Pillar 3 Report 2024

JSC ProCredit Bank Georgia

Content

1 About the Pillar 3 report

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

2 Introduction

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

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

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

In addition to serving SMEs, the ProCredit Bank also provides service for private clients. 2024 year was important for PCB Georgia’s strategy for retail banking, as it became a core direction of bank’s business alongside our established SME operations. This strategic shift aimed to broaden our market presence and better serve the diverse financial needs of our community. While our retail portfolio currently includes a small number of clients primarily associated with our SME segment, the bank is committed to expanding our reach and ensuring that retail clients recognize our dedication to providing high-quality, personalized services.

ProCredit Bank’s goal is to serve a broad customer base, with a particular focus on customers with the potential to maintain account balances and savings, while ensuring accessible and relevant financial solutions for all. We want our retail clients to know that we are here to meet their unique financial needs, offering tailored solutions and exceptional customer experiences. By enhancing our retail banking services, we aim to build strong, lasting relationships with our clients and establish ourselves as a trusted partner in their financial journeys. We aspire to be recognized as the preferred choice for our targeted customers whenever they have banking needs, leveraging digital channels to provide seamless and efficient services.

Given the developments with regards to Russia-Ukraine war, the focus in 2023-2024 was on stability and proactive risk management. We are confident that the strategic initiatives in the last years, the proactive risk management and the high qualification of our staff formed a good and stable foundation for meeting the challenges that we faced in the previous years.

All ProCredit clients enjoy a range of innovative service channels centring on user-friendly online banking. In addition, our outlets are equipped with 24-hour self-service areas where the entire package of payment transactions can be completed. By means of these two channels, nearly all transactions have been fully automated. Our clients have access to personalised advice in our branches and through our contact centre.

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

With this Pillar 3 report, ProCredit Bank complies with the disclosure requirements for the ProCredit Bank as of 31 December 2024, stipulated in the “Rule about the disclosure of information by commercial banks within the Pillar 3” by the National Bank of Georgia, Capital Requirements Regulation (CRR) - (EU) No. 575/2013 and Basel Committee requirements regarding disclosure of information. Legally protected or confidential information is generally excerpted from disclosure.

The information disclosed is based on the audited financial statements of ProCredit Bank and ProCredit Properties LLC as reported in the 2024 report. As a supplement to this Pillar 3 report, information on the ProCredit Bank is available in ProCredit Bank’s 2024 Financial Statements and Independent Auditors’ Report, which is published on the website.

Needs to be mentioned that the banking sector switched to the IFRS reporting in 2023, which is considered in the following report.

The Pillar 3 report has been approved by the Risk Management Committee of the bank.

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

3 Scope of consolidation

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

Consolidation by entities — in Lari

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	ProCredit Property	Full Consolidation				x	Georgia, Tbilisi; Real Estate management; Assets - 13 932 884 GEL; Capital - 13 794 690 GEL

Table 1

4 Key ratios

Key metrics						in Lari
N		4Q-2024	3Q-2024	2Q-2024	1Q-2024	4Q-2023
	Regulatory capital (amounts, GEL)					
	Based on Basel III framework					
1	CET1 capital	303,620,567	312,254,915	305,025,411	298,127,689	287,008,543
2	Tier1 capital	303,620,567	312,254,915	305,025,411	298,127,689	287,008,543
3	Regulatory capital	324,082,967	321,392,315	317,030,211	309,766,489	298,911,343
4	CET1 capital total requirement	182,979,646	183,072,042	178,449,361	167,729,059	160,042,479
5	Tier1 capital total requirement	222,841,598	223,224,859	218,122,819	204,941,564	196,380,495
6	Regulatory capital total requirement	275,689,654	276,459,123	270,713,471	254,269,314	244,546,832
	Total Risk Weighted Assets (amounts, GEL)					
7	Total Risk Weighted Assets (Total RWA) (Based on Basel III framework)	1,512,851,561	1,526,121,317	1,477,190,071	1,382,924,104	1,342,003,094
	Capital Adequacy Ratios					
	Based on Basel III framework *					
8	CET1 capital	20.07%	20.46%	20.65%	21.56%	21.39%
9	Tier1 capital	20.07%	20.46%	20.65%	21.56%	21.39%
10	Regulatory capital	21.42%	21.06%	21.46%	22.40%	22.27%
11	CET1 capital total requirement	12.10%	12.00%	12.08%	12.13%	11.93%
12	Tier1 capital total requirement	14.73%	14.63%	14.77%	14.82%	14.63%
13	Regulatory capital total requirement	18.22%	18.12%	18.33%	18.39%	18.22%
	Minimum requirement for own funds and eligible liabilities (MREL)					
14	Own funds and eligible liabilities as a percentage of Total Liabilities and Own Funds ((MREL Resource / TLOF)					
	Income					
15	Total Interest Income /Average Annual Assets	7.0%	7.0%	7.0%	6.9%	6.9%
16	Total Interest Expense / Average Annual Assets	3.0%	3.0%	2.9%	2.8%	2.4%
17	Earnings from Operations / Average Annual Assets	2.5%	3.1%	3.2%	3.2%	4.7%
18	Net Interest Margin	3.9%	4.0%	4.1%	4.1%	4.5%
19	Return on Average Assets (ROAA)	1.7%	1.8%	2.0%	2.5%	2.6%
20	Return on Average Equity (ROAE)	10.3%	10.8%	11.7%	14.7%	14.7%
	Asset Quality					
21	Non Performed Loans / Total Loans	2.4%	2.6%	3.0%	2.8%	3.1%
22	ECL/Total Loans	2.1%	2.2%	2.2%	2.3%	2.4%
23	FX Loans/Total Loans	64.1%	63.2%	67.4%	68.4%	69.8%
24	FX Assets/Total Assets	63.6%	63.6%	62.7%	62.1%	62.1%
25	Loan Growth-YTD	12.1%	14.8%	10.7%	6.6%	3.6%
	Liquidity					
26	Liquid Assets/Total Assets	29.5%	27.3%	27.7%	30.6%	31.5%
27	FX Liabilities/Total Liabilities	75.7%	76.0%	74.9%	74.7%	74.8%
28	Current & Demand Deposits/Total Assets	39.3%	38.0%	38.9%	36.8%	40.4%
	Liquidity Coverage Ratio***					
29	Total HQLA	553,177,760	525,943,171	463,139,759	556,792,246	562,635,921
30	Net cash outflow	373,720,040	320,834,935	322,246,429	306,316,613	296,248,908
31	LCR ratio (%)	148.0%	163.9%	143.7%	181.8%	189.9%
	Net Stable Funding Ratio	Jan-00				
32	Available stable funding	1,509,951,808	1,461,775,495	1,469,269,530	1,413,007,454	1,375,445,188
33	Required stable funding	1,013,595,148	1,034,456,951	1,006,596,769	940,092,074	905,676,692
34	Net stable funding ratio (%)	148.97%	141.31%	145.96%	150.31%	151.87%

Table 2

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

**In 2024, the Minimum Requirement for Eligible Liabilities and Capital (MREL) was added, although only systemically important banks are required to comply with it.

Liquidity Coverage Ratio — in Lari

		Total unweighted value (daily average)			Total weighted values according to NBG's methodology* (daily average)			Total weighted values according to Basel methodology (daily average)		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
High-quality liquid assets										
1	Total HQLA				143,297,899	394,971,347	538,269,246	107,769,141	232,406,802	340,175,943
Cash outflows										
2	Retail deposits	60,760,829	466,416,130	527,176,959	11,826,569	78,236,179	90,062,748	2,679,105	17,166,497	19,845,603
3	Unsecured wholesale funding	304,560,043	726,014,069	1,030,574,112	80,280,254	127,460,029	207,740,283	73,556,162	123,874,544	197,430,706
4	Secured wholesale funding	-	-	-	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	74,864,895	73,467,843	148,332,738	13,181,475	18,255,655	31,437,131	5,104,314	6,269,287	11,373,601
6	Other contractual funding obligations	-	-	-	-	-	-	-	-	-
7	Other contingent funding obligations	11,901,334	25,815,390	37,716,724	3,905,042	14,133,568	18,038,609	3,905,042	14,133,568	18,038,609
8	**TOTAL CASH OUTFLOWS**	452,087,101	1,291,713,433	1,743,800,534	109,193,340	238,085,431	347,278,770	85,244,623	161,443,896	246,688,519
Cash inflows										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	509,454,706	978,661,854	1,488,116,560	8,527,899	12,428,114	20,956,013	44,056,657	174,992,659	219,049,316
11	Other cash inflows	4,722,456	29,426,337	34,148,793	1,210,146	-	1,210,146	1,210,146	-	1,210,146
12	**TOTAL CASH INFLOWS**	514,177,162	1,008,088,191	1,522,265,352	9,738,045	12,428,114	22,166,159	45,266,803	174,992,659	220,259,462
					Total value according to NBG's methodology* (with limits)			Total value according to Basel methodology (with limits)		
13	Total HQLA				143,297,899	394,971,347	538,269,246	107,769,141	232,406,802	340,175,943
14	Net cash outflow				99,455,294	225,657,317	325,112,612	39,977,820	40,360,974	61,672,130
15	Liquidity coverage ratio (%)				144%	175%	166%	270%	576%	552%

Table 3

Capital Adequacy Requirements — in Lari

		31/12/2024		31/12/2023	
	Minimum Requirements	**Ratios**	**Amounts (GEL)**	**Ratios**	**Amounts (GEL)**
1	**Pillar 1 Requirements**				
1.1	Minimum CET1 Requirement	4.50%	68,078,320	4.50%	60,390,139
1.2	Minimum Tier 1 Requirement	6.00%	90,771,094	6.00%	80,520,186
1.3	Minimum Regulatory Capital Requirement	8.00%	121,028,125	8.00%	107,360,248
2	**Combined Buffer**				
2.1	Capital Conservation Buffer *	2.50%	37,821,289	2.50%	33,550,077
2.2	Countercyclical Buffer	0.25%	3,782,129	0.00%	-
2.3	Systemic Risk Buffer	0.00%	-	0.00%	-
3	**Pillar 2 Requirements**				
3.1	CET1 Pillar 2 Requirement	4.85%	73,297,908	4.93%	66,102,263
3.2	Tier 1 Pillar2 Requirement	5.98%	90,467,087	6.13%	82,310,232
3.3	Regulatory capital Pillar 2 Requirement	7.47%	113,058,111	7.72%	103,636,507
	Total Requirements				
4	CET1	12.10%	**182,979,646**	11.93%	**160,042,479**
5	Tier 1	14.73%	**222,841,598**	14.63%	**196,380,495**
6	Total regulatory Capital	18.22%	**275,689,654**	18.22%	**244,546,832**

Table 4

In Pillar 1, the banks are required to hold minimum capital requirements - 4.5%, 6% and 8% for Common Equity Tier 1, Tier 1, and Total Regulatory Capital, respectively. Furthermore, banks are required to hold additional Combined Buffer through Common Equity Tier 1.

