries.

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

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 2024, 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 0,25%, 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 0.5% 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 sustainable investments. As of end-2024, 11.3% of the ProCredit Bank Georgia's loan portfolio consisted of Eco loans.

Promoting sustainable development entails figuring out how to meet the current demand of society without compromising the needs of future generations. At ProCredit we are acutely aware of the climate change risks our planet faces and of the role that banks can play in either mitigating or exacerbating these risks. Essentially, it is a matter of taking an approach that incorporates systematic efforts to reduce environmental harm instead of prioritizing short-term profit over long-term impact. We chose the first path long ago and have always placed environmental and climate risk mitigation at the centre of our business model.

ProCredit Bank operates in accordance with a comprehensive three pillar environmental management system (EMS) developed by ProCredit Holding. Pillar I concerns minimizing our ecological footprint by addressing our internal environmental impact; pillar II pertains to addressing our external impact by evaluating the environmental and social risks of all business activities that we finance and Pillar III involves promoting and incentivizing sustainable investments and deposits by our clients. Meanwhile we have developed policies, guidelines and standards to measure, assess and improve our sustainability-related indicators to ensure our best 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.

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. ProCredit Bank Georgia began taking significant measures to make sustainable activities an intrinsic element of its everyday operations and a performance requirement. ProCredit Bank is an innovative and remarkable financial institution that has launched eco-friendly projects, so attempting to reduce the impact of its activities on the environment and awareness raising about environmental issues among businesses and individuals. Notable is the fact that ProCredit Bank Georgia devotes special regard to concerns such as refusing to use plastic, encouraging waste separation, minimizing air pollution, utilizing solar energy, and saving water resources.

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, taking significant strides toward carbon neutrality.

To further support this initiative and maximize our positive impact, we introduced a program that allows employees to use the bank's electric cars during non-working hours and weekends. This initiative not only provides staff with environmentally friendly transport options but also helps reduce the potential emissions from petrol-powered vehicles, reinforcing our commitment to promoting sustainable practices within our organization and beyond.

Also, we have arranged 29 EV charging stations in different regions of Georgia. 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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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 was the first bank in the country, who has started operating its own solar power plant - the system is used to generate electricity for internal use, among them to charge its fleet of electric vehicles. In June 2020, a 500 m^2 solar panel array with a 100 kWh capacity was installed on the roof of its head office building in the center of Tbilisi at 21 Alexander Kazbegi Avenue. By the end of 2024 the station generated in total more than 535 380 kWh of electricity, avoided emitting 492.55 tons of CO2 and replaced 10% of electricity consumption in the 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 future we are considering further replacing our electricity consumption with green electricity generated from renewable energy sources.

Water resource management

Water consumption is one of the most important aspect 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. We considered that Implementing a water harvesting system could be a sustainable way to manage water resources effectively, thus rainwater harvesting project was implemented in 2018. System is designed to collect and store rainwater for technical purposes, helping to conserve water resources and reduce reliance on municipal supplies. In total 10 m3 reservoir was built in the yard of HO and 3 units of 6 m3 water tanks were placed with water filtration system in the underground parking. Also 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.

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 2024, Procredit Bank handed over to the waste management company for processing 1164 kg paper and cardboard, 88 kg e-waste and 283 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, 2024, 65% of service and product suppliers are sustainable.

General sustainability 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 2024 we have conducted 10 training sessions, introduce them our sustainability goals and achievements, challenging circumstances and emphasising the role of each individual in sustainable development pathway. During this training, we have explored the concept of Net Zero. We introduced our ambitious goal of achieving a 42% reduction in CO2 emissions stemming from our operations (Scope 1 and 2) by 2030, and ultimately becoming a Net Zero organization by 2050. This goal reflects our unwavering commitment not only to reducing our environmental footprint but also to contributing to the global effort to combat climate change

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. Potential Category A Check for the client's business activities
3. Use pre-defined list to categorize the client's activities according to the degree of environmental, health and safety risk.

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.

or 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 2024, 84% of the financed activities in the Bank have a low environmental risk and 15 % of activities bear a medium environmental risk, 1% 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 financed activities with high environmental risk in the total portfolio decreased from 4% in 2023 to 3% in 2024. This category primarily 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 do not reject the clients with high ecological and environmental risks on financing; rather, we conduct a comprehensive analysis of their activities within the framework of environmental and social risks assessment, to ensure that potential risks are effectively managed and do not cause significant harm to the environment and society.


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Pillar III – Sustainable finance

With our **Sustainable** 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 Our sustainable lending methodology is divided into three categories:

- Energy efficiency (EE) investments that reduce energy usage at least by 20%
- Renewable energy (RE) investments into distributed or utility-scale RE generation systems
- Environmentally friendly projects with a direct positive impact on the environment.

In 2024 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 2024 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 2024, the volume of the Green Finance share in the total portfolio consists of 11.3%.

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.

In 2024, we proudly introduced our **Inclusive Finance Concept**, with a strong emphasis on gender equality. Women-led businesses often encounter significant barriers due to societal norms and discriminatory practices in the business world. At ProCredit, we recognize the critical importance of women's empowerment. With the support of the **EBRD** under their financing program for women entrepreneurs, we have developed a new financial product.

This loan is designed to address the unique challenges that women entrepreneurs face, offering tailored solutions to meet their specific needs. To qualify for the loan, the company must have at least 50% female ownership or have a woman serving as the director. Under the loan terms, women entrepreneurs can benefit from preferential interest rates, lower collateral requirements, and a range of financial and non-financial incentives.

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 institution- 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. A structured approach to staff recruitment, training and remuneration is a central component of our HR strategy. A group-wide standards have been developed for these areas in order to ensure a consistent, transparent and long-term approach.

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 bankas 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. They have thus been well integrated into the bank and have developed a comprehensive understanding of our business model and share the same strategic vision and ethical compass.

At ProCredit, we attach great importance to our transparent salary structure with fixed salaries. We focus on fair and, above all, appropriate salary levels that reflect both the quality of our employees and the impact orientation of the bank. At the same time, we value a fair approach to remuneration, which is reflected in the annual total remuneration structure.

Our strategy is to promote a positive working environment characterised by diversity, flat hierarchies and open communication, in order to retain our staff in the long term. Our ethical approach to banking is a fundamental part of how we work and is fully integrated into our corporate culture. We promote independence and critical thinking, responsibility, gender equality and fairness between employees. Decisions on employee recruitment and promotion are based on values, commitment and professionalism.

Onboarding

Our approach to recruitment focuses on individuals who are open, willing to learn and committed to our common values. Beyond technical and analytical skills, our staff must demonstrate personal integrity, openness and a willingness to work together with clients and colleagues. Candidates have the opportunity to gain a deep understanding of both the business strategy of the ProCredit bank and our ethical principles. Our Onboarding Programme covers what we believe to constitute to responsible banking, and it provides new staff with an opportunity to learn directly from management and experienced colleagues about how ProCredit contributes to transparent and sustainable financial sector development. We strive for a long-term relationship with all our employees, and this is based on training, continuous development and mutual respect.

Training

At ProCredit, we maintain an expansive training curriculum that enables everyone to participate in numerous training courses. Our training approach is comprehensive: It begins with the onboarding programme for all new staff in our banks. We regularly offer specialised courses tailored to specific operations as well as groupwide training on relevant topics. The next level of training includes our ProCredit Banker and ProCredit Management programmes, which take place at the ProCredit Academy campus in Germany. The Academy serves as a meeting place for exchanging ideas and brainstorming together. The topics covered in the programme reflect our business practices and ethical principles (corporate governance, employee development, credit risk, climate change, ethics and political philosophy). Ethics and personal responsibility are a key component of the training we offer. In addition, we carry out annual workshops for all staff; these focus on our binding Code of Conduct and on environmental topics. Our employee development approach remains a high priority. We invest heavily in the training and development of our staff, in order to create an open and efficient working atmosphere and also ensure that our customers receive friendly and competent service.

Work-Life Balance

The physical and mental health of our employees is a high priority for us. We offer all staff the opportunity to work from home, ensuring flexibility and support for a balanced lifestyle. In addition, employees are encouraged to utilize flexible working hours, allowing them to plan their day in a way that best suits their individual needs and responsibilities, fostering both personal well-being and professional productivity.

We maintain open and transparent communication. This helps create a constructive environment that encourages employees to discuss the needs in their professional and private lives in order to find suitable solutions.

Approved for issue and signed on behalf of the Board of Directors on 07 May 2025.

Alex Matua
General Director

JSC ProCredit Bank

International Financial Reporting Standards
Consolidated and Separate Financial Statements,
Management Report and
Independent Auditors’ Report
31 December 2024

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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 2024;
- 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 2024, 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 2024 consolidated and separate management report is consistent in all material respect with the 2024 consolidated and separate financial statements; and
- The 2024 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

7 May 2025

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INDEPENDENT AUDITOR'S REPORT

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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.

