

ProCredit Bank

ANNUAL REPORT 2023

About ProCredit Bank

Mission statement

ProCredit Bank is a development-oriented commercial Bank. We offer excellent customer service to small and medium enterprises and to private individuals who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: we value transparency in our communication with our customers, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

We focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility among business clients as well as private individuals.

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



Business ethics

Part of the overall mission of the ProCredit Group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. Six essential principles guide the operations of the ProCredit institutions: Transparency: We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of non-transparent financial offers.

A culture of open communication: We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions. Social responsibility and tolerance: We offer our clients sound, well founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment appropriate capacity in order to avoid over-indebtness and to provide appropriate financial services. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

Service orientation: Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business.

High professional standards: Our employees take personal responsibility for the quality of their work and always strive to grow as professionals. A high degree of personal integrity and commitment: Complete honesty is required of all employees in the ProCredit Group at all times, and any breaches of this principle are dealt swiftly and rigorously. These values represent the backbone of our corporate culture and are discussed and applied actively in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which transforms the group's ethical principles into practical guidelines for all staff.



Management Board

Milan Damchevski
Member of the Management Board

Emilija Spirovska
Member of the Management Board

Stevche Kuzmanovski
Member of the Management Board

Letter from Management Board

Dear colleagues, clients, associates,

We have the pleasure of sharing with you that ProCredit Bank has successfully ended 2023, celebrating our important milestone - **20 years of responsible banking on the market**, and proving once again that we are a role model of sustainability, partner to the business community, bank for private individuals, digitalization and responsibility to the community. Today ProCredit Bank is one of the key players in the Macedonian banking sector, with a loan portfolio of nearly half a billion Euros, of which 84% are loans supporting the businesses, and with a market share of 12%.

ProCredit draws its main power from its people. We take great pride in our team of dedicated and strong professionals who have high ethical values, who are hardworking, persistent, and who display a high level of responsibility and personal integrity and work relentlessly on setting new and higher banking standards, high quality of services and high degree of professionalism.

Being led by our commitment to promoting innovation and economic progress by supporting the local community, in the course of 2023 we have realized strategic initiatives to support the youth, entrepreneurship and to encourage new and brave ideas by facilitating the access to financial services, financial education and networking.

As a recognized leader of digitalization in the Macedonian banking sector, we continue to promote digital evolution, which in 2023 we have marked it by promoting digitalization with small and medium enterprises.

Our objectives are always aligned with the best interests of our clients, and we are adjusting our financial products exactly to the needs and objectives of each individual client. Our clients' trust in the bank is attested by the positive business results in all areas – **in 2023 we have marked a growth of over 15% of the number of business clients and over 6% of the number of private individuals**, 21% growth of deposits, 117% growth of profit, as well as growth of the loan portfolio with a total value of EUR 32.5 million, with an exceptionally significant growth in the private clients sector of 22%. Furthermore, what is particularly important is the **low level of nonperforming loans of 2.02%**, which is below the average in the banking sector, **as well as the 20% share of the green loan portfolio in the total loan portfolio**, which is exceeding by far the banking sector average.

Thanks to our **international presence**, with a focus on the Balkans region and Southeast Europe, and the synergy among the different institutions, ProCredit Group remains a prominent regional leader for business clients. As a bank nurturing a partnership approach, we are actively networking with our clients in order to support and develop the business regionally. Moreover, our clients within the ProCredit Group receive unique benefits through the ProPay international transfer service.

ProCredit Bank has been a role model for responsibility for 20 years, but we are not stopping there. We continue with our mission to provide responsible and sustainable financial services that contribute to the development of the national economy, society and the environment, offering innovative digital solutions and promoting energy efficiency.

Sincerely,

Emilija Spirovska
Member of the Management Board

Stevche Kuzmanovski
Member of the Management Board

Milan Damchevski
Member of the Management Board

Key points for ProCredit Bank

FitchRatings

ProCredit is the only Bank in North Macedonia rated by the international rating agency Fitch Ratings and it has the highest possible rating a company can have in North Macedonia.

SUPERVISED BY BaFin

We work in accordance with the best international banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

Loan Portfolio

506

million EUR

total Loan Portfolio

7%

increase of the total credit portfolio in relation to 2022

2,02%

Level of non-performing loans

20%

participation of the Eco-portfolio in the total credit portfolio

84%

% of business loans for small and medium business

ProCredit Holding

The sole owner of ProCredit Bank is ProCredit Holding (ProCredit Holding AG) which holds a controlling stake in each ProCredit institution. The main functions of ProCredit Holding with regard to banks in the group are to provide equity and debt financing, to indicate the strategic guidelines for development and supervision.