Commercial banks within the framework of Pillar 2 should hold capital adequacy buffers for those risks that aren't sufficiently covered under Pillar 1.

The decrease in Pillar 2 requirements was mainly due to a decrease in the Currency Induced Credit Risk buffer (CICR), as the share of the local currency loan portfolio in the total portfolio increased.

5 Balance sheet

Balance Sheet | in Lari

ASSETS	31/12/2024 GEL	31/12/2024 FX	31/12/2024 Total	31/12/2023 GEL	31/12/2023 FX	31/12/2023 Total
Cash on hand	13,888,822	33,683,623	47,572,444	16,531,475	23,738,731	40,270,206
Casha balances with National bank of Georgia	41,808,315	224,531,310	266,339,625	76,836,433	170,324,666	247,161,099
Cash balances with other banks	30,007,585	150,684,209	180,691,794	59,051,000	106,958,221	166,009,221
Financial assets held for trading	-	-	-	-	-	-
Equity instruments	139,528	-	139,528	139,528	-	139,528
Debt securities	90,490,012	-	90,490,012	114,301,507	-	114,301,507
Loans and advances	472,189,266	844,607,737	1,316,797,003	347,256,641	824,631,647	1,171,888,288
Investments in subsidiaries, joint ventures and associates	9,500,057	-	9,500,057	8,936,412	-	8,936,412
Property, Plant and Equipment	43,568,144	-	43,568,144	40,549,967	-	40,549,967
Investment property	4,131,506	-	4,131,506	4,273,592	-	4,273,592
Other intangible assets	2,152,154	-	2,152,154	1,992,609	-	1,992,609
Current tax assets	4,292,621	-	4,292,621	-	-	-
Other assets	4,357,699	794,072	5,151,771	3,412,686	127,848	3,540,534
TOTAL ASSETS	**716,525,709**	**1,254,300,951**	**1,970,826,659**	**673,281,850**	**1,125,781,114**	**1,799,062,964**
LIABILITIES				-	-	
Financial liabilities held for trading	-	-	-	-	-	-
Deposits	387,405,599	920,270,989	1,307,676,588	356,076,598	712,321,238	1,068,397,836
borrowings	9,963,905	306,599,384	316,563,289	14,935,189	392,807,182	407,742,371
Other financial liabilities	901,662	4,438,173	5,339,836	979,661	1,215,800	2,195,461
Provisions	1,085,627	1,706,402	2,792,028	2,118,678	50,466	2,169,143
Current tax liabilities	-	-	-	1,806,919	-	1,806,919
Deferred tax liabilities	2,288,450	-	2,288,450	1,965,841	-	1,965,841
Subordinated liabilities	-	20,795,035	20,795,035	-	14,885,859	14,885,859
Other liabilities	94,727	3,928	98,655	138,403	1,823,568	1,961,970
TOTAL LIABILITIES	**401,739,970**	**1,253,813,912**	**1,655,553,882**	**378,021,289**	**1,123,104,111**	**1,501,125,400**
Equity						
Ordinary share	112,482,805		112,482,805	112,482,805	-	112,482,805
Share premium	72,117,570		72,117,570	72,117,570	-	72,117,570
Retained earnings	130,672,403		130,672,403	113,337,189	-	113,337,189
TOTAL EQUITY	**315,272,777**	**-**	**315,272,777**	**297,937,564**	**-**	**297,937,564**
TOTAL EQUITY AND TOTAL LIABILITIES	**717,012,748**	**1,253,813,912**	**1,970,826,659**	**675,958,852**	**1,123,104,111**	**1,799,062,964**

Table 5

The balance sheet reflects the following significant movements:

- Total Assets increased by GEL 171.8m.
- Customer funds increased by GEL 239.3m.
- Net loan portfolio increased by GEL 144.9m.
- Borrowings were decreased by GEL 91.2m.
- High liquid assets were increased by GEL 41.2m.
- Capital increased by GEL 17.3m, subordinated debt increased by EUR 2m.

As the figures are presented in local currency, it is important to mention that comparing 31/12/2023 and 31/12/2024 local currency appreciated against EUR by 1.8%, while GEL depreciated against USD by 4.5%. This effects the absolute figure representation in the Balance Sheet in GEL.

6 Income statement

Income statement | in Lari

Statement of profit or loss	reporting period GEL	reporting period FX	reporting period Total	respective period of the previous year GEL	respective period of the previous year FX	respective period of the previous year Total
Interest income	**67,492,506**	**64,213,655**	**131,706,161**	**63,128,815**	**54,361,432**	**117,490,247**
Financial assets at amortised cost	67,492,506	64,213,655	131,706,161	63,128,815	54,361,432	117,490,247
Other assets	-	-	-	-	-	-
(Interest expenses)	**(20,846,035)**	**(36,331,073)**	**(57,177,108)**	**(16,001,163)**	**(25,044,145)**	**(41,045,308)**
(Financial liabilities measured at amortised cost)	(20,846,035)	(36,331,073)	(57,177,108)	(16,001,163)	(25,044,145)	(41,045,308)
(Other liabilities)	-	-	-	-	-	-
Dividend income	-	42,799	42,799	-	-	-
Fee and commission income	7,998,190	4,738,656	12,736,846	8,388,442	3,942,110	12,330,553
(Fee and commission expenses)	(1,045,115)	(8,806,196)	(9,851,311)	(1,433,695)	(8,744,138)	(10,177,834)
Exchange differences [gain or (-) loss], net	16,496,498	-	16,496,498	13,960,590	-	13,960,590
Gains or (-) losses on derecognition of non-financial assets, net	95,922		95,922	-	-	-
Other operating income	3,103,744	150,097	3,253,841	2,349,982	155,024	2,505,006
(Other operating expenses)	(1,393,078)	(8,032)	(1,401,110)	(993,823)	-	(993,823)
(Administrative expenses)	(53,901,641)	(3,890,072)	(57,791,713)	(41,086,724)	(2,974,119)	(44,060,843)
(Staff expenses)	(21,976,530)	-	(21,976,530)	(18,135,375)	-	(18,135,375)
(Other administrative expenses)	(31,925,111)	(3,890,072)	(35,815,183)	(22,951,349)	(2,974,119)	(25,925,468)
(Depreciation and amortisation)	(4,991,557)	-	(4,991,557)	(4,403,221)	-	(4,403,221)
Modification gains or (-) losses, net	(635,705)	-	(635,705)	486,080	-	486,080
(Provisions or (-) reversal of provisions)	1,371,940	14,407	1,386,347	(1,279,751)	-	(1,279,751)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(3,210,714)	6,547,397	3,336,683	6,479,252	-	6,479,252
PROFIT OR (-) LOSS BEFORE TAX	**10,527,644**	**26,671,639**	**37,199,284**	**29,594,784**	**21,696,165**	**51,290,949**
(Tax expense or (-) income	**(4,864,069)**		**(4,864,069)**	**(7,547,807)**	**-**	**(7,547,807)**
Profit or (-) loss after tax	**5,663,575**	**26,671,639**	**32,335,214**	**22,046,977**	**21,696,165**	**43,743,142**

Table 6

The comparison of income statements between 2023 and 2024 shows that net income has decreased from GEL 43.7m to GEL 32.3m.

The main factors which influenced income and expenses are:

- The total interest income increased by GEL 14.2m, the increase was mainly caused by increase in loan portfolio. The bank's interest income mainly represents financing of medium and small sector loans. At the same time interest expenses increased by GEL 16.1m. Change was caused by increase in customer funds, most of which was in interest sensitive products, for which the Bank also increased pricing during the year.
- Administrative expenses, such as marketing, IT and employee-related expenses, increased by GEL 9.9m, which ultimately resulted in a decrease in profit (after tax) by GEL 11.4 million.

7 Corporate governance

7.1 Shareholder structure

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

ProCredit Holding AG has the legal form of a stock corporation (AG). The legal form changed from AG & Co. KGaA (partnership limited by shares) to AG (stock corporation) in 2023. The Management Board of ProCredit Holding AG is responsible for managing the company in accordance with the requirements established in the law and in the internal rules of procedure for the Management Board of ProCredit Holding AG, as defined by its Supervisory Board. Key decisions of the group are approved by the supervisory board of the ProCredit Holding AG. The General Meeting of Shareholders is the highest authority in decision-making.

The rights, tasks and responsibilities of the management authorities are stipulated in the charter of the bank, final amendments to which are approved at the Shareholders' meeting on 7 February 2025.