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

- 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

e. Tsintsadze

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 2024 consolidated and separate management report is consistent in all material respect with the 2024 consolidated and separate financial statements; and
- The 2024 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

7 May 2025

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

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

Consolidated and Separate Statements of Financial Position

in '000 GEL		Consolidated		Separate	
	Notes	31 December 2024	31 December 2023	31 December 2024	31 December 2023
Assets					
Cash and balances with the NBG	6	148,473	176,536	148,473	176,536
Mandatory reserve deposits with NBG		224,526	170,304	224,526	170,304
Investments in debt securities	8	90,490	114,302	90,490	114,302
Investments in equity securities	9	139	139	139	139
Investments in associates	9	3,400	2,836	3,400	2,836
Investment in subsidiaries	9	-	-	6,100	6,100
Due from banks	7	121,605	106,603	121,605	106,603
Financial Assets at fair value through profit or loss		1	3	1	3
Loans and advances to customers	10	1,313,188	1,168,320	1,313,188	1,168,320
Current tax asset		4,293	-	4,293	-
Investment properties	11	4,132	4,283	4,132	4,274
Intangible assets	12	2,152	1,993	2,152	1,993
Property and equipment	13	40,629	38,778	40,629	38,778
Right-of-use assets	14	2,940	1,773	2,940	1,773
Other assets	15	11,425	7,521	8,759	7,105
Total assets		1,967,393	1,793,391	1,970,827	1,799,066
Liabilities					
Financial liabilities at fair value through profit or loss		9	4	9	4
Customer accounts	16	1,300,349	1,059,767	1,307,677	1,068,398
Other borrowed funds	17	316,563	407,742	316,563	407,742
Subordinated debt	21	20,795	14,886	20,795	14,886
Lease liabilities	23	3,154	1,817	3,154	1,817
Current tax liability		-	1,807	-	1,807
Other liabilities	18	2,431	2,438	2,276	2,338
Other provisions	19	2,792	2,170	2,792	2,170
Deferred tax liability	20	2,288	1,966	2,288	1,966
Total liabilities		1,648,381	1,492,597	1,655,554	1,501,128
Equity					
Share capital	22	112,483	112,483	112,483	112,483
Share premium	22	72,118	72,118	72,118	72,118
Retained earnings		134,411	116,193	130,672	113,337
Total equity		319,012	300,794	315,273	297,938
Total equity and liabilities		1,967,393	1,793,391	1,970,827	1,799,066

Approved for issue and signed on behalf of the Board of Directors on 7 May 2025.

e. Tsintsadze

Elene Tsintsadze
Director

Nana Chikvaidze
Chief Accountant

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

in '000 GEL		Consolidated		Separate	
	Notes	2024	2023	2024	2023
Interest income calculated using effective interest rate method		131,070	117,490	131,070	117,490
Interest expense		(57,177)	(41,045)	(57,177)	(41,045)
Net interest income	24	73,893	76,445	73,893	76,445
Reversal of impairment losses on loans	10	3,360	6,972	3,360	6,972
Net interest income after provision for loan impairment		77,253	83,417	77,253	83,417
Fee and commission income	25	12,735	12,329	12,735	12,329
Fee and commission expenses	25	(9,851)	(10,178)	(9,851)	(10,178)
Net gain from trading in foreign currency		17,487	13,696	17,487	13,696
Net foreign exchange translation (loss), gain		(990)	264	(990)	264
Personnel expenses		(22,023)	(18,209)	(21,975)	(18,135)
Other administrative expenses	26	(40,847)	(30,371)	(40,807)	(30,327)
Other operating income	27(a)	6,064	5,124	4,762	2,505
Other operating expense	27(b)	(1,746)	(2,280)	(1,415)	(2,280)
Profit before income tax		38,082	53,792	37,199	51,291
Income tax expense	20	(4,864)	(7,548)	(4,864)	(7,548)
Profit and total comprehensive income for the year		33,218	46,244	32,335	43,743

Approved for issue and signed on behalf of the Board of Directors on 7 May 2025.

e. tsintsadze

Elene Tsintsadze
Director

Nana Chikvaidze
Chief Accountant

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 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
Balance at 1 January 2024	112,483	72,118	116,193	300,794	112,483	72,118	113,337	297,938
Total comprehensive income								
Profit for the year	-	-	33,218	33,218	-	-	32,335	32,335
Total comprehensive income for the year		-	33,218	33,218	-	-	32,335	32,335
Dividends declared	-	-	(15,000)	(15,000)	-	-	(15,000)	(15,000)
Transactions with owners, recorded directly in equity	-	-	(15,000)	(15,000)	-	-	(15,000)	(15,000)
Balance at 31 December 2024	112,483	72,118	134,411	319,012	112,483	72,118	130,672	315,273

Approved for issue and signed on behalf of the Board of Directors on 7 May 2025.

Elene Tsintsadze
Director

Nana Chikvaidze
Chief Accountant

Consolidated and Separate Statements of Cash Flows

in '000 GEL		Consolidated		Separate	
	Notes	2024	2023	2024	2023
Profit before income tax		38,082	53,792	37,199	51,291
Release of provision for loan impairment	10	(3,360)	(6,972)	(3,360)	(6,972)
Depreciation and amortization	26, 27	4,992	4,546	4,992	4,546
Net foreign exchange translation loss/(gain)		990	(264)	990	(264)
Expenses for impairment of repossessed properties	27	338	-	7	-
Accrual of other provisions		607	1,408	607	1,408
Gain from disposal of property and equipment		(4)	(243)	(4)	(243)
Net interest income	24	(73,893)	(76,445)	(73,893)	(76,445)
Operating cash flows before changes in operating assets and liabilities		(32,248)	(24,178)	(33,462)	(26,679)
Net change in assets and liabilities from operating activities after non-cash items:					
Mandatory reserve deposit with the NBG		(49,424)	29,405	(49,424)	29,405
Loans and advances to customers		(125,599)	(32,314)	(125,599)	(32,314)
Other assets		(2,701)	(1,596)	(120)	(1,670)
Financial liabilities at fair value through profit or loss		(556)	(294)	(556)	(294)
Customer accounts		209,673	89,236	208,369	91,780
Other liabilities		(323)	(282)	(377)	(251)
Total net change in assets and liabilities from operating activities after non-cash items		31,070	84,155	32,293	86,656
Interest received		129,405	118,489	129,405	118,489
Interest paid		(52,052)	(34,264)	(52,052)	(34,264)
Income tax paid		(10,641)	(4,045)	(10,641)	(4,045)
Net cash from operating activities		65,534	140,157	65,543	140,157
Purchase of property and equipment and intangible assets		(6,265)	(4,019)	(6,265)	(4,019)
Proceeds from sale of property and equipment and investment properties		19	342	10	342
Purchase of investments in debt securities		(187,215)	(256,608)	(187,215)	(256,608)
Proceeds from sale of investments in debt securities		212,215	223,565	212,215	223,565
Net cash inflow/(outflow) from investing activities		18,754	(36,720)	18,745	(36,720)
Dividends paid	22	(15,000)	(42,782)	(15,000)	(42,782)
Payment of lease liabilities	23	(758)	(462)	(758)	(462)
Proceeds from other borrowed funds	23	41,869	44,636	41,869	44,636
Repayments of other borrowed funds	23	(130,261)	(69,922)	(130,261)	(69,922)
Proceeds from subordinated debts	23	5,924	-	5,924	-
Cash flows used in financing activities		(98,226)	(68,530)	(98,226)	(68,530)
Net increase/(decrease) in cash and cash equivalents		(13,938)	34,907	(13,938)	34,907
Cash and cash equivalents at the beginning of the year	6	283,139	247,150	283,139	247,150
Effects of exchange rate changes		877	1,082	877	1,082
Cash and cash equivalents at the end of the year	6	270,078	283,139	270,078	283,139

Approved for issue and signed on behalf of the Board of Directors on 7 May 2025.

e. Tsintsadze

Elene Tsintsadze
Director

Nana Chikvaidze
Chief Accountant

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 6 branches (including online branch), 5 service points with the 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 address of the LLC ProCredit Properties' registered office is: 21 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia.

The Bank is wholly owned by its immediate and ultimate parent company ProCredit Holding AG (the Parent). As of 31 December 2024 and 31 December 2023, the following shareholders directly owned more than 5% of the total outstanding shares of the Parent:

	% of ownership interest held as of 31 December	
	2024	2023
Zeitinger Invest GmbH	18.3	18.3
KfW - Kreditanstalt für Wiederaufbau	13.2	13.2
DOEN Foundation	12.5	12.5
EBRD - European Bank for Reconstruction and Development	8.7	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 2024 and 31 December 2023 the Group and Bank had no ultimate controlling party.

Refer to Note 31 for related party transactions.

2. BUSINESS ENVIRONMENT

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

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

Basis of preparation

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

The consolidated and separate 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 consolidated and separate financial statements have been prepared on the assumption that the Group and Bank 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 Group and Bank in Georgia. As a result, the management believes that the going concern assumption is appropriate for the Group and Bank.