Zeitinger Invest GmbH - is a limited liability company based in Frankfurt, specialized in consultancy for financial institutions. The company is the leading shareholder and strategic investor in the ProCredit Group.

KFW - German development Bank, under the supervision finances of the German Federal Government. Finances investments in developing countries and enjoys highest AAA credit rating by Fitch Ratings.

DOEN - Dutch Foundation focused on achieving green, socially-inclusive and creative society. DOEN supports inspiring initiatives, by issuing subsidies, providing a loan or equity investments.

Other shareholders:

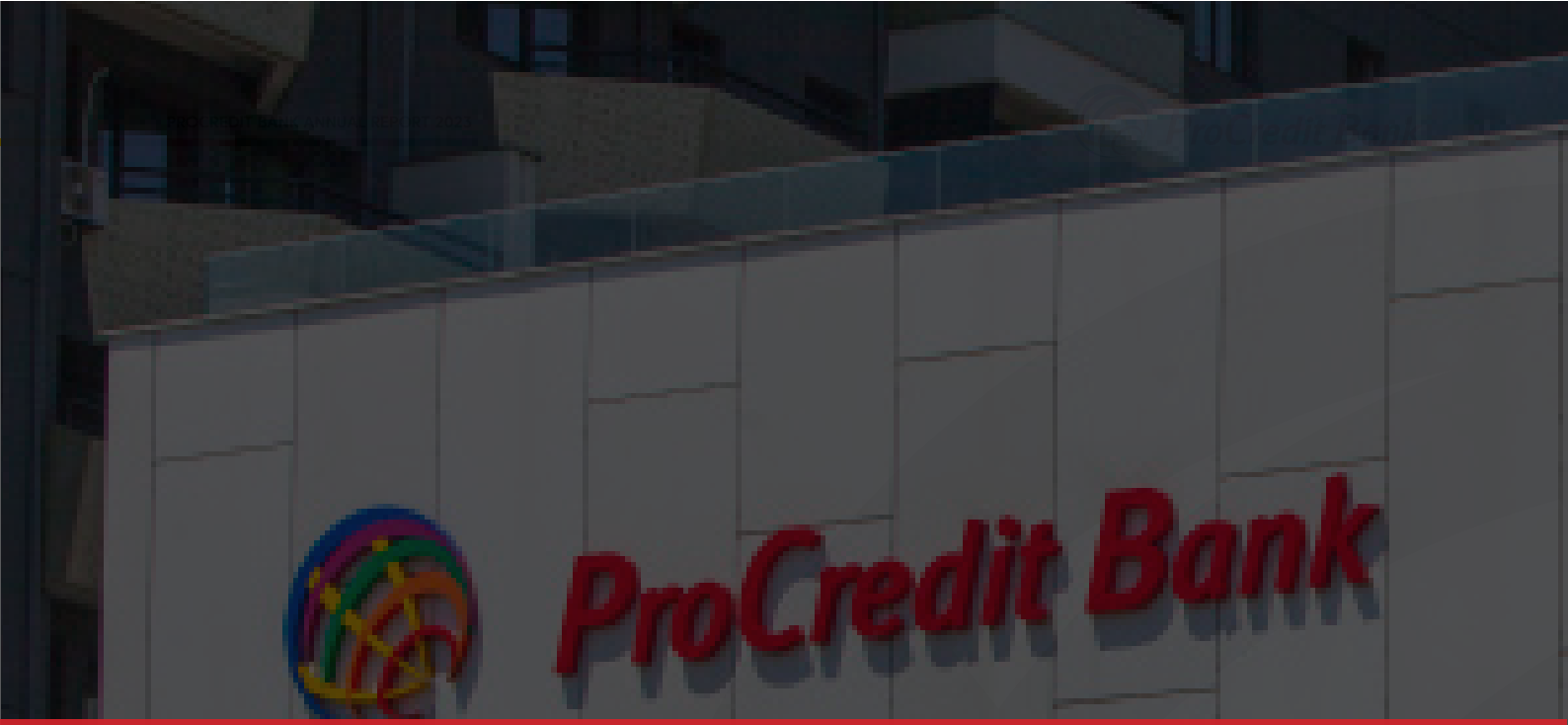
ProCredit Group

The ProCredit Group is made up of development-oriented commercial banks operating in South Eastern and Eastern Europe and South America, as well as a Bank in Germany.