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

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

List of Shareholders owning 1% and more of issued capital, indicating Shares	
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 Participaties BV	12.5%
EBRD - European Bank for Reconstruction and Development	8.7%
TIAA-Teachers Insurance and Annuity Association	8.6%

Table 7

7.2 Supervisory Board of ProCredit Holding

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

ProCredit Holding AG ("ProCredit Holding") is a company listed on the Frankfurt Stock Exchange, which places emphasis on transparent corporate governance and open communication with all stakeholders. This approach and its development-oriented mission are supported by its international shareholders. The values upon which we have successfully built the ProCredit Group include personal integrity and commitment, social responsibility and tolerance, open communication and transparency, as well as high professional standards. These principles pervade all aspects of how the ProCredit Group is governed. Corporate Governance is an important part of the ProCredit Holding Annual Report, which is available on the ProCredit Holding website (https://www.procredit-holding.com/wp-content/uploads/2025/03/Annual-Report-2024.pdf?t=1743080117).

The Supervisory Board of ProCredit Holding (the "Supervisory Board") has eight members. The responsibilities of the Supervisory Board are defined in the German Stock Corporation Act (Aktiengesetz – "AktG") and German Banking Law (specifically Kreditwesengesetz – KWG § 25d). In addition, ProCredit Holding Corporate Governance Statement can be found on ProCredit Holding website.

The main function of the Supervisory Board is the supervision of the management of ProCredit Holding.

The composition of the Supervisory Board and its Internal Rules of Procedure generally reflect the requirements of Article 25d of the German Banking Act (Kreditwesengesetz – "KWG") and the relevant provisions of the German Corporate Governance Code.

The members of the Supervisory Board must, in particular, be reliable and must possess the necessary specialist knowledge required to perform their control function properly and to assess and monitor the business operations conducted by the Company, and they must devote sufficient time to the performance of their duties; they must as a whole be familiar with the sector in which the Company operates. At least one member of the Supervisory Board must have expertise in the field of accounting and at least one other member of the Supervisory Board must have expertise in the field of auditing.

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

The Supervisory Board respects diversity when proposing members for appointment to the Supervisory Board. The ProCredit Holding Disclosure Report (https://www.procredit-holding.com/wp-content/uploads/2025/03/2024-Disclosure-Report.pdf?t=1743080003) outlines how members of the Supervisory Board are appointed by the Annual General Meeting of Shareholders, with consideration given to the balanced and comprehensive knowledge, skills and experience of all Supervisory Board members and taking account of the requirements established in Section 25d KWG.

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

In the 2024 financial year, nine meetings of the Supervisory Board of ProCredit Holding AG were held. On three occasions, the Supervisory Board also passed resolutions by written circulation procedure. In addition, there were four meetings of the Risk Committee, six meetings and one circulated vote of the Audit Committee, four meetings of the Remuneration Control Committee and six meetings of the Nomination Committee of the Supervisory Board of ProCredit Holding AG.

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

7.3 Supervisory Board of the bank

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

At least one third, but not less than 2 (two) members of the Supervisory Board should be independent members. As of December 2024, 40% of the board members are independent. The independence of the Supervisory Board members is assessed according to the requirements of the Corporate Governance Code and the appointment of each board member is agreed with the NBG. The knowledge, experience and expertise of the board members give the board the possibility to execute its functions without any obstacle. These aspects are taken into consideration whenever appointing board member. The information regarding the delegation of duties and other details can be seen in the charter of the bank.

Based on ¾ of present votes, the Supervisory Board defines the bank's business and risk strategies, 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 financial report for submitting to the Shareholders' General Meeting.

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

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

The Supervisory Board approves the policy on conflict of interests and changes in policy. The Supervisory Board approves any transaction, which is permitted by the Georgian legislation, between the bank and a member of the Board of Directors or a member of the Supervisory Board. Members of Supervisory Board of PCB Georgia are presented in the table below as of December 2024.

Members of Supervisory Board	Independence status
Marcel Sebastian Zeitinger	Non-Independent Chairperson
Gian Marco Felice	Non-Independent member
Rainer Peter Ottenstein	Independent member
Sandrine Massiani	Non-Independent member
Nino Dadunashvili	Independent member

Table 8

The term of membership of the Bank's Supervisory Board is fixed for a period of 3 years or a shorter-term which is determined by the General Meeting of Shareholders. It is possible to re-appoint a member of the Supervisory Board. However, the termination is only in force when a new candidate is appointed. Upon the dismissal of a member of the Supervisory Board, the candidate shall be appointed before the next meeting of the Supervisory Board.

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

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

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

The bank has established two committees at the Supervisory Board level, as required by the Corporate Governance Code: Audit Committee and Risk Management Committee.

The Audit Committee follows and controls the Bank's business. It is serving as an independent and objective party to monitor the bank's risk management processes and internal control systems and rendering assistance and support to internal and external auditors in their activity. The committee can advise the board with respect to the bank's risk management matters, and it assists the Supervisory board in fulfilling its oversight responsibilities with regard to risk management, internal control systems and compliance.

The Audit Committee consists of at least three members. The composition of the Audit Committee as of December 2024 is as following:

- Nino Dadunashvili – Chairperson of the committee and independent member of the Supervisory Board
- Rainer Peter Ottenstein – Independent member of the Supervisory Board
- Marcel Sebastian Zeitinger - Chairperson of the Supervisory Board

The Risk Management Committee monitors and controls the Bank's risk management framework. The Committee 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, reviewing risk strategies for aggregate risks as well as for individual risks, monitoring the bank's risk culture and effectiveness of risk management, discussing different stress scenarios, etc.

The Risk Management Committee consists of at least three members. The composition of the Risk Committee as of December 2024 is as following:

- Rainer Peter Ottenstein – Chairperson of the committee and independent member of the Supervisory Board
- Nino Dadunashvili – Independent member of the Supervisory Board
- Marcel Sebastian Zeitinger - Chairperson of the Supervisory Board

The committee meetings are held at least once a quarter. At the committees, the quorum is composed of at least two thirds of the committee members.

In 2024, 4 Audit and 4 Risk Management Committee meetings were held. Quorum was reached on every meeting.

The Board should perform the self-assessment process annually and external assessment should be conducted every three years. In the last self-assessment of the Supervisory Board members assessed several important aspects like governance, risk management, decision-making and management, etc.. The board self-assessment includes individual and collective aspects. The self-assessment aims to evaluate the efficiency and effectiveness of the Board's activities. The overall self-assessment is positive.
In 2022 was conducted the external review and assessment of the performance of the Supervisory Board of ProCredit Bank Georgia against requirements of the Corporate Governance Code of the NBG. The assessment was conducted by KPMG. The overall assessment was considered positive. The Supervisory Board discussed the recommendations by the external party and decided upon the corresponding actions for the relevant recommendations. The corrective actions were taken by the Bank in 2023.

7.4 Board of Directors of the bank

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

As of December 2024, he Board of Directors of the bank was officially represented by 4 (four) Directors. The Board of Directors shall make decisions by a simple majority of votes presented. The Board of Directors shall be appointed for a maximum period of four years or a shorter term which the Supervisory Board defines, with the right to re-appointment. Members of Board Directors of PCB Georgia are presented in the table below as of December 2024.

Members of Board of Directors
Alex Matua
Zeinab Lomashvili
Elene Tsintsadze
Ketevan Burduli

Table 9[1]

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

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

The Bank operates a system of responsibility delegation, which is regularly monitored through the committees operating in the bank. Committees in the Bank are held according to the regularity established for the respective committee. Committees for general risks, compliance and anti-money laundering, human resources management, credit portfolio analysis and management, loan loss provision management, credit management, asset and liability management, and environmental management are functioning in the bank. At least 2 members of the Board of Directors are present at the committees. Attendance of the member of the Board of Directors which is responsible for the specific field is obligatory.

Members of the board of directors of the bank are responsible for the specific areas of their education and professional experience. Table below represents the information as of December 2024.

[1] Additional information about the members of the Board of Directors of ProCredit Bank is presented on the Bank's web site: www.procreditbank.ge.