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

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 guarantee1 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 28 for a description of how the Group and Bank determines when a SICR has occurred. If the Group and Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL 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 28. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

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. The bank established criteria and a process for assessing the expectation of further recovery. Potential indicators that are considered: the smaller the level of collateralization and/or the higher the number of days in arrears, and the greater the uncertainties surrounding recoveries (such as an unpredictable legal environment) are, the smaller will be the chances of reasonable expectation of recovery. Accordingly, the lower and/or more uncertain the expected recovery of receivables from a client, and/or the higher the expected

- Typically, uncollateralized or partially collateralized credit exposures are written off after 360 days in arrears.
- Typically, fully collateralized credit exposures are written off after 720 days in arrears.

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

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.

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 28.

Cash and cash equivalents

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

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.

On November 27, 2024 the NBG's Monetary Policy Committee raised the minimum reserve requirement on banks' foreign currency liabilities by five percentage points. With this change, the Bank have to hold 20-25 percent of foreign currency funds at the NBG.

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 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	2-2.5%
• Capital expenditures and other remaining fixed assets	10-50%
• Furniture and fixtures	3.33-20%
• IT and other equipment	4.16-50%

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.

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 licenses 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 one to ten 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.

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.

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 and Bank's shareholders.

Interest income and expense

Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The Group and Bank does not have interest income on debt instruments at FVTPL calculated at nominal interest rate during 2024.

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. Fee income earned from services that are provided over a certain period of time The Group and Bank recognises fees income for the provision of services over a period of time over that period.

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

The Bank and Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank and Group 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

Assumptions and estimations uncertainty

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

- Establishing the criteria for determining whether credit risk on financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of model used in ECL.– Note 28(a);

5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2024 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: "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 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 effective for annual periods beginning on or after 1 January 2024.

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

- 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.
- Amendments to IFRS 9 and IFRS 7: "Classification and Measurement of Financial Instruments" have a minor impact on the consolidated financial statements with regard to additional disclosures on financial assets at fair value with changes in fair value recognised in other comprehensive income. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2026
- Annual improvements to IFRS (Volume 11) with amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7 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 2026.
- Amendments to IFRS 9 and IFRS 7: "Contracts Referencing Nature-dependent Electricity" 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 2026.
- IFRS 18 "Presentation and Disclosure in Financial Statements" replaces IAS 1 and affects the presentation of the consolidated statement of profit or loss. This standard defines categories and subtotals for the consolidated statement of profit or loss. Furthermore, additional disclosure requirements for management-defined performance measures have been introduced and the guidelines on the aggregation and disaggregation of items have been expanded. There are no effects on the presentation of the consolidated statement of financial position or the consolidated statement of cash flows. IFRS 18 is, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2027.
- IFRS 19 "Subsidiaries without Public Accountability: Disclosures" will not have an impact on the consolidated financial statements. This standard is, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2027.

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 2024	31 December 2023
Cash on hand	47,573	40,270
Balances at the NBG excluding mandatory reserves	41,814	76,869
Nostro accounts other than with NBG	23,932	46,637
Current accounts with local financial institutions	35,155	12,895
Loss allowance for balances with NBG, Nostro accounts and current accounts with local financial institutions	(1)	(135)
Total cash and balances with the NBG in the statement of financial position	148,473	176,536

In 2024, Fitch Ratings affirmed the Government of Georgia's short term Issuer Default Rating of "B" and long-term Issuer Default Rating of "BB" while revising the Outlook on Georgia's Long-Term Foreign-Currency Issuer Default Rating to Negative from Stable.

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

in '000 GEL	31 December 2024	31 December 2023
Cash and balances with NBG, net	148,473	176,536
Due from banks with a maturity up to three months (Note 7)	121,605	106,603
Total cash and cash equivalents in the consolidated and separate statement of cash flows	270,078	283,139

Balances with the NBG above exclude the mandatory reserve deposit which is a non-interest bearing deposit calculated in accordance with regulations issued by the NBG. Refer to Note 29 for the estimated fair value of cash and cash equivalents. The interest rate analysis of cash and cash equivalents is disclosed in Note 28. As at 31 December 2024 the Group and Bank has one bank (2023: one bank), whose balance exceeds 10% of equity. The gross amount of the balance as at 2024 was GEL 63,466 thousand (2023: GEL 46,460 thousand).

As at 31 December 2024 the Group and Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2023 Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. DUE FROM BANKS

Consolidated and Separate

in '000 GEL	31 December 2024	31 December 2023
Due from Banks in OECD* countries	91,600	48,056
Due from Banks in non-OECD countries	30,007	58,549
Loss allowance for loans to banks	(2)	(2)
Total due from banks	121,605	106,603

* Organisation for Economic Cooperation and Development

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

in '000 GEL Neither past due nor impaired	AA-	A+	B+	BB	Total
31 December 2024	63,445	28,154	-	30,006	121,605
31 December 2023	48,056		20,015	38,532	106,603

Refer to Note 29 for the estimated fair value of each class of amounts due from banks. The interest rate analysis

8. INVESTMENTS IN DEBT SECURITIES

Consolidated and Separate

Figures below represent Investment securities measured at amortized cost.

in '000 GEL	31 December 2024	31 December 2023
Certificates of deposit of the NBG	19,853	23,794
Treasury bills issued by the Government of Georgia	70,637	90,508
Total investments in debt securities	90,490	114,302

No investment in debt securities are past due or impaired. As at 31 December 2024 the Group and Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2023: 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 2024	Investment as at 31 December 2024 (‘000GEL)
LLC ProCredit Properties	Georgia	100.00%	6,100

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

LLC Procredit Properties is a wholly-owned subsidiary of Procredit Bank Georgia, which was formed under Georgian Law on 23 July 2007. The principal operations of LLC Procredit Properties is holding and managing movable and immovable properties acquired through auctions from the Bank's defaulted customers. As at 31 December 2024 net assets of the Subsidiary is GEL 13,933 thousand (2023: GEL 13,120 thousand).
The LLC ProCredit Properties is included in the scope of consolidation as of 31 December 2024.

Investments in equity securities

Consolidated and Separate

Equity investments comprise shares in the following companies:

in '000 GEL	Ownership interest	Amount At 31 December 2024	Ownership interest	Amount At 31 December 2023
JSC United Clearing Center Georgia	6.250%	54	6.250%	54
JSC American Academy in Tbilisi	4.730%	50	4.730%	50
S.W.I.F.T.SCRL	0.005%	35	0.005%	35
Total		139		139

The Bank has significant influence with the ownership more than 20% over JSC Creditinfo Georgia.

in '000 GEL	Ownership interest	Amount At 31 December 2024	Ownership interest	Amount At 31 December 2023
JSC Creditinfo Georgia	21.09%	3,400	21.09%	2,836

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.

JSC Credit Information Bureau Creditinfo Georgia is a credit information bureau registered by the National Bank of Georgia, whose main activity is to collect credit information and provide it to credit or other types of organizations.

The company provides banks, leasing companies and other organizations whose activities are related to lending, delivery of services or goods on credit, important data in the decision-making process. The activities of the Bureau are regulated by the Organic Law of Georgia on the National Bank of Georgia and by the orders of the President of the National Bank of Georgia.

in '000 GEL	2024	2023
Current assets	11,651	8,888
Non-current assets	5,076	5,098
Current liabilities	601	445
Total Equity	16,126	13,541
Profit and total comprehensive income for the year	6,391	4,758

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 2024:

in '000 GEL (except for number of outstanding loans and loan sizes) At 31 December 2024	Gross amount	ECL allowance for impairment	Net amount	Share of total portfolio
Wholesale and trade loans				
loan size up to EUR 100,000	44,886	(409)	44,477	3.39%
loan size EUR 100,000 to EUR 250,000	96,465	(1,112)	95,353	7.26%
loan size more than EUR 250,000	317,367	(717)	316,650	24.11%
Total wholesale and trade loans	458,718	(2,238)	456,480	34.76%
Agricultural, forestry and fishing loans				
loan size up to EUR 100,000	5,071	(34)	5,037	0.38%
loan size EUR 100,000 to EUR 250,000	8,510	(132)	8,378	0.64%
loan size more than EUR 250,000	10,724	(24)	10,700	0.81%
Total agricultural, forestry and fishing loans	24,305	(190)	24,115	1.84%
Production loans				
loan size up to EUR 100,000	24,358	(1,064)	23,294	1.77%
loan size EUR 100,000 to EUR 250,000	50,763	(3,321)	47,442	3.61%
loan size more than EUR 250,000	118,875	(6,198)	112,677	8.58%
Total production loans	193,996	(10,583)	183,413	13.97%
Transportation and storage loans				
loan size up to EUR 100,000	6,320	(30)	6,290	0.48%
loan size EUR 100,000 to EUR 250,000	14,908	(54)	14,854	1.13%
loan size more than EUR 250,000	28,186	(3,806)	24,380	1.86%
Total transportation and storage loans	49,414	(3,890)	45,524	3.47%
Other economic activities				
loan size up to EUR 100,000	40,168	(1,489)	38,679	2.95%
loan size EUR 100,000 to EUR 250,000	93,372	(4,446)	88,926	6.77%
loan size more than EUR 250,000	352,229	(3,582)	348,647	26.55%
Total other economic activities loans	485,769	(9,517)	476,252	36.27%
Total Business loans	1,212,202	(26,418)	1,185,784	90.30%
Housing loans				
loan size up to EUR 100,000	59,646	(918)	58,728	4.47%
loan size EUR 100,000 to EUR 250,000	35,297	(664)	34,633	2.64%
loan size more than EUR 250,000	14,308	(207)	14,101	1.07%
Total housing loans	109,251	(1,789)	107,462	8.18%
Investment loans				
loan size up to EUR 100,000	5,669	(183)	5,486	0.42%
loan size EUR 100,000 to EUR 250,000	650	(6)	644	0.05%
Total investment loans	6,319	(189)	6,130	0.47%
Consumer loans				
loan size up to EUR 100,000	13,475	(361)	13,114	1.00%
loan size EUR 100,000 to EUR 250,000	701	(3)	698	0.05%
Total Consumer loans	14,176	(364)	13,812	1.05%
Total Private loans	129,746	(2,342)	127,404	9.70%
Total	1,341,948	(28,760)	1,313,188	100.00%

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 EUR 100,000 to EUR 250,000	5,753	(164)	5,589	0.48%
loan size more than 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 size categories above refer to the amounts originally disbursed to one single borrower.