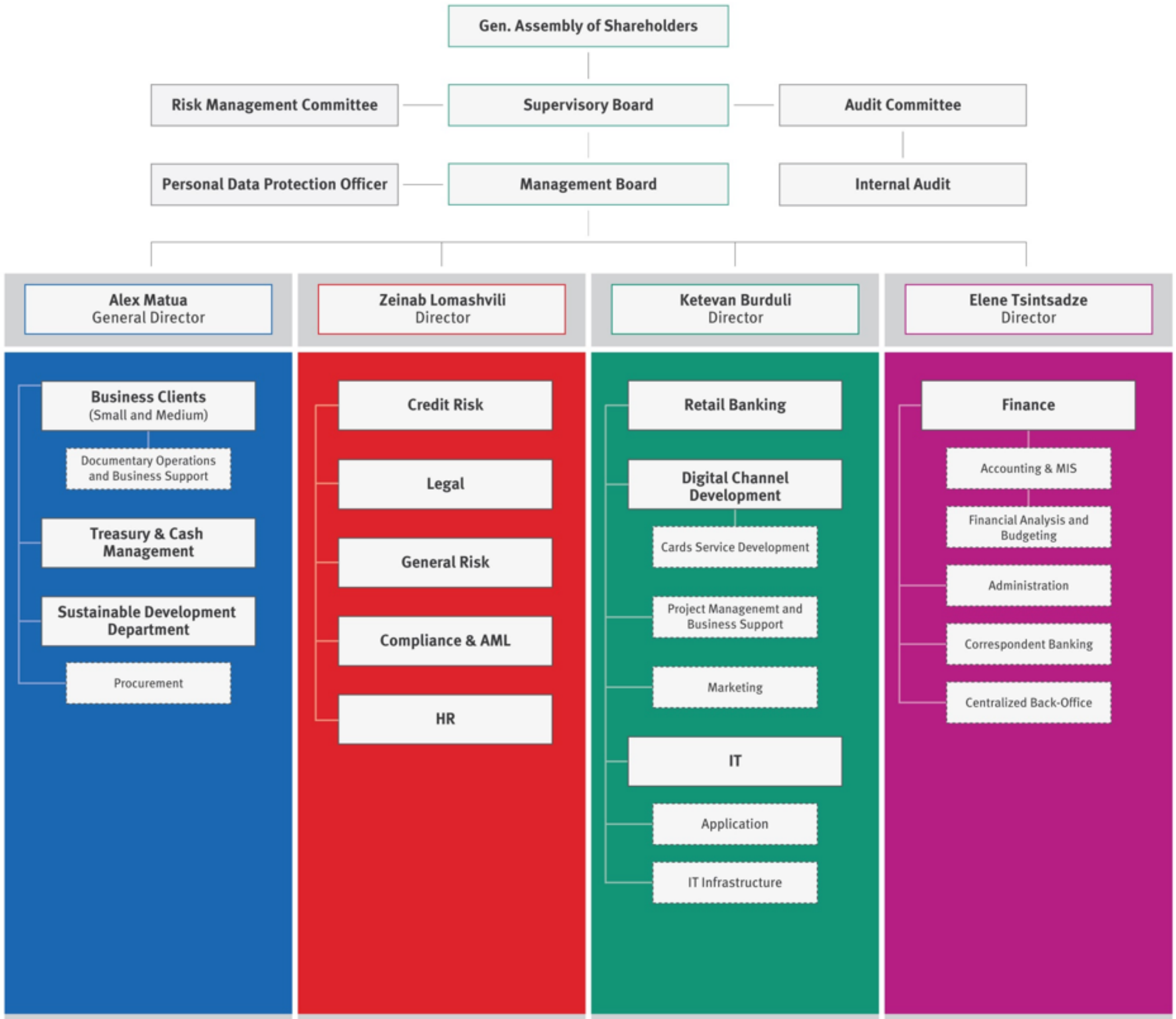

Table 10

7.5 Flow of information concerning risk

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

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

8 Risk management

8.1 Risk strategy

The ProCredit Bank's risk strategy and business strategy are updated annually. While the business strategy lists the objectives of the bank for all material business activities and presents measures to be taken to achieve them, the bank's risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the bank. The risk and business strategies are approved by the Supervisory Board.

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

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

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

i. Focus on core business

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

ii. High degree of transparency, simplicity and diversification

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

iii. Careful staff selection and intensive training

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

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the ProCredit Bank takes account of the respective regulations of the National Bank of Georgia, of the “Minimum Requirements for Risk Management” (MaRisk) stipulated by the German regulator, of relevant publications by national and international regulatory authorities and of our knowledge of the market acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their appropriateness and effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in the ProCredit Bank are presented below.

- ProCredit Bank applies a single common risk management framework, which is based on group-wide minimum standards and incorporates requirements set by the National Bank of Georgia. The risk management policies and standards are approved by the Management of ProCredit Bank and are updated regularly. These specify the responsibilities and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the bank.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks.
- Recovery plan, which is in force from 2021, monitors liquidity risk, credit risk, capital adequacy and profitability. The document gives possible plans of actions granted that the triggers are breached.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- All new or significantly changed services undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed, and all necessary preparations and tests are completed prior to implementation.

These key elements of risk management in the ProCredit Bank are based on the substantial experience we have gained since our establishment in the country and on a precise understanding of both our clients and the risks we assume. Considering volatile macroeconomic and geopolitical environment, the diversification of our business activities, combined with our comprehensive experience, provide a solid foundation for us to manage these risks.

8.2 Organisation of risk management and risk reporting

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

The Management of ProCredit Bank is supported by various committees.

- The General Risk Management Committee (GRMC) meets quarterly and monitors the overall risk profile of the Bank, limit compliance and internal and regulatory capital adequacy. The Committee monitors the compliance with risk management framework. It supports and advises the Management in connection with market risks, operational risks, including fraud prevention, information and IT security risks.
- The Assets and Liabilities Committee (ALCO) is responsible for monitoring the bank's liquidity reserve and liquidity management, coordinating measures aimed at securing funding, and reporting on material developments in financial markets.
- The Compliance and AML Committee meets biannually. It 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 Credit Portfolio Analysis and Management Committee is responsible to conduct 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 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 and covenants. Decides on forbearance measures for credit exposures.
- The Environmental Committee meets quarterly and 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.
- The HR Committee meets quarterly and 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.

The management at ProCredit Bank bears the responsibility of risk management. The Banks has established dedicated departments/units and specialised committees that address individual risks. The committees meet regularly and are essential bodies in the risk management process.

Needs to be underlined that the proper implementation of risk management system is monitored by The Supervisory Board, which uses Risk Management and Audit committees for this purpose.

- **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 and monitors the Bank's compliance with the risk management framework.
- **The Audit Committee,** established at the Supervisory Board of the Bank, supports and advises the Supervisory Board 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.

Additionally, the PCH risk management functions support to PCB risk managers in managing their risks with an eye to:

- the effectiveness of policies
- design and monitoring of an early risk-detection systems
- assessment of staff capacity and organisational structures
- training and capacity building
- working on information flows and needs
- adjusting processes wherever necessary

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

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

The Internal Audit Department audits and assesses the following:

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

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

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

In accordance with the banking legislation, the bank undergoes an external audit on an annual basis. The selection of external auditor is performed through the tender procedure. Based on the recommendations prepared by the Tender Committee, the Supervisory Board takes the final decision on appointing an external auditor.
The external audit process is always performed by experienced audit firms that are eligible and have rights to perform audit for financial institutions according to the Georgian law.
In 2024 GEL 162 thousand direct fees incurred for financial audit services. The bank did not receive other professional services from Auditor/Auditor firms as defined in the law of Georgia on Accounting, Reporting and Auditing.

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

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

1. Analysis of existing and potential risks with the purpose of developing measures, methods and procedures for evaluating, controlling and monitoring them; definition of the degree of the bank's vulnerability to these risks;
2. Measurement of the current risks facing the bank;
3. Conducting market risk analysis based on the stress testing/scenario and gap analysis;
4. Ensuring the adequate design of the early warning system if required by internal/external regulations and/or bank's Management;
5. Monitoring of risks by preparing reports for the committees, the Management and the Supervisory Board of the bank;
6. Drafting decisions aimed at mitigation of risks for further consideration and approval by the Board of Directors and/or the respective committees of the bank;
7. Preparation and implementation of the measures for Heads of the bank departments/units with the purpose of improving the risk management efficiency within the field of their responsibilities, and increasing the awareness of the bank's management and employees about the banking risks threatening their activities;
8. Checking compliance of branches/service points with operational rules and procedures by conducting on/off-site monitoring of branches/service centres and preparing reports.

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

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

8.3 Risk Management Framework

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

The processes for risk management accounts for material risks defined in the risk inventory; these processes were found to be appropriate and approved by the Management of the bank and are subject to ongoing further development.

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

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

In the Risk Management Framework the Bank defines overall risk profile as well as individual risk areas that are significant for the Bank and need to be assessed constantly.

The risk profile of the Bank is represented by the risks to which the Bank is exposed in relation to the risk appetite assumed by the Bank's Supervisory Board/Management Board within the decisional process, business and risk strategies.

The Bank's activity shall be carried on observing at all times the principle that the institution should not take more risk than it is able to bear. Consequently, the risk management considerations shall prevail to business considerations as long as the capital of the Bank is not adequate to cover the potential losses. Therefore, the Supervisory Board defines the risk profile of the Bank, including the level of capital needed to cover the various risks and acceptable risk levels for the significant risks, which define the overall risk appetite of the Bank. The risk profile is defined for each significant risk and the Supervisory Board establishes the acceptable risk levels for the individual risk exposures. The Bank assesses its risk profile using five categories from **low to high.**

The Supervisory Board defines acceptable risk levels assumed for each of the significant risks defined in the Risk Management Framework.

The individual risk profiles assessment is performed using a set of risk profile indicators.

If the Bank's individual risk profile levels fall into a category which exceeds the acceptable risk level for that particular risk, the Bank shall take the necessary measures in order to bring back the Bank's risk profile level to the approved target.

Individual risk indicators are set considering the NBG and BaFin requirements and the bank's assessment of its capacity to handle specific risks. All of these indicators are observed constantly by the bank, either daily, monthly or quarterly, therefore they are the integral part of the bank's operations and decision-making.

In the Risk Management Framework, the Supervisory Board also defines the risk appetite and risk tolerance for the Bank.

The Bank's risk appetite is translated into the corroboration of the results related to the individual risk profile levels. This result should be seen as the Bank's overall risk profile, whose level should be in line with the Bank's risk appetite. Each significant risk has been assigned a certain weight according to its importance in the overall risk management framework according to the Bank's business model. The risk appetite is describing the Bank's strategy to not assume excessive exposures to the significant risks, limiting this exposure through the limits established for key risk indicators or through reporting triggers established for the early warning indicators.

Risk tolerance is defined as the Bank's capacity to accept the risks which is exposed, at that extent up to which will still be able to continue its business.

Under the Bank's framework and in line with the previously defined concepts of risk profiles and risk appetite, the risk tolerance is assumed by the Supervisory Board as being the range exceeding the risk appetite. The range defined and assumed for risk tolerance represents the maximum room in which the bank's overall risk profile could be situated in order for the Bank to continue the business on a sound and healthy basis.

9 Credit risk

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

9.1 Customer credit risk

9.1.1 Strategy and principles

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

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

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

The ProCredit Bank divides its credit exposures into four categories: very small, small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front- and back-office functions up to the management level is applied for risk-relevant credit exposures.