As at 31 December 2024 and 2023 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 2024	1,126,557	33,367	37,218	464	1,197,606
New financial assets originated	480,750	-	-	-	480,750
Modification of contractual cash flows of financial assets	(111)	8	-	-	(103)
Derecognitions	(153,013)	(21,066)	(4,147)	-	(178,226)
Write-offs	-	-	(4,045)	-	(4,045)
Changes in interest accrual	1,194	76	1,190	(18)	2,442
Repayments	(158,431)	(11,337)	(6,364)	(173)	(176,305)
Transfer from Stage 1 to Stage 2	(43,931)	43,931	-	-	-
Transfer from Stage 1 to Stage 3	(65)	-	65	-	-
Transfer from Stage 2 to Stage 1	6,801	(6,801)	-	-	-
Transfer from Stage 2 to Stage 3	-	(7,798)	7,798	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	67	-	(67)	-	-
Foreign exchange and other movements	19,819	261	(262)	11	19,829
Gross outstanding amount as at 31 December 2024	1,279,637	30,641	31,386	284	1,341,948

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

The total amount of loans recoveries of amounts previously written off during the year 2024 was GEL 5,417 thousand (2023: GEL 7,898 thousand).

As at 31 December 2024 the Group and the Bank had no written-off exposures subject to enforcement activity (2023: GEL 188.6 thousand).

Further analysis of loans is detailed in Note 28.

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

in '000 GEL	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January 2024	(4,650)	(1,484)	(22,687)	(465)	(29,286)
New financial assets originated	(2,098)	-	-	-	(2,098)
Release due to derecognition	491	435	2,561	-	3,487
Transfer from Stage 1 to Stage 2	196	(196)	-	-	-
Transfer from Stage 1 to Stage 3	1	-	(1)	-	-
Transfer from Stage 2 to Stage 1	(33)	33	-	-	-
Transfer from Stage 2 to Stage 3	-	149	(149)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	(1)	-	1	-	-
Increase in PDs/LGDs/EaDs	(2,776)	(727)	(13,186)	(60)	(16,749)
Decrease in PDs/LGDs/EaDs	3,548	952	7,227	237	11,964
Usage of allowance	-	-	4,045	-	4,045
Increase due to modification without derecognition	-	(44)	-	-	(44)
Decrease due to modification without derecognition	18	2	-	-	20
Foreign exchange and other movements	(70)	(1)	(32)	4	(99)
Balance at 31 December 2024	(5,374)	(881)	(22,221)	(284)	(28,760)

in '000 GEL	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)

Analysis by credit quality of loans outstanding at 31 December 2024 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	451,266	23,563	176,862	41,228	456,554	104,946	6,033	13,701	1,274,153
- less than 30 days overdue	573	-	1,944	1,490	1,378	-	43	56	5,484
Total Stage 1 loans	451,839	23,563	178,806	42,718	457,932	104,946	6,076	13,757	1,279,637
Stage 2									
Not in Arrears	4,625	619	1,092	469	17,522	2,342	122	163	26,954
- less than 30 days overdue	-	-	1,248	-	435	1,506	5	15	3,209
- 31 to 90 days overdue	414	-		-	-	-	-	64	478
Total Stage 2 loans	5,039	619	2,340	469	17,957	3,848	127	242	30,641

in '000 GEL	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment	Other	Total
Stage 3									
Not in Arrears	430	-	109	-	490	130	-	1	1,160
- less than 30 days overdue	262	-	-	6,227	4,626	20	6	-	11,141
- 31 to 90 days overdue	-	-	166	-	-	-	-	127	293
- over 90 days overdue	1,149	123	12,575	-	4,481	307	111	46	18,792
Total Stage 3 loans	1,841	123	12,850	6,227	9,597	457	117	174	31,386
POCI									
Not in Arrears	-	-	-	-	284	-	-	-	284
- over 90 days overdue	-	-	-	-	-	-	-	-	-
Total POCI loans	-	-	-	-	284	-	-	-	284
Less impairment provisions	(2,238)	(190)	(10,584)	(3,890)	(9,517)	(1,789)	(189)	(363)	(28,760)
Total loans and advances to customers	456,481	24,115	183,412	45,524	476,253	107,462	6,131	13,810	1,313,188

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	-	11	1,657
Total Stage 2 loans	8,712	1,898	2,388	1,334	16,252	2,715	4	64	33,367
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	40	23,799
Total Stage 3 loans	4,496	295	10,165	8,015	13,231	759	94	163	37,218

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	-	-	-	-	464	-	-	-	464
- over 90 days overdue	-	-	-	-	-	-	-	-	-
Total POCI loans	-	-	-	-	464	-	-	-	464
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	30,264	192,156	44,686	437,363	87,617	6,287	2,540	1,168,320

Impaired loans are classified as:

- Loans past due for more than 90 days
- Non-performing forborne (Impaired restructured loans)
- Court proceedings
- Bankruptcy
- Credit fraud risk (Class 8)
- Other signs of impairment

A client has to be considered impaired as long as the bank considers it unlikely that the obligation will be paid in full without recourse to actions such as realising collateral. Only after an analysis of the behaviour of the obligor and of its financial situation during the healing period, it is possible to assess whether the improvement of the credit quality is factual and permanent. Such an assessment should be performed in particular before reclassification of impaired exposures back to non-impaired status. In order to ensure that sufficient information exists to perform such an assessment and that it is done in a prudent manner minimum periods are specified. The return to non-impaired status cannot be done before 12 consecutive months for impaired restructuring and 3 consecutive months for all other triggers, during which period no impaired conditions are met.

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

Analysis by credit risk rating grades at 31 December 2024 is as follows:

Consolidated and Separate

in '000 GEL		Stage 1	Stage 2	Stage 3	(POCI)	Total
Risk classification						
Performing	1	26,527	-	-	-	26,527
	2	251,357	-	-	-	251,357
	3	454,254	2,794	-	-	457,048
	4	251,629	1,196	-	-	252,825
	5	156,259	2,113	-	-	158,372
Underperforming	6	-	17,050	-	-	17,050
	7	-	1,960		-	1,960
Defaulted	8	-	-	8,469	-	8,469
Non-rated exposures		134,237	4,650	693	-	139,580
Balance at 31 December 2024		1,274,263	29,763	9,162	-	1,313,188

Analysis by credit risk rating grades at 31 December 2023 is as follows:

Consolidated and Separate

in '000 GEL		Stage 1	Stage 2	Stage 3	(POCI)	Total
Risk classification						
Performing	1	27,277	-	-	-	27,277
	2	258,290	-	-	-	258,290
	3	344,977	2,219	-	-	347,196
	4	224,747	1,026	-	-	225,773
	5	167,665	5,077	-	-	172,741
Underperforming	6	-	17,986	-	-	17,986
	7	-	2,085		-	2,085
Defaulted	8	-	-	13,377	-	13,377
Non-rated exposures		98,951	3,491	1,152	-	103,595
Balance at 31 December 2023		1,121,907	31,884	14,529	-	1,168,320

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

The following tables provide information on collateral securing loans and advances to customers by type of collateral as at 31 December 2024 and 2023:

in '000 GEL At 31 December 2024	Real estate	Financial guarantees*	Cash collateral	Other	Guarantors	No collateral	Total
Wholesale and trade	393,162	18,637	324	9,880	29,926	4,552	456,481
Agriculture, forestry and fishing	14,043	2,573	4,976	83	2,070	370	24,115
Production	133,639	24,251	3,505	12,356	8,454	1,207	183,412
Transportation and storage	32,641	2,020	3,904	5,805	885	269	45,524
Other economic activities	432,520	16,904	564	14,202	9,646	2,417	476,253
Housing	106,167	-	183	196	12	904	107,462
Investment loans	3,375	-	-	1,877	86	793	6,131
Other	4,501	-	1,331	709	179	7,090	13,810
Total	1,120,048	64,385	14,787	45,108	51,258	17,602	1,313,188

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	4,413	367,407
Agriculture, forestry and fishing	18,534	3,963	4,450	133	1,650	1,532	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	1,110	437,364
Housing	85,727	-	269	-	114	1,508	87,618
Investment loans	4,341	-	-	309	103	1,534	6,287
Other	781	-	128	-	37	1,594	2,540
Total	958,618	84,632	8,732	50,999	52,806	12,533	1,168,320

*From international financial institutions.