The decision-making process at PCBG ensures that all credit decisions are taken by the respective committee and within approval limits that reflect the experience of the decision-makers. Decisions on all credit exposures are taken by the respective committees and, in exceptional cases or above the country limit, by the supervisory board.

The experience PCBG has gained in its challenging operating environment has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The key criteria for credit exposure decisions are based on the financial situation of the client, supplemented by a review of liquid funds and an assessment of the creditworthiness of the client. Our employees regularly visit all customers on-site, to ensure an adequate consideration of the client's specific features and needs.

Collateral serves as protection for ProCredit from losses due to a borrower's default. In particular, for Small and Medium credit exposures to business clients, the credit exposure must be adequately collateralised. The degree to which a credit exposure may be uncollateralised is primarily based on the amount and the term of the credit exposure and on the risk classification of the client. The bank's credit risk management policies limit the possibility for unsecured credit operations. Depending on the riskiness and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures with a higher risk profile and extended maturity are covered with collateral security, mostly through mortgages.

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 (i.e. the Business Department, BCAs and Branch Managers) 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 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.

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

Credit exposures under problem loan management include all exposures which are categorised as defaulted. Decisions on how to deal with problem credit exposures are taken after a thorough analysis of the client's economic situation, if feasible, and a written proposal. Problem credit exposures consist of exposures in recovery and exposures under legal proceedings, in accordance with the respectively defined strategies. A concept for successful recovery (repayment or healing and return to non-default) should be laid out by the client and followed up on in terms of progress and impact. If the bank decides to execute collateral as part of problem loan management, an action plan for the execution of collateral is documented in the respective committee decision. The action plan include the planned/expected time period needed for the enforcement and sale of the collateral. As part of the monitoring of loans under problem management, i.e. non-performing exposures, the bank regularly assesses the recoverability of exposures, specifically those with prolonged arrears and longer periods in default.

The bank also analyses credit portfolio development by segment and currency, credit portfolio structure and quality by economic sectors, competitive analysis, asset quality indicators, cost of risk, reclassifications, limits related to concentration risks, write offs and recoveries, repossession process and other ad-hoc analyses of the events that influence portfolio quality providing a comprehensive view of its stability.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium-sized businesses in various economic sectors. In addition, the ProCredit Bank limits the concentration risk of loan portfolio by means of the following requirements: Large credit exposures (those exceeding 10 % of Tier 1 capital of the bank) require the approval of the Group Risk Management Committee. No individual large credit exposure may exceed 25 % of Tier 1 capital of the bank, and the sum of all large credit exposures of the bank may not exceed 150 % of bank's Tier 1 capital.

9.2 Counterparty risk, including issuer risk

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

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

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

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

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

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit Bank concludes transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit towards a non-OECD bank or banking group may not exceed 10 % of the ProCredit Bank's CRR capital without prior additional approval from Group ALCO or the Group Risk Management Committee. For a bank that is regulated by an OECD member country, 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.

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

Despite the tense political situation and unclear expectations during the last years, the bank managed to keep counterparty and issuer risk at low level. This is the result of the bank's thorough politics towards assessment of counterparties, working with clearly defined limits and diversifying between highly trusted partners. The main counterparties stayed the same. The average maturity remains short, and the bank continues to have exposures only with carefully selected counterparties/issuers.

9.3 Default risk arising from derivative positions

In the ProCredit Bank, derivatives are utilised to an extremely limited extent. They are only used to hedge foreign currency; the bank may not be engaged in for the purposes of proprietary or speculative trading. FX swap is the type of derivative that is relevant for the ProCredit Bank as for now.

For derivative exposures, the same risk classification, limit-setting and monitoring processes apply as for counterparty risk. The bank conducts FX swaps, for foreign currencies mostly with ProCredit Bank Germany, and Georgian commercial banks for local / foreign currency swaps.

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

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

The ProCredit Bank exclusively uses the standardised approach to determine its exposure to credit risk. The bank has nominated the rating agency Fitch Ratings for the exposure classes “central governments or central banks”, “institutions” and “institutions and corporates with a short-term credit assessment”. Since our customers are usually not rated, ProCredit Bank does not use ratings for the exposure class “corporates” and “retail”.

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

10 Market risks

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

10.1 Foreign currency risk

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

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

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

In 2024 the overall currency risk of the bank continued to be low considering that the bank has a policy to avoid having significant open currency positions. Even though, exchange rates throughout the year were mostly stable (the most significant changes in 30 days were: +4.2% in USD, and +5.1% in EUR) the bank considers foreign currency risk to be important to closely look at.

10.2 Interest rate risk in the banking book

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

To manage interest rate risk, ProCredit Bank focuses on issuing variable-rate loans and loans with mixed interest rates (fixed + floating). 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 above mentioned loans in a transparent manner, the bank uses a publicly available interest rate as a benchmark when adjusting the interest rates (Term SOFR, EUROBOR, the NBG refinancing rate, TIBR, etc.). 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.

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 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, which displays the change in the net interest income over the one-year time horizon, factoring in also the effect of fair-value change of financial instruments.

To control interest rate risk, the bank defines limits and reporting triggers. Limits are not to be breached. The reporting triggers should serve as early warning signals, but do not directly imply a necessity of measures. The limits refer to the key interest rate risk indicators and restrict interest rate risk to an acceptable level.

The following limits and triggers for the key interest rate risk indicators are met by the bank:

- Total economic value impact in the standard parallel scenarios: An upper limit of 15% of the Bank's CRR capital is set. The trigger is defined as 10% of the Bank's CRR capital.
- Total 12-months interest earnings impact in the standard parallel scenarios: An upper limit of 25% of the banks projected net interest income of the current year as per ALCO[2] Forecast. The trigger is defined as 20% of the same figure.

[2] ALCO – Assets and Liabilities Committee

11 Liquidity risks

11.1 Liquidity and funding risk

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

In general, liquidity and funding risk is limited in the bank by the fact that we primarily issue instalment loans with monthly repayments, financed largely by customer deposits. Our deposit-taking operations focus on our target group of business clients and savers, with whom we establish strong relationships. The financial crisis in 2023 and 2022 caused by Russia-Ukraine war and pandemic in 2020 and 2021 have 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 the risk based on a 30-day liquidity indicator (Sufficient Liquidity Indicator - SLI) and 90-days Survival Period, as well as in accordance with the minimum liquidity ratios stipulated by the National Bank of Georgia (NBG Liquidity Coverage Ratio, LCR) and CRR (CRR Liquidity Coverage Ratio, LCR). The SLI measures whether the institution has sufficient liquidity for the expected inflows and outflows of funds in the next 30 days. The calculation applies outflows derived from historical analyses of deposit movements in the banks. Liquidity Coverage Ratios indicate whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. Additionally, the bank conducts regular analysis of the liquidity needs for longer stress periods (up to 3 months) and maintains respective limits.

In addition, PCBG performs NSFR (Net Stable Funding Ratio) reporting to the ProCredit Group. This ratio establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of the bank's balance sheet and activities over a one-year horizon. Since June, 2014 PCBG conducts NSFR reporting and complies with the requirement (100%). Moreover, the National bank of Georgia introduced NSFR regulation in 2018. From September 2019, the bank is in compliance with the corresponding ratio of 100%.

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

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

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

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

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

Last year, the financial system faced some difficulties. In addition to the Russia-Ukraine war, which is an important factor for the bank, especially considering that one of the ProCredit Group banks operates in Ukraine, In terms of liquidity, the country's internal political processes were also a significant challenge. Despite the fact that the GEL exchange rate did not depreciate significantly in the wake of the protests, initially higher-than-standard outflow dynamics were observed on GEL deposits. It is also worth noting the 5% increase in mandatory reserves for foreign currency funds, which naturally had a negative effect on foreign currency liquidity and, accordingly, total liquidity indicators. Despite this, the bank analyzed potential stress scenarios and was able to maintain stable liquidity throughout 2024.

11.2 Encumbered and unencumbered assets

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

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

12 Operational risk

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

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence of loss events. The main tools utilised are the group-wide Risk Event Database (RED), the annual risk assessments of operational and fraud risks, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process. Additionally, the bank implemented Fraud Monitoring System, which is designed to detect suspicious events and fraudulent activities that come through distance channels of banking services, including e-banking and mobile banking The Risk Event Database was developed to ensure that all operational risk events identified in the ProCredit group are documented, analysed and communicated effectively. All ProCredit banks document their risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

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

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

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

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 of Cyber Security Framework imposed by the National Bank of Georgia into the IT/information security risk management framework. Regular controls of information security and business continuity are part of existing processes and procedures. The bank carries out a classification of its information assets and conducts an annual risk assessment on its critical information assets. The business continuity framework implemented in the bank ensures that these risks are understood by all members of staff that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes.

Information about historical operational losses				Lari
		31.12.2024	31.12.2023	31.12.2022
1	Total amount of losses	546 753	88 347*	128 764
2	Total amount of losses, exceeding GEL 10,000	375 520	40 000*	87 373
3	Number of events with losses exceeding GEL 10,000	7	1*	4
4	Total amount of 5 biggest losses	344 080	62 923*	93 625

Table 11

*The event with the loss exceeding 10 000 GEL, is connected to the open court case, so the loss amount is calculated according to the statement presented to the court and is the approximate loss amount.

The increase in the amount of operational risk losses is related to ongoing legal cases.

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

Money laundering is the process by which criminals attempt to conceal the illicit origin and ownership of the proceeds of their unlawful activities. By means of money laundering, such persons attempt to transform the proceeds from their illegal activities into funds of an apparently legal origin. If successful, this process gives legitimacy to the proceeds, over which the criminals maintain control.

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

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 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 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. 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.

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.

14 Capital adequacy

14.1 Capital management

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

The capital management framework has the following objectives:

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

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

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

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

The current report is based on the financial statements as of December 2024.

14.2 Pillar 1 and combined buffer

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

Furthermore, banks are required to hold additional combined buffer through Common Equity Tier 1. The combined buffer consists of the conservation, the countercyclical and the systemic buffers. The rate for the conservation buffer has been set at 2.5 % of risk-weighted assets, while a rate of 0,25 % has been set for the countercyclical buffer for all banks as of December 2024. 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. The National Bank Georgia reviewed the buffer and introduced the plan for encreaseing countrcyclical buffer from 0% to 1% in the upcoming years. As of March 2025 the countrcyclical buffer is set at 0.5% for all banks. For systemically important commercial banks, the systemic buffer has been introduced. PCB Georgia is not considered a systemic bank; therefore, 0 % for systemic buffers is required from the bank.

14.3 Pillar 2

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

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

It's important to note that capital buffers under Pillar 2, except credit risk adjustment buffer, should be proportionately incorporated in capital requirements (Common Equity Tier 1 - 4.5%, Tier 1 capital - 6% and Total Regulatory Capital - 8%). Therefore, 56 % of capital required under Pillar 2 should be held through Common Equity Tier 1, while 75% through Tier 1 capital instruments (table 12 – as of 31.12.2024). Credit risk adjustment buffer is fully included in CET1, Tier 1 and Total Regulatory Capital requirements.

		Common Equity Tier 1	Tier 1	Total Regulatory Capital
Pillar 1	Basel III min requirements	4.50%	6.00%	8.00%
	Conservation buffer	2.50%	2.50%	2.50%
	Countercyclical buffer	0.25%	0.25%	0.25%

	Systemic buffers	n%	n%	n%
Pillar 2	Unhedged currency induced credit risk buffer	n x (min)56%	n x (min)75%	n%
	Name concentration risk buffer	n x (min)56%	n x (min)75%	n%
	Sectoral concentration risk buffer	n x (min)56%	n x (min)75%	n%
	net stress-test buffer	n x (min)56%	n x (min)75%	n%
	Net GRAPE buffer	n x (min)56%	n x (min)75%	n%
	Credit risk adjustment buffer	n%	n%	n%

Table 12

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

14.4 Regulatory capital

Common Equity Tier 1 represents the main portion of bank's Regulatory Capital (GEL 303.6m after the regulatory adjustments). The bank does not have the Additional Tier 1 capital. Tier 2 capital is also part of the Regulatory Capital (subordinadet debt), which participates in the total regulatory capital with GEL 20.5m.

Regulatory Capital	in Lari
Common Equity Tier 1 capital before regulatory adjustments	**315,272,777**
Common shares that comply with the criteria for Common Equity Tier 1	112,482,805
Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	72,117,570
Accumulated other comprehensive income	-
Other disclosed reserves	-
Retained earnings (loss)	130,672,403
Regulatory Adjustments of Common Equity Tier 1 capital	**11,652,211**
Revaluation reserves on assets	-
Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	-
Intangible assets	2,152,154
Shortfall of the stock of provisions to the provisions based on the Asset Classification	-
Investments in own shares	-
Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	-
Cash flow hedge reserve	-
Deferred tax assets not subject to the threshold deduction (net of related tax liability)	-
Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	-
Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	9,500,057
Other deductions	-
Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	-
Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	-
Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	-
Common Equity Tier 1	**303,620,567**
Additional tier 1 capital before regulatory adjustments	**-**
Instruments that comply with the criteria for Additional tier 1 capital	-
Including:instruments classified as equity under the relevant accounting standards	-
Including: instruments classified as liabilities under the relevant accounting standards	-
Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	-
Regulatory Adjustments of Additional Tier 1 capital	**-**
Investments in own Additional Tier 1 instruments	-
Reciprocal cross-holdings in Additional Tier 1 instruments	-
Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	-
Additional Tier 1 Capital	**-**
Tier 2 capital before regulatory adjustments	**20,462,400**
Instruments that comply with the criteria for Tier 2 capital	20,462,400
Stock surplus (share premium) that meet the criteria for Tier 2 capital	-
General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	-
Regulatory Adjustments of Tier 2 Capital	**-**
Investments in own shares that meet the criteria for Tier 2 capital	-
Reciprocal cross-holdings in Tier 2 capital	-
Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
Tier 2 Capital	**20,462,400**

Table 13

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

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

Reconcilation of balance sheet to regulatory capital *in Lari*

On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per IFRS	linkage to capital table
Cash, Cash balances with National Bank of Georgia and other banks	**494,603,864**	
Cash on hand	47,572,444	
Casha balances with National bank of Georgia	266,339,625	
Cash balances with other banks	180,691,794	
Financial assets held for trading	**-**	
of which:derivatives	-	
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	
	9,500,057	*table 9 (Capital), N17*
Financial assets designated at fair value through profit or loss	-	
Financial assets at fair value through other comprehensive income	**139,528**	
Equity instruments	139,528	
Debt securities	-	
Loans and advances	-	
Financial assets at amortised cost	**1,407,287,016**	
Debt securities	90,490,012	
Loans and advances	1,316,797,003	
Investments in subsidiaries, joint ventures and associates	**9,500,057**	*table 9 (Capital), N17*
	9,500,057	*table 9 (Capital), N17*
Non-current assets and disposal groups classified as held for sale	**-**	
Tangible assets	**47,699,650**	
Property, Plant and Equipment	43,568,144	
Investment property	4,131,506	
Intangible assets	**2,152,154**	*table 9 (Capital), N10*
Goodwill	-	
Other intangible assets	2,152,154	
Tax assets	**4,292,621**	
Current tax assets	4,292,621	
Deferred tax assets	-	
Other assets	**5,151,771**	
of which: repossessed collateral	13,200	
of which: dividends receivable	-	
TOTAL ASSETS	**1,970,826,659**	
LIABILITIES		
Financial liabilities held for trading	**-**	
of which:derivatives	-	
Financial liabilities designated at fair value through profit or loss	**-**	
Financial liabilities measured at amortised cost	**1,629,579,713**	
Deposits	1,307,676,588	
borrowings	316,563,289	
Debt securities issued	-	
Other financial liabilities	5,339,836	
Provisions	**2,792,028**	
Tax liabilities	**2,288,450**	
Current tax liabilities	-	
Deferred tax liabilities	2,288,450	
Subordinated liabilities	**20,795,035**	
Other liabilities	**98,655**	
of which: dividends payable	-	
TOTAL LIABILITIES	**1,655,553,882**	
Equity		
Share capital	**112,482,805**	
preference share	**-**	
Share premium	**72,117,570**	
(-) Treasury shares	**-**	
Equity instruments issued other than capital	**-**	
Equity component of compound financial instruments	-	
Other equity instruments issued	-	
Share-based payment reserve	**-**	
Accumulated other comprehensive income	**-**	
revaluation reserve	-	
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	
Fair value changes of debt instruments measured at fair value through other comprehensive income	-	
Retained earnings	**130,672,403**	
TOTAL EQUITY	**315,272,777**	
TOTAL EQUITY AND TOTAL LIABILITIES	**1,970,826,659**	

Table 14

14.5 Risk weighted assets

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

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

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

Linkages between financial statement assets and balance sheet items subject to credit risk weighting			in Lari
		Carrying values of items	
Account name of standardazed supervisory balance sheet item	Carrying values as reported in published stand-alone financial statements per IFRS	Not subject to capital requirements or subject to deduction from capital	Subject to credit risk weighting
Cash, Cash balances with National Bank of Georgia and oth	**494,603,864**	**-**	**494,603,864**
Cash on hand	47,572,444		47,572,444
Casha balances with National bank of Georgia	266,339,625		266,339,625
Cash balances with other banks	180,691,794		180,691,794
Financial assets held for trading	**-**		**-**
Financial assets at fair value through other comprehensive i	**139,528**	**-**	**139,528**
Financial assets at amortised cost	**1,407,287,016**	**-**	**1,407,287,016**
Debt securities	90,490,012		90,490,012
Loans and advances	1,316,797,003		1,316,797,003
Investments in subsidiaries, joint ventures and associates	**9,500,057**	**9,500,057**	**-**
Tangible assets	**47,699,650**	**-**	**47,699,650**
Property, Plant and Equipment	43,568,144		43,568,144
Investment property	4,131,506		4,131,506
Intangible assets	**2,152,154**	**2,152,154**	**-**
Goodwill	-		-
Other intangible assets	2,152,154	2,152,154	-
Tax assets	**4,292,621**	**-**	**4,292,621**
Other assets	**5,151,771**		**5,151,771**
Total exposures subject to credit risk weighting before adju	**1,970,826,659**	**11,652,211**	**1,959,174,449**

Table 15

9.5m GEL represents investments in equities, particularly in ProCredit Properties LLC and Creditinfo Georgia JSC, out of which 6.1m GEL is investment in ProCredit Properties LLC (the bank owns 100% of its shares). This amount is deducted from Common Equity Tier 1 during the regulatory adjustments. Accordingly, this amount is not subject to weighting for credit risk.