As at 31 December 2024 and 2023 '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 29 for the estimated fair value of each class of loans and advances to customers. For more information on credit risk management and interest rate analysis of loans and advances to customers refer to Note 28.

11. INVESTMENT PROPERTIES

Consolidated

in '000 GEL	2024	2023
Net book value at 1 January	4,283	4,382
Additions		43
Disposals	(10)	-
Depreciation for the year	(142)	(142)
Disposal of depreciation	1	-
Net book value at 31 December	4,132	4,283
Total acquisition costs	5,870	5,880
Accumulated depreciation	(1,738)	(1,597)
Net book value at 31 December	4,132	4,283

Rental income in 2024 under operating leases was GEL 1,473 thousand (2023: GEL 1,041 thousand).

Separate

in '000 GEL	2024	2023
Net book value at 1 January	4,274	4,373
Additions	-	43
Disposals	-	-
Depreciation for the year	(142)	(142)
Disposal of depreciation	-	-
Net book value at 31 December	4,132	4,274
Total acquisition costs	5,870	5,870
Accumulated depreciation	(1,738)	(1,596)
Net book value at 31 December	4,132	4,274

Investment property comprises buildings leased to third parties. These are recognised using the acquisition cost model. Gains and losses on disposals (determined by comparing sale proceeds with carrying amount) are recognised in profit or loss at the time of disposal. As in the previous year, no impairment was recognised for investment property during the 2024 financial year.

Depreciation on Investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Investment property/buildings 2-2.5%

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2023. 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 31 December 2024 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	2024	2023
Net book value as at 1 January	1,992	1,370
Additions	1,742	1,897
Disposal	(1,359)	(803)
Amortisation for the year	(1,582)	(1,274)
Disposal of amortisation	1,359	803
Net book value as at 31 December	2,152	1,993
Total acquisition costs as at 31 December	3,898	3,517
Accumulated amortisation as at 31 December	(1,746)	(1,524)
Net book value as at 31 December	2,152	1,993

Intangible assets consists of software licences.

13. PROPERTY AND EQUIPMENT

The development of property and equipment was as follows:

Consolidated and Separate

in '000 GEL	Land and buildings	Furniture and fixtures	IT and other equipment	Other fixed assets	Total
Net book value at 1 January 2023	33,394	949	3,631	2,294	40,268
Additions	6	20	1,179	84	1,289
Disposals - at cost	(43)	(300)	(1,517)	(644)	(2,504)
Depreciation for the year	(859)	(214)	(1,297)	(366)	(2,736)
Disposals - accumulated depreciation	-	300	1,517	644	2,461
Net book value at 31 December 2023	32,498	755	3,513	2,012	38,778
Total acquisition costs	41,882	10,059	14,773	9,255	75,969
Accumulated depreciation	(9,384)	(9,304)	(11,260)	(7,243)	(37,191)
Net book value at 1 January 2024	32,498	755	3,513	2,012	38,778
Additions	363	474	3,407	293	4,537
Disposals - at cost	(128)	(151)	(393)	(98)	(770)
Depreciation for the year	(900)	(106)	(1,343)	(331)	(2,680)
Disposals - accumulated depreciation	128	151	393	92	764
Net book value at 31 December 2024	31,961	1,123	5,577	1,968	40,629
Total acquisition costs	42,117	10,382	17,787	9,450	79,736
Accumulated depreciation	(10,156)	(9,259)	(12,210)	(7,482)	(39,107)
Net book value at 31 December 2024	31,961	1,123	5,577	1,968	40,629

14. RIGHT-OF-USE ASSETS

Consolidated and Separate

Right-of-use assets

in '000 GEL	2024	2023
Net book value at 1 January	1,773	1,431
Additions	1,755	789
Disposals	(181)	(285)
Depreciation for the year	(588)	(394)
Disposals - accumulated depreciation	181	232
Net book value at 31 December	2,940	1,773

The Group and Bank leases branches, service centers and service points. Rental contracts are typically made for fixed periods of 2 to 14 years.

Leases are recognized as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group and Bank.

15. OTHER ASSETS

At 31 December 2024 and 2023, other assets were as follows:

Consolidated

in '000 GEL	31 December 2024	31 December 2023
Accounts receivable from credit card and online payment system companies and money transfer agencies	2,319	2,173
Security deposit	788	754
Other	519	623
Loss allowance for account receivables	(17)	(13)
Total other financial assets	3,609	3,537
Non-current		
Repossessed properties	2,363	356
Prepayments for court fees and charges, net of provision	187	133
Prepayments for fixed assets	614	619
Current		
Prepayments for various services	4,149	2,469
Inventory and other	503	407
Total other non-financial assets	7,816	3,984
Total	11,425	7,521

Separate

in '000 GEL	31 December 2024	31 December 2023
Accounts receivable from credit card and online payment system companies and money transfer agencies	2,319	2,173
Security deposit	788	754
Other	519	623
Loss allowance for account receivables	(17)	(13)
Total other financial assets	3,609	3,537
Non-current		
Repossessed properties	13	69
Prepayments for court fees and charges, net of provision	187	133
Prepayments for fixed assets	614	619
Current		
Prepayments for various services	3,833	2,341
Inventory and other	503	406
Total other non-financial assets	5,150	3,568
Total	8,759	7,105

The Group and Bank allocates other financial assets under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2023: Stage 1). ECL is calculated based on a simple average of PD parameters for SMEs in risk classes 1 to 4 and average LGD parameters for small and medium exposures.

ECL at the year ends is shown in the above table.

Refer to Note 29 for the estimated fair value of other financial assets. Information on related party balances is disclosed in Note 31.

16. 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 2024	31 December 2023
Current accounts	275,641	261,913
- private individuals	53,347	49,426
- legal entities	222,294	212,487
Savings accounts	492,520	474,159
- private individuals	220,391	223,336
- legal entities	272,129	250,823
Term deposit accounts	530,192	320,914
- private individuals	313,104	214,771
- legal entities	217,088	106,143
Other liabilities to customers	1,996	2,781
Total	1,300,349	1,059,767

Separate

in '000 GEL	31 December 2024	31 December 2023
Current accounts	282,969	270,544
- private individuals	53,348	49,426
- legal entities	229,621	221,118
Savings accounts	492,520	474,159
- private individuals	220,391	223,336
- legal entities	272,129	250,823
Term deposit accounts	530,192	320,914
- private individuals	313,104	214,771
- legal entities	217,088	106,143
Other liabilities to customers	1,996	2,781
Total	1,307,677	1,068,398

At 31 December 2024, the Group and Bank had included pending client transfers of GEL 1,996 thousand (2023: GEL 2,781 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 2024	31 December 2023
Private individuals	586,843	487,533
Trade and services	502,308	405,400
Transportation and communications	61,317	44,733
Construction	59,941	47,414
Manufacture	48,255	31,194
Government	22,456	22,456
Agriculture and forestry	15,504	16,558
Mining and mineral processing	318	199
Other	3,407	4,280
Total	1,300,349	1,059,767

Separate

in '000 GEL	31 December 2024	31 December 2023
Private individuals	586,843	487,533
Trade and services	509,635	414,031
Transportation and communications	61,317	44,733
Construction	59,941	47,414
Manufacture	48,255	31,194
Government	22,456	22,456
Agriculture and forestry	15,504	16,558
Mining and mineral processing	318	199
Other	3,408	4,280
Total	1,307,677	1,068,398

At 31 December 2024, the Group and Bank had 219 customers (2023: 191 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 738,745 thousand (2023: GEL 552,408 thousand) or 56 % (2023: 52 %) of total customer accounts.

At 31 December 2024, customer accounts included deposits of GEL 14,760 thousand (2023: GEL 8,892 thousand) held as collateral for on-balance exposures and GEL 12,842 thousand (2023: GEL 18,153 thousand) held as collateral for irrevocable commitments under financial and performance guarantees and letters of credit refer to Note 30.

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31. Refer to Note 29 for the estimated fair value of each class of customer accounts.

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 2024	31 December 2023
Ministry of Finance of Georgia	December 2026	530	810
European Investment Bank (EIB)	April 2024	-	2,014
European Investment Bank (EIB)	December 2026	-	3,551
European Investment Bank (EIB)	August 2027	-	494
European Investment Bank (EIB)	December 2026	9,964	14,935
European Investment Bank (EIB)	August 2027	12,594	14,941
Council of Europe Development Bank (CEB)	April 2027	21,940	29,779
European Bank for Reconstruction and Development (EBRD)	August 2024	-	44,704
ProCredit Holding AG	May 2027	46,141	45,886
ProCredit Bank AG, Frankfurt am Main	April 2024	-	13,443
ProCredit Bank AG, Frankfurt am Main	August 2027	25,143	25,592
ProCredit Bank AG, Frankfurt am Main	April 2024	-	13,444
Total liabilities with fixed interest rates		116,312	209,593
Liabilities with variable interest rates			
European Bank for Reconstruction and Development(EBRD)	July 2026	17,046	26,015
European Bank for Reconstruction and Development(EBRD)	February 2024	-	6,927
GREEN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2025	8,351	16,990
ProCredit Bank AG, Frankfurt am Main	July 2026	26,974	27,494
Council of Europe Development Bank (CEB)	March 2029	36,872	37,632
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	12,627	20,121
Oesterreichische Entwicklungsbank AG(OEeB)	January 2026	11,655	18,572
The European Fund For Southeast Europe S.A., SICAV-SIF	June 2027	29,149	29,597
GN FOR GROWTH FUND, SOUTHEAST EUROPE S.A., SICAV-SIF(GGF)	December 2027	14,572	14,801
European Bank for Reconstruction and Development (EBRD)	October 2028	14,173	-
European Bank for Reconstruction and Development (EBRD)	October 2028	14,169	-
European Bank for Reconstruction and Development (EBRD)	October 2028	14,663	-
Total liabilities with variable interest rates		200,251	198,149
Total liabilities		316,563	407,742

Below table shows maturity analysis of other borrowed funds as at 31 December 2024 and 31 December 2023 based on carrying amount.

As at 31 December 2024 (in '000 GEL)	less than 1 year	1 - 5 years	More than 5 years	Total
Other borrowed funds	84,190	232,373	-	316,563
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

Refer to Note 29 for the estimated fair value of other borrowed funds. The interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31. Undiscounted cash flows are shown in note 28.

18. OTHER LIABILITIES

Consolidated

in '000 GEL	31 December 2024	31 December 2023
Account payable	591	789
Other	1,587	1,428
Total other financial liabilities	2,178	2,217
Received prepayments and deferred fees from guarantees issued	253	221
Total other liabilities	2,431	2,438

Guarantee amounts received from EIF against defaulted exposures are reflected in the loan portfolio in 2024.

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 2024 and 2023.

Refer to Note 29 for the estimated fair value of other financial liabilities.

19. PROVISIONS

Provisions are established when we have 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.

The amount of provisions represents the best possible estimate, taking into account estimation uncertainties regarding the amount to be paid or the probability of occurrence. The majority our obligations will be settled within a one-year period. Multi-year obligations are discounted at an average interest rate of 7.63%.

Unwinding is recognised as interest expense over time.

Consolidated and Separate

in '000 GEL	Non-financial off-balance sheet transactions	Financial off-balance sheet transactions	Untaken Vacation	Legal Risk	Unbilled services	Other provisions	Total Provisions
Book value as of 1 January 2024	1,286	128	365	137	5	249	2,170
Used	-	-	(365)		(5)	-	(370)
Releases	(1,286)	-	-	-	-	(77)	(1,363)
Change in Loss allowance	-	(23)	-	-	-	-	(23)
Additions	-	-	367	299	5	1,669	2,340
Unwinding	-	-	-	22	-	16	38
Exchange rate movements	-	1	-	(1)	-	-	-
Book value as of 31 December 2024	-	106	367	457	5	1,857	2,792
Expected amount to be settled later than 12 months	-	-	-	294	-	187	
Expected latest date of settlement	-	-	-	2026	-	2027	

in '000 GEL	Non-financial off-balnce sheet transactions	Financial off-balnce sheet transactions	Untaken Vacation	Legal Risk	Unbilled services	Other provisions	Total Provisions
Book value as of 1 January 2023	-	133	316	39	5	249	742
Used	-	-	(316)	-	(5)	-	(321)
Releases	-	-	-	(19)	-	-	(19)
Change in Loss allowance	-	(6)	-	-	-	-	(6)
Additions	1,286	-	365	117	5	-	1,773
Unwinding	-	-	-	-	-	-	-
Exchange rate movements	-	1	-	-	-	-	1
Book value as of 31 December 2023	1,286	128	365	137	5	249	2,170
Expected amount to be settled later than 12 months	-	-	-	-	-	-	
Expected latest date of settlement	-	-	-	-	-	-	

20. INCOME TAXES

Income taxes include current taxes and deferred taxes. Income tax expenses are generally recognised in the consolidated statement of profit or loss, except for items that are recognised directly in equity or in other comprehensive income, net of tax.

Deferred taxes are recognised in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and their tax bases. Deferred tax assets and liabilities are determined using tax rate that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The applicable income tax rate is 20 % for Georgian financial institutions.

Income tax expenses recorded in profit or loss for the year comprise the following:

Consolidated and Separate

in '000 GEL	2024	2023
Current tax charge	4,541	9,154
Deferred tax charge	323	(1,606)
Income tax expense for the year	4,864	7,548

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

in '000 GEL	2024	2023
Profit before tax	38,083	53,792
Theoretical tax charge at statutory rate of 20%	7,617	10,759
Tax effect of items which are not deductible:		
– Non-tax deductible expenses/(income)/ effects of change of tax legislation	(2,753)	(3,211)
Income tax expense for the year	4,864	7,548

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 2024 and 2023.

21. SUBORDINATED DEBT

Consolidated and Separate

The subordinated debt can be broken down as follows:

in '000 GEL	Due	31 December 2024	31 December 2023
Subordinated debt with fixed interest rates			
ProCredit Holding AG	September 2028	-	14,886
ProCredit Holding AG	October 2034	20,795	
Total		20,795	14,886

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

Refer to Note 29 for the disclosure of the fair value of subordinated debt. The interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 31.

22. SHARE CAPITAL AND SHARE PREMIUM

Shareholder structure is as follows:

in '000 GEL (except for the number of shares)	31 December 2024			31 December 2023		
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 2023	22,496,561	112,483	72,118
At 31 December 2024	22,496,561	112,483	72,118

In 2024 par value per share were GEL 5 (2023: GEL 5).

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 Group. The Group may determine the distribution of annual and interim profits in the form of dividends.

In 2024 dividends were declared and paid GEL 15,000 thousand GEL 0.67 per share (2023: GEL 42,782 thousand).

23. NET DEBT RECONCILIATION

Consolidated and Separate

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

	Liabilities from financing activities			
	Other borrowed funds	Subordinated debt	Lease Liabilities	Total
Balance at 1 January 2024	407,742	14,886	1,817	424,445
Proceeds	41,869	5,924	-	47,793
Repayments	(130,261)		(758)	(131,019)
Total changes from financing cash flows	(88,392)	5,924	(758)	(83,226)
The effect of changes in foreign exchange rates	(3,175)	(326)	187	(3,314)
Other changes				
Interest expense	18,992	1,069	140	20,201
New lease liability	-	-	1,768	1,768
Interest paid	(18,604)	(758)	-	(19,362)
Balance at 31 December 2024	316,563	20,795	3,154	340,512

	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

Lease liabilities are recognised at the present value of the lease payments not yet made at the reporting date. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

24. NET INTEREST INCOME

Consolidated and Separate

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

in '000 GEL

Interest and similar income calculated using effective interest rate method	2024	2023
Loans and advances to customers	110,869	97,905
Cash and cash equivalents and due from banks	10,753	9,670
Investment in debt securities	9,448	9,915
Total interest income calculated using effective interest rate method	131,070	117,490

Interest and similar expenses		
Customer accounts	(36,937)	(23,871)
Other borrowed funds	(18,992)	(16,244)
Subordinated debt	(1,069)	(855)
Lease liabilities	(140)	(75)
Other	(39)	-
Total interest expenses	(57,177)	(41,045)
Net interest income	73,893	76,445

25. FEE AND COMMISSION INCOME AND EXPENSES

Consolidated and Separate

in '000 GEL

Fee and commission income	2024	2023
Payment transfers and cash transactions	3,461	3,253
Account maintenance fee	3,798	3,943
Debit/credit card service fee	2,887	2,772
Letters of credit and guarantees	2,406	2,182
Internet bank fee	25	27
SMS service fee	3	3
Other fee and commission income	155	149
Total fee and commission income	12,735	12,329
Fee and commission expenses		
Debit/credit card service fee	(5,694)	(5,221)
Account maintenance fee	(1,640)	(1,538)
Letters of credit and guarantees	(2,354)	(3,316)
Payment transfers and transactions	(51)	(21)
Service fee	(113)	(83)
Total fee and commission expenses	(9,851)	(10,178)
Net fee and commission income	2,884	2,151

26. OTHER ADMINISTRATIVE EXPENSES

Consolidated and Separate

Other administrative expenses include the following items:

in '000 GEL	2024	2023
Communication and IT expenses	10,887	8,666
Personnel recruitment, training and other staff-related expenses	9,295	6,150
Depreciation and amortization	4,850	4,404
Consulting and legal services	4,869	3,860
Taxes other than on income	2,549	1,997
Marketing, advertising and entertainment	3,495	1,782
Utilities and electricity	1,079	977
Transport	1,430	967
Insurances	345	345
Repair and maintenance	920	519
Audit and other financial services	162	152
Office rent	132	126
Security service	21	19
Other	813	407
Total	40,847	30,371

Administrative expenses above includes GEL 162 thousand (2023: GEL 152 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 2,807 thousand were incurred on staff training and related activities during 2024 (2023: GEL 2,745 thousand).