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

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

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

Off-balance sheet items per standardized regulatory | in Lari

Off-balance sheet items	reporting period			respective period of the previous year		
	GEL	FX	Total	GEL	FX	Total
Loan commitments received		29,232,000	29,232,000	-	29,757,000	29,757,000
Guarantees received as security for liabilities of the bank	14,943,000	170,913,838	185,856,838	17,433,500	331,395,489	348,828,989
Guaratees received as security for receivables of the bank	485,346,966	896,577,518	1,381,924,484	427,007,618	929,187,431	1,356,195,049
Surety, joint liability	447,721,945	692,433,526	1,140,155,470	379,730,428	654,171,197	1,033,901,626
Guarantees	37,625,021	204,143,993	241,769,014	47,277,190	275,016,234	322,293,424
Assets pledged as security for liabilities of the bank	6,817,000	-	6,817,000	5,112,000	-	5,112,000
Financial assets of the bank	6,817,000		6,817,000	5,112,000	-	5,112,000
Non-financial assets of the bank			-	-	-	-
Assets pledged as security for receivables of the bank	465,186,616	873,658,469	1,338,845,085	429,689,747	1,102,004,327	1,531,694,074
Cash	12,392,984	2,626,201	15,019,185	26,275,173	1,313,896	27,589,070
Precious metals and stones			-	-	-	-
Real Estate:	428,497,280	839,532,057	1,268,029,337	359,839,624	1,045,723,936	1,405,563,559
Residential Property	113,302,781	210,258,816	323,561,597	77,376,603	215,696,676	293,073,279
Commercial Property	102,682,823	312,837,946	415,520,769	85,516,723	494,498,566	580,015,289
Complex Real Estate			-	-	-	-
Land Parcel	62,571,094	125,344,663	187,915,757	67,445,000	136,382,792	203,827,792
Other	149,940,582	191,090,632	341,031,214	129,501,298	199,145,901	328,647,199
Movable Property	24,291,569	31,075,420	55,366,990	35,496,250	54,522,166	90,018,416
Shares Pledged			-	8,078,700	444,329	8,523,029
Securities			-	-	-	-
Other	4,782	424,791	429,573	0	0	0
Loan commitments given	31,956,777	47,428,008	79,384,785	41,572,191	50,746,060	92,318,251
guarantees given	51,873,448	19,812,563	71,686,011	64,743,185	13,831,956	78,575,141
Letters of credit Issued		496,076	496,076	-	565,627	565,627
Derivatives	3,384,200	5,747,204	9,131,404	3,766,450	9,710,577	13,477,027
Receivables through FX contracts (except options)	-	4,561,800	4,561,800	-	6,738,070	6,738,070
Payables through FX contracts (except options)	3,384,200	1,185,404	4,569,604	3,766,450	2,972,507	6,738,957
Principal of interest rate contracts (except options)			-	-	-	-
Options sold			-	-	-	-
Options purchased			-	-	-	-
Nominal value of potential receivables through other derivatives			-	-	-	-
Nominal value of potential payables through other derivatives			-	-	-	-
Receivables not recognized on-balance	6,416,234	15,943,606	22,359,839	6,336,193	15,615,033	21,951,226
Principal of receivables derecognized during last 3 month	40,161	563,890	604,051	-	1,992,826	1,992,826
Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	4,211	157,043	161,254	-	144,694	144,694
Principal of receivables derecognized during 5 years month (including last 3 month)	4,802,666	13,180,289	17,982,954	5,098,681	12,827,804	17,926,485
Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	1,613,568	2,763,317	4,376,885	1,237,512	2,787,229	4,024,741
Capital expenditure commitment			-	-	-	-

Table 16

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

Differences between values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts | in Lari

Total carrying value of balance sheet items subject to credit risk weighting before adjustments	1,959,174,449
Nominal values of off-balance sheet items subject to credit risk weighting	151,460,898
Nominal values of off-balance sheet items subject to counterparty credit risk weighting	-
Total values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes	2,110,635,347
Effect of provisioning rules used for capital adequacy purposes	
Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(71,177,300)
Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	-
Effect of other adjustments *	
Total exposures subject to credit risk weighting	2,039,458,047

Table 17

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

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

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

Table 18 shows the total balance and off-balance sheet values of the bank according to risk position classes and corresponding weights.

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

Risk weights / Exposure classes	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
Claims or contingent claims on central governments or central banks	132,298,327		0		0		0		0		224,531,310		0		0		224,531,310
Claims or contingent claims on regional governments or local authorities	0		0		0		0		0		0		0		0		-
Claims or contingent claims on public sector entities	0		0		0		0		0		0		0		0		-
Claims or contingent claims on multilateral development banks	0		0		0		0		0		0		0		0		-
Claims or contingent claims on international organizations/institutions	0		0		0		0		0		0		0		0		-
Claims or contingent claims on commercial banks	0		145,537,829		0		35,361,759		0		0		838,497		0		48,046,191
Claims or contingent claims on corporates	0		0		0		0		0		872,192,667	80,283,598	0		0		952,476,265
Retail claims or contingent retail claims	0		0		0		0		353,267,052		0		0		0		264,950,289
Claims or contingent claims secured by mortgages on residential property	0		0		84,502,894		0		0		0		0		0		29,576,013
Past due items	0		0		0		22,473		0		1,406,260		1,796,897		0		4,112,842
Items belonging to regulatory high-risk categories	0		0		0		0		0		0		0		4,131,506		10,328,765
Short-term claims on commercial banks and corporates	0		0		0		0		0		0		0		0		-
Claims in the form of collective investment undertakings (‘CIU’)	0		0		0		0		0		0		0		0		-
Other items	47,572,444		0		0		0		0		55,714,533		0		0		55,714,533
Total	**179,870,771**	**0**	**145,537,829**	**0**	**84,502,894**	**0**	**35,384,232**	**0**	**353,267,052**	**0**	**1,153,844,770**	**80,283,598**	**2,635,394**	**0**	**4,131,506**	**0**	**1,589,736,208**

Table 18

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

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

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

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

The main components of the class "other items" are the fixed assets.

Standardized approach - Effect of credit risk mitigation

Asset Classes	On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density f=e/(a+c)
		Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
Claims or contingent claims on central governments or central banks	356,829,637			224,531,310	0	0%
Claims or contingent claims on regional governments or local authorities	0			0	0	
Claims or contingent claims on public sector entities	0			0	0	
Claims or contingent claims on multilateral development banks	0			0	0	
Claims or contingent claims on international organizations/institutions	0			0	0	
Claims or contingent claims on commercial banks	181,738,085			48,046,191	48,046,191	26%
Claims or contingent claims on corporates	872,192,667	151,460,898	80,283,598	952,476,265	916,866,511	96%
Retail claims or contingent retail claims	353,267,052			264,950,289	260,273,935	74%
Claims or contingent claims secured by mortgages on residential property	84,502,894			29,576,013	29,576,013	35%
Past due items	3,225,630			4,112,842	4,112,842	128%
Items belonging to regulatory high-risk categories	4,131,506			10,328,765	10,328,765	250%
Short-term claims on commercial banks and corporates	0			0	0	
Claims in the form of collective investment undertakings (‘CIU’)	0			0	0	
Other items	103,286,978			55,714,533	55,714,533	54%
Total	**1,959,174,449**	**151,460,898**	**80,283,598**	**1,589,736,208**	**1,324,918,790**	**65%**

Table 19

14.6 Credit risk mitigation techniques

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

- Guarantee
- Cash deposit as collateral

The bank applies the guarantee obtained from the Multilateral Investment Guarantee Agency (MIGA). MIGA is a member of the World Bank Group and can be classified as a multilateral development bank. Its purpose is to promote direct investments in developing countries, which it does by offering guarantees to secure against political risks. MIGA’s risk position is 0 percent according to the Capital Adequacy Regulation of the National Bank of Georgia. The amount of the guarantee, which was introduced in November 2015 for the first time and its purpose is to mitigate credit risk. In March of 2023 amendment was made to the MIGA contract, which increased the guarantee amount from EUR 47.5 m to EUR 77.9m. The bank applies this guarantee to the USD and EUR exposure with the National Bank of Georgia, i.e. the mandatory reserves.

Starting November 2018, the bank applies the InnovFin guarantee (issued within the Agreement of Deep and Comprehensive Free Trade Area) facility which decreased the volume of RWAs by GEL 40.3m as of December 2024. The EU-supported guarantee is provided to selected financial institutions to cover 50-80%

of the Defaulted Amounts (which include principal and accrued interest up to 90 days net of recoveries from loans to SMEs).

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

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

The total credit risk mitigation concentration is low. The mitigated exposure as of December 2024 was GEL 264.8m, which is equivalent to 16.7% of the total on- and off-balance sheet RWAs before mitigation.

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

Credit Risk Mitigation — in Lari

	Funded Credit Protection									
	On-balance sheet netting	Cash on deposit with, or cash assimilated instruments	Debt securities issued by central governments or central banks, regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by other entities, which securities have a credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates.	Debt securities with a short-term credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures	Equities or convertible bonds that are included in a main index	Standard gold bullion or equivalent	Debt securities without credit rating issued by commercial banks	Units in collective investment undertakings
Claims or contingent claims on central governments or central banks										
Claims or contingent claims on regional governments or local authorities		-								
Claims or contingent claims on public sector entities		-								
Claims or contingent claims on multilateral development banks		-								
Claims or contingent claims on international organizations/institutions		-								
Claims or contingent claims on commercial banks		-								
Claims or contingent claims on corporates		1,481,751								
Retail claims or contingent retail claims		1,590,322								
Claims or contingent claims secured by mortgages on residential property		-								
Past due items		-								
Items belonging to regulatory high-risk categories		-								
Short-term claims on commercial banks and corporates		-								
Claims in the form of collective investment undertakings		-								
Other items	-	-	-	-	-	-	-	-	-	-
Total	0	3,072,073	0	0	0	0	0	0	0	0