In 2024 the monthly average number of persons employed by the Group and Bank was 336 people (2023: 271).

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

	2024	2023
Senior Management	4	2
Middle Management	24	23
Other staff	308	246
Total	336	271
Service contractors	120	107

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

27. OTHER OPERATING INCOME AND EXPENSES

Consolidated

(a) Other operating income

in '000 GEL	2024	2023
Share of the investee's profit recognized under the equity method	1,412	985
Rental income from investment properties	1,473	1,041
Income from sale of repossessed properties	1,410	2,655
Income from reversals of provisions on non-financial off-balance items	1,363	-
Gain from disposal of property, and equipment	4	65
Other operating income	402	378
Total	6,064	5,124

(b) Other operating expenses

in '000 GEL	2024	2023
Loss related to write/sale off of repossessed property	338	23
Expenses for provisions on non-financial off-balance items	-	1,286
Expenses related for deposit insurance fund	746	468
Expenses from disposal of property and equipment	6	1
Depreciation of investment property	142	142
Other operating expense	514	360
Total	1,746	2,280

Separate

(a) Other operating income

in '000 GEL	2024	2023
Share of the investee's profit recognized under the equity method	1,412	985
Rental income from investment properties	1,473	1,020
Income from reversals of provisions on non-financial off-balance items	1,363	-
Income from sale of repossessed properties	99	47
Gain from disposal of property, and equipment	4	65
Other operating income	411	388

(b) Other operating expenses

in '000 GEL	2024	2023
Expenses for provisions on non-financial off-balance items	-	1,286
Expenses related for deposit insurance fund	746	468
Loss related to write/sale off of repossessed property	7	23
Expenses from disposal of property and equipment	6	1
Other operating expense	656	502
Total	1,415	2,280

28. FINANCIAL RISK AND CAPITAL MANAGEMENT

Consolidated and Separate unless otherwise indicated.

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

Objectives

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

- Ensuring that the Group and Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Ensuring full compliance by the Bank with external capital requirements set by the regulator of the Georgian banking sector.
- Meeting the internally defined minimum capital adequacy requirements, 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 and quarterly basis respectively 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 2024 the Group and Bank was in compliance with the regulatory capital adequacy requirements imposed by the NBG. The following table shows the capital adequacy ratios as calculated in accordance with those requirements:

As at 31 December (Pillar I + Pillar II)	2024 Actual	2024 Requirement	2023 Actual	2023 Requirement
Tier 1 Capital /RWA	20.07%	14.73%	21.39%	14.63%
Tier 1 + Tier 2 Capital /RWA	21.42%	18.22%	22.27%	18.22%

NBG introduced Pillar II buffers which were to be maintained from December 2017. As of 31 December 2024, the minimum requirements including set buffers for Tier 1 equals to 14.73% 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.
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:

As at 31 December	2024*	2023*
Tier 1 Capital / RWA	21.30%	21.45%
Tier 1 + Tier 2 Capital / RWA	22.75%	22.52%

in '000 GEL

As at 31 December	2024*	2023*
Ordinary share capital	112,483	112,483
Share premium	72,118	72,118
Prior period retained earnings	116,193	112,731
Profit for first nine months	26,336	40,569
Less other adjustments	-	-
Less dividends paid in current year	(15,000)	(42,782)
Less planned dividends in next year	(11,056)	(11,056)
Less intangible assets	(2,152)	(1,993)
Tier I capital	298,922	282,070
Adjusted Tier I capital	298,922	282,070
Subordinated loans	20,462	14,121
Tier II capital	20,462	14,121
Total regulatory capital	319,384	296,191

in '000 GEL

As at 31 December	2024*	2023*
RWA on balance	1,212,141	1,139,277
RWA off balance	27,189	28,666
RWA from CVA	36	67
RWA from operational risk	164,229	147,255
Total RWA	1,403,595	1,315,265

* 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 2024 and 2023 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

According to the changes made in 2023, balance sheet subordinated debt is not added to the risk-taking potential. In order to ensure sufficient internal capital adequacy, a maximum of 80% (limit) of the risk-taking potential was made available as resources (RAtCR) as of 2023 which can be used to cover credit, market and operational risks. Risk-taking potential was GEL 302 million as at 31 December 2024 (2023: GEL 284 million). The Resources Available to Cover Risk (RAtCR) was set at 80% of the risk-taking potential, i.e. GEL 242 million, unaudited for 2024 (2023: GEL 227 million). 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. Furthermore, for the following aspects a management buffer is built: funding pricing risk, business risk, sum of non-material risks and ESG risks. Management can define in addition an unallocated buffer on top. This combined management buffer is deducted from the RTP before determining the RAtCR. ProCredit Bank differentiates between the total risk-taking potential (RTP) and resources available to cover risk (RAtCR). The differentiation between RAtCR and RTP is intended to cover risks that are not (yet) explicitly included in the calculations at bank level (funding risk, business risk and model risk) and to serve as a "security buffer". For the ProCredit banks the RAtCR are defined as: RAtCR = 80% of RTP.

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 2024.

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%	132,940	45,350	15.0%
Counterparty Risk	Sovereign and Commercial Banks	7.0%	21,150	5,001	1.7 %
Market Risk	Interest Rate Risk	13.0%	39,278	4,482	1.5%
Market Risk	Currency Risk	3.0%	9,064	715	0.2%
Operational Risk	Operational Risk	13.0%	39,278	13,138	4.3%
Resources Available to Cover Risk		80.0%	241,710	68,686	22.7%

As at the end of December 2023 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)	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%

* 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 Consolidated and Separate 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 SME, PI and Very Small clients, 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 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 Group and Bank, 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 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group and Bank incorporates forward-looking information in the ECL models.

<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.

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 Advisor or Credit Analyst. For such credit exposures, the committee assesses whether objective evidence of

- 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 2024	2.3%	2.4%
At 31 December 2023	2.8%	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.

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 2024	In %	31 December 2023	In %
Banking groups	180,692	34%	166,012	32%
OECD banks	115,530	22%	94,570	18%
Non-OECD banks	65,162	12%	71,442	14%
NBG	286,193	53%	270,955	51%
Mandatory reserve	224,526	42%	170,304	32%
Other exposures	61,667	11%	100,651	19%
Government of Georgia	70,637	13%	90,507	17%
Treasury bills	70,637	13%	90,507	17%
Total counterparty and issuer exposure	537,522	100%	527,474	100%

The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 78% (2023: 63%) 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 2024	GEL	EUR	USD	Total
NBG	61,661	67,397	157,135	286,193
Mandatory reserve	-	67,393	157,133	224,526
Balances at NBG excluding mandatory reserves	41,808	4	2	41,814
Certificates of deposits of NBG	19,853	-		19,853
Government of Georgia	70,637	-	-	70,637
	132,298	67,397	157,135	356,830

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
	191,137	57,719	112,605	361,462

(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

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 Department 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 2024	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)	293,293	11,626	44,519	21,861	1,720	373,019	372,999
Due from banks	121,730	10	-	-	-	121,740	121,605
Loans and advances to customers	37,342	113,389	442,461	703,662	322,815	1,619,669	1,313,188
Investments in debt securities	14,979	19,920	34,986	28,241	-	98,126	90,490
Other financial assets	2,821	-	-	-	788	3,609	3,609
- Inflow	4,562		-	-	-	4,562	1
- Outflow	(4,570)		-	-	-	(4,570)	(9)
Total Financial Assets	470,157	144,945	521,966	753,764	325,323	2,216,155	1,901,883
Non-derivative Financial Liabilities							
Customer accounts	843,977	67,764	259,481	127,421	10,026	1,308,669	1,300,349
Other borrowed funds	13,256	10,558	68,789	244,530	-	337,133	316,563
Other financial liabilities	1,852	125	201	-	-	2,178	2,178
Lease liability	47	171	605	1,960	545	3,328	3,154
Subordinated debt	-	-	1,927	7,714	30,104	39,745	20,795
Total Financial Liabilities	859,132	78,618	331,003	381,625	40,675	1,691,053	1,643,039
Liquidity Gap	(388,975)	66,327	190,963	372,139	284,648		
Cumulative Liquidity Gap, excluding credit related commitments and guarantees	(388,975)	(322,648)	(131,685)	240,454	525,102		
Credit related commitments and guarantees	151,567	-	-	-	-	151,567	

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 assets 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	472,485	117,727	463,161	641,982	297,884	1,993,239	1,739,602
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	42,762	292,037	430,433	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	

Customer Accounts of Group consists from Current account of subsidiary , LLC ProCredit Properties for amount of GEL 7,327 thousand at 31 December 2024 (2023: GEL 8,630 thousand)

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 2024, total current accounts within 'Customer accounts' amounted to GEL 277,635 thousand (2023: GEL 261,913 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 20=8,575 thousand. Significant part of total current accounts represents current accounts from legal entities (around 78%) 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 Consolidated and Separate 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 2024, 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,GGF 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 2024and 2023. 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 2024	31 December 2023
Customer deposits	80.3%	73.3%
Liabilities to the companies under Parent's control	6.1%	8.2%
Liabilities to IFIs	13.5%	18.3%
Other liabilities	0.1%	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 Department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury and Cash Management Department 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 non-deliverable forwards) and currency swaps. The Group and Bank's foreign currency exposures are monitored and controlled on a daily basis by the Treasury back office and General Risk 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 2024.

The following significant exchange rates applied during the year:

in GEL	Average rate 2024	Average rate 2023	Reporting date spot rate 31 December 2024	Reporting date spot rate 31 December 2023
Group exchange rates				
USD 1	2.7193	2.6235	2.8137	2.6929
EUR 1	2.9423	2.8368	2.9232	2.9757

The Consolidated financial statements of the Group are translated into the presentation currency as follows:

The Group exchange rates are obtained from the Bloomberg FX rates as published at 16:00 CET.

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

in '000 GEL As at 31 December 2024	EUR	USD	Other currencies	GEL	Total
Assets					
Cash and balances with the NBG (including Mandatory reserve deposits with NBG)	99,522	213,705	4,074	55,698	372,999
Investments in debt securities	-	-	-	90,490	90,490
Due from banks	40,930	50,668	-	30,007	121,605
Loans and advances to customers	328,494	513,448	-	471,246	1,313,188
Other financial assets	575	2,090	-	944	3,609
Total financial assets	469,521	779,911	4,074	648,385	1,901,891
Liabilities					
Customer accounts	192,190	723,779	4,302	380,078	1,300,349
Other borrowed funds	253,975	52,624	-	9,964	316,563
Subordinated debt	20,795	-	-	-	20,795
Lease liability	-	3,154	-	-	3,154
Other financial liabilities	1,272	16	-	890	2,178
Total financial liabilities	468,232	779,573	4,302	390,932	1,643,039
Net position	1,289	338	(228)	257,453	258,852
The effect of derivatives	877	2,191	308	(3,384)	(8)
Net position after derivatives	2,166	2,529	80	254,069	258,844

in '000 GEL As at 31 December 2023	EUR	USD	Other currencies	Local currency	Total
Assets					
Cash and balances with the NBG (including mandatory reserve)	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	1,739,602
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	363,380	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)	548	255,679	253,170

Customer Accounts of Group consists from Current account of subsidiary LLC ProCredit Properties for amount of GEL 7,327 thousand at 31 December 2024 (2023: GEL 8,630 thousand).

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

Maximum loss (VaR)	717	985
Average loss in case confidence interval is exceeded	757	899

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)

During 2024, the local currency appreciated by 1.8% against EUR and depreciated by 4.3% against 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.

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 2024	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)	317,118	18	-	-	-	-	55,863	372,999
Due from banks	93,434	28,136	-	-	-	-	35	121,605
Investments in debt securities	14,932	19,785	9,681	23,691	22,354	-	47	90,490
Loans and advances to customers	192,744	172,835	221,754	293,714	414,026	9,940	8,175	1,313,188
Other financial assets							3,609	3,609
Total financial assets	618,228	220,774	231,435	317,405	436,380	9,940	67,729	1,901,891
Liabilities								
Customer accounts	563,743	64,093	88,343	162,629	111,397	9,556	300,588	1,300,349
Other borrowed funds	40,085	38,624	104,309	30,908	97,286	-	5,350	316,563
Other financial liabilities	-	-	-	-	-	-	2,178	2,178
Lease liability	42	162	567	1,860	522	-	-	3,154
Subordinated debt	-	-		-	20,462		333	20,795
Total liabilities	603,871	102,879	193,219	193,537	229,668	9,556	308,449	1,643,039
Net interest sensitivity gap	14,357	117,895	38,216	122,008	206,712	384		

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)	277,088	-	-	-	-	-	69,752	346,840
Due from banks	106,542	-	-	-	-	-	61	106,603
Investment securities available-for-sale	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	215,519	308,280	397,957	15,698	81,044	1,739,602
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	28	63	274	1,294	158	-	-	1,818
Subordinated debt	-	-	-	-	14,879		7	14,886
Total liabilities	546,950	78,836	147,147	195,246	228,510	9,723	280,020	1,486,430
Net interest sensitivity gap	(108,588)	203,904	68,372	113,034	169,448	5,975		

Customer Accounts of Group consists from Current account of subsidiary LLC ProCredit Properties for amount of GEL 7,327 thousand at 31 December 2024 (2023: GEL 8,630 thousand).

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 2024, the Group and the Bank were in compliance with these requirements. Cumulative interest earnings impact for 12 months shows the following figures as at 31 December 2024:

in '000 GEL	Impact on profit or loss (equals impact on equity)			
	Probable adverse case scenario		Stress scenario	
	2%	-2%	5%	-5%
EUR	-	(1,121)	-	(1,185)
USD	-	(208)	-	(675)
GEL	-	(4,676)	-	(8,437)
	-	(6,005)	-	(10,297)

As at 31 December 2023, 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	-	(1,180)	-	(2,800)
USD	-	(615)	-	(2,520)
GEL	-	(6,327)	-	(14,462)
	-	(8,122)	-	(19,782)

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 2024 in % p.a.	EUR	USD	GEL
Financial assets			
Due from banks	2.50	4.21	8.60
Loans and advances to customers	6.61	7.32	11.47
Financial liabilities			
Customer accounts	0.89	2.75	5.85
Other borrowed funds	4.66	7.00	8.45
Subordinated debt	9.29	-	-

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	-	-

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 ICAAP policies are in compliance with the requirements for the standardized approach for operational risk pursuant to CRR and for the regulatory reporting comply with the basic indicator method according to the Capital Adequacy Requirement (order 100/04) regulation. The operational risk management policies are in compliance with 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 code of conduct and the exclusion list, together form a binding frame of reference for all of Bank's 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 ethical values.
The prevention of money laundering and terrorist financing is a key function of the Bank. The business ethics and strong corporate values of the ProCredit group and the Bank play a key role in this regard. The AML/CTF procedures of ProCredit Bank, which are themselves subject to AML/CTF legislation at their location, collectively referred to as the AML/CTF Programme of the ProCredit group, have been prepared to comply with legal requirements and market standards (best practices) of the Federal Republic of Germany serving as minimum standard for all ProCredit banks. It describes the basic principles and minimum standards governing the following elements of the group-wide AML/CTF Programme:

• AML/CTF governance framework
• Customer Due Diligence (CDD) implementing the Know Your Customer (KYC) principle
• The Group Money Laundering and Terrorism Financing Risk Analysis (Group ML/TF Risk Analysis)
• Prohibitions and restrictions regarding business relationships (ProCredit Code of Conduct, incl. Exclusion List and Group Blacklist)
• Management information and group-wide AML reporting
• Documentation and information retention
• Submission of suspicious activity reports (SAR)
• AML/CTF training for AML staff of ProCredit banks
• Independent controls of the Group Anti-Money Laundering Officer.

Group-wide applicable minimum standards as per Policy as well as local anti-money laundering and counter terrorism financing laws and regulations are implemented by Bank and aligned to each other. In order to implement the highest standards in AML/CTF, the prevention of financial crime and other acts punishable by law, and as a matter of principle, any national AML/CTF or customer due diligence (CDD) legislation which is of a higher standard than that provided by group Policy must be applied by the respective ProCredit bank.
The management board of Bank appoints an Anti-Money Laundering Officer and Deputy Anti-Money Laundering Officer in accordance with the applicable local legislation and group Policy. The Anti-Money Laundering Officer and Deputy Anti-Money Laundering Officer of the bank are responsible for compliance with AML/CTF provisions under Group Policy as well as national AML/CTF legislation and regulations.

The AML/CTF Program of the Bank ensures that:

- AML Officer/Deputy Anti-Money Laundering Officer regularly reports to the Management Board as well as to the Group AML Officer at ProCredit Holding.
- The Bank applies a strict Know Your Customer and Know Your Correspondent approach in its customer due diligence and correspondent banking procedures.
- Group AML and the Bank annually assesses the risk of money laundering and terrorist financing

- The Bank staff members receive AML training when they first join the institution and thereafter on an ongoing basis within the framework of the Risk-Based training plans.
- The Bank maintains a risk classification of its customers to prevent money laundering and terrorist financing and applies due diligence and monitoring procedures accordingly.
- The Bank applies adequate and uniform risk-oriented procedures for monitoring accounts in order to identify unusual or otherwise conspicuous transactions carrying potential risks of money laundering or terrorism financing, including the use of IT-based monitoring systems. Banks monitor customer-related transactions in order to identify conspicuous payments and comply with all financial sanctions and embargoes against certain persons, entities and countries.

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of accounting policies and disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes.

The Group's fair value determination gives the highest priority to (unadjusted) quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. For short-term financial instruments (maturity up to six months) carried at amortised costs, the carrying value represents a reasonable estimate of fair value to the extent that there are no significant interest rate changes

The fair value is determined in accordance with the IFRS valuation hierarchy. This categorises the inputs used in the valuation techniques to measure fair value into three levels:

- Level 1 Inputs: quoted market price (unadjusted) in an active market for an identical instrument that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 Inputs: 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: inputs that are unobservable. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit Group Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

The Group and Bank estimates the fair value of all financial assets and liabilities as at 31 December 2024.