Credit Risk Mitigation — in Lari

	Unfunded Credit Protection						
	Central governments or central banks	Regional governments or local authorities	Multilateral development banks	International organizations / institutions	Public sector entities	Commercial banks	Other corporate entities that have a credit assessment, which has been determined by NBG to be associated with credit quality step 2 or above under the rules for the risk weighting of exposures to corporates
Claims or contingent claims on central governments or central banks			224,531,310				
Claims or contingent claims on regional governments or local authorities			-				
Claims or contingent claims on public sector entities			-				
Claims or contingent claims on multilateral development banks			-				
Claims or contingent claims on international organizations/institutions			-				
Claims or contingent claims on commercial banks			-				
Claims or contingent claims on corporates			34,128,003				
Retail claims or contingent retail claims			3,086,031				
Claims or contingent claims secured by mortgages on residential property			-				
Past due items			-				
Items belonging to regulatory high-risk categories			-				
Short-term claims on commercial banks and corporates			-				
Claims in the form of collective investment undertakings			-				
Other items	-	-	-	-	-	-	-
Total	0	0	261,745,345	0	0	0	0

Credit Risk Mitigation | in Lari

	Total Credit Risk Mitigation -	Total Credit Risk Mitigation - Off-	Total Credit Risk Mitigation
Claims or contingent claims on central governments or central banks	224,531,310		224,531,310
Claims or contingent claims on regional governments or local authorities	-		-
Claims or contingent claims on public sector entities	-		-
Claims or contingent claims on multilateral development banks	-		-
Claims or contingent claims on international organizations/institutions	-		-
Claims or contingent claims on commercial banks	-		-
Claims or contingent claims on corporates	35,262,923	346,832	35,609,754
Retail claims or contingent retail claims	4,676,353		4,676,353
Claims or contingent claims secured by mortgages on residential property	-		-
Past due items	-		-
Items belonging to regulatory high-risk categories	-		-
Short-term claims on commercial banks and corporates	-		-
Claims in the form of collective investment undertakings	-		-
Other items	-		-
Total	**264,470,587**	**346,832**	**264,817,418**

Table 20

Counterparty credit risk is related to counterparty default risk before the transaction is realized. The bank had SWAP transaction mainly with its sister bank – ProCredit Bank Germany, however, exposure from swaps as of December 2024 was zero.

Counterparty credit risk | *in Lari*

	Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
FX contracts	0		0	0	0	0	0	0	0	0	0	0
Maturity less than 1 year	0	2.0%	0									0
Maturity from 1 year up to 2 years	0	5.0%	0									0
Maturity from 2 years up to 3 years	0	8.0%	0									0
Maturity from 3 years up to 4 years	0	11.0%	0									0
Maturity from 4 years up to 5 years	0	14.0%	0									0
Maturity over 5 years	0											0
Interest rate contracts	0		0	0	0	0	0	0	0	0	0	0
Maturity less than 1 year		0.5%	0									0
Maturity from 1 year up to 2 years		1.0%	0									0
Maturity from 2 years up to 3 years		2.0%	0									0
Maturity from 3 years up to 4 years		3.0%	0									0
Maturity from 4 years up to 5 years		4.0%	0									0
Maturity over 5 years												0
Total	**0**		**0**	0	0	0	0	0	0	0	0	-

Table 21

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

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

Operational risks - basic indicator approach | in Lari

		45657	45291	44926	Average of sums of net	Risk Weighted asset
1	Net interest income	73,893,348	76,444,939	77,389,964		
2	Total Non-Interest Income	24,137,598	18,730,185	24,289,961		
3	less: income (loss) from selling property	95,922	111,870	217,206		
4	Total income (1+2-3)	97,935,024	95,063,254	101,462,719	98,153,666	184,038,123

Table 22

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

Risk Weighted Assets		in Lari
	4Q-2024	**4Q-2023**
Risk Weighted Assets for Credit Risk	1,324,918,790	1,164,412,912
Balance sheet items *	1,244,982,023	1,076,333,141
Including: amounts below the thresholds for deduction (subject to 250% risk weight)		-
Off-balance sheet items	79,936,767	88,079,771
Counterparty credit risk	-	-
Risk Weighted Assets for Market Risk	3,894,648	-
Risk Weighted Assets for Operational Risk	184,038,123	177,590,182
Total Risk Weighted Assets	**1,512,851,561**	**1,342,003,094**

Table 23

14.7 Differences between accounting and regulatory scopes of consolidation

Differences between accounting and regulatory scopes of consolidation — **in Lari ('000)**

Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Notes
Cash and balances with the NBG	148,473	148,473	-
Mandatory reserve deposits with NBG	224,526	224,526	-
Investments in debt securities	90,490	90,490	-
Investments in equity securities	139	139	- 0
Investments in associates	3,400	3,400	0
Investments in subsidiary		6,100	- 6,100
Due from banks	121,605	121,605	0
Financial Assets at fair value through profit or loss	1	1	-
Loans and advances to customers	1,313,188	1,313,188	-
Current tax asset	4,293	4,293	-
Investment properties	4,132	4,132	-
Intangible assets	2,152	2,152	-
Property and equipment	40,629	40,629	-
Right-of-use assets	2,940	2,940	-
Other assets	11,425	8,759	2,666
Total assets	**1,967,393**	**1,970,827**	**- 3,434**

Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Notes
Financial liabilities at fair value through profit or loss	9	9	- 0
Customer accounts	1,300,349	1,307,677	- 8,630
Other borrowed funds	316,563	316,563	-
Subordinated debt	20,795	20,795	-
Lease liabilities	3,154	3,153	-
Current tax liability			-
Other liabilities	2,431	2,276	103
Other provisions	2,792	2,792	-
Deferred tax liability	2,288	2,288	-
Total liabilities	**1,648,381**	**1,655,554**	**- 8,528**

Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Notes
Subscribed capital	112,483	112,483	-
Capital reserve	72,118	72,118	-
Retained earnings	134,411	130,672	3,739
Total equity	**319,012**	**315,273**	**3,739**

Table 24

14.8 Internal capital adequacy

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

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

According to the internal capital adequacy concept, we are committed to being able to always meet our non-subordinated obligations in the event of unexpected losses, both in normal and in stress scenarios. The Bank's capital according to the internal capital adequacy of the bank was sufficient at all times during 2024.

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

Stress tests

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

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

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

15 Remuneration

15.1 Principles of remuneration

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

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

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

The remuneration approach in ProCredit Bank aims to provide a long-term perspective to our staff and managers. A transparent salary structure with fixed salaries is a key aspect in this context; the policy is elaborated so as to allow and promote a healthy and efficient risk management without encouraging excessive risk taking, which could overwhelm the Bank's risk bearing capacity, and to avoid potential conflicts of interests.

Remuneration structure is comprised mainly of fixed remuneration – when the conditions for granting it and its values are based on predetermined criteria; they are non-discretionary reflecting the level of professional experience and seniority of staff, they are transparent, permanent and irrevocable; may not be reduced suspended or cancelled by the Bank, do not provide incentives for risk assumption.

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

15.2 Structure of remuneration

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

The purpose of this salary structure is to ensure that positions with comparable responsibility within the ProCredit group are also compensated according to the same principles. This salary scheme defines which professional development programmes an employee must have successfully completed in order to be appointed to the various positions. A review of the allocation of staff within the ProCredit Bank to one of the 22 salary steps is also carried out annually on the basis of extensive staff evaluations and feedback discussions carried out by the HR committee.

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

15.3 Communication and approval of remuneration schemes

The remuneration structure and particularly the salary scheme in the bank is communicated to staff in a transparent manner. The Board of Directors of the ProCredit Bank reports annually to the supervisory board of the bank on the remuneration structure. The salary scheme specific to the bank is likewise subject to annual review; the Board of Directors of the bank examines the salary scheme and it is approved by the Supervisory Board. The Human Resources Committee is the bank's body responsible for taking decisions regarding the professional development of staff members and reviewing the bank's remuneration practices. HRC is composed of five members, including at least two members of the management board and the manager in charge of HR (generally the chairperson). The other members of the HRC must be graduates from (or participating in) the ProCredit Management Academy in Fürth. The committee meets at least quarterly.

Remuneration for the Management of the bank is approved by the bank's supervisory board, after discussion with the Management of ProCredit Holding. Their remuneration consists of only a fixed component, and it does not include incentives correlated with the Bank's performance.

15.4 Remuneration 2024

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

Remuneration is presented separately for staff whose professional activities have an impact on the risk profile and for members of the Management. As a general rule, the decision makers of the following directions are classified as staff whose professional activities have an impact on the risk profile: risk management (12 people), finance (1 person), legal (2 people), HR (1 person), internal audit (1 person), compliance (2 people), Information technology and distant services (5 people), business (33 people) and heads of other departments/units (5 people) . The bank does not use a variable remuneration mechanism; therefore, the remuneration of the risk and compliance functions is independent of their performance.

Remuneration awarded during the reporting period | in Lari

			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	Number of employees			
2		Total fixed remuneration (3+5+7)	1,496,629	146,891	5,569,175
3		Of which cash-based	1,446,913	146,891	5,217,854
4		Of which: deferred			
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms	49,715		351,320
8		Of which deferred			
9	Variable remuneration	Number of employees			
10		Total variable remuneration (11+13+15)	0	0	0
11		Of which cash-based			
12		Of which: deferred			
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms			
16		Of which deferred			
17	**Total remuneration**		1,496,629	146,891	5,569,175

[3] Table 26

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

16 ESG Reporting and Disclosure

ProCredit Bank, as a responsible organization focused on financing business and retail clients, believes that business and economic development and economic growth should be based on the principles of a sustainable economy, which includes meeting the high requirements of ESG in its operations, as well as access to green and inclusive financing.

ESG report presents the Bank's comprehensive approach to environmental and social topics, reflected in the Bank's business model and policies. The rules and standards describe the control mechanisms that enable the bank to effectively assess and manage ESG risks, internally and externally. As a result, of the above approach, the report also provides the qualitative and quantitative results and KPIs of the Bank.

[3] Number of material risk takers include two employees who left the bank in 2024 (legal and IT direction).