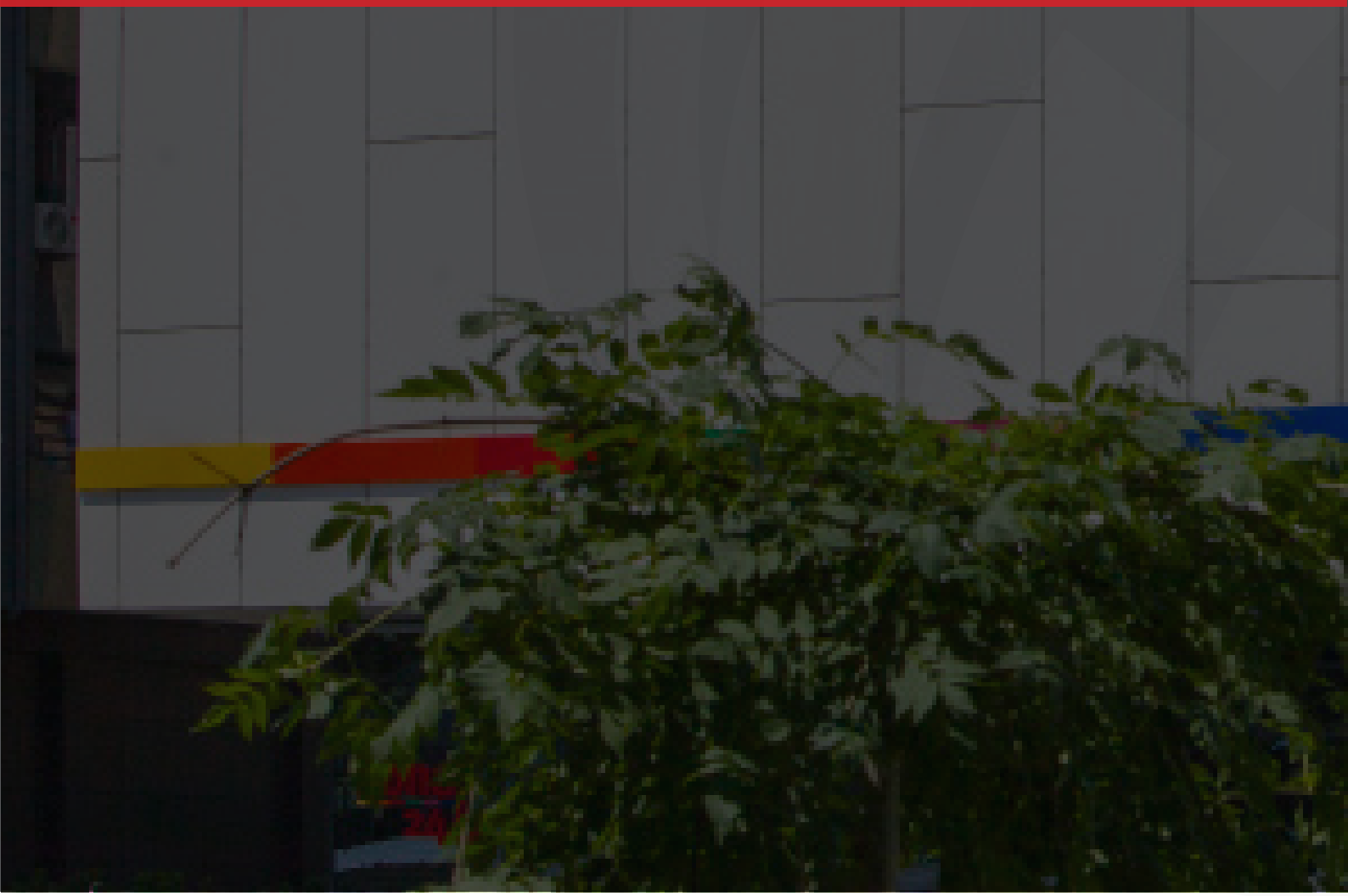
Annual Report IFRS 2023

Balance Sheet	EUR'000		MKD'000		Growth
	2023	2022	2023	2022	
Total Assets	809,098	687,679	49,755,471	42,287,590	17.66%
Gross loan portfolio	507,676	474,197	31,219,520	29,159,871	7.06%
Business loans	442,696	424,914	27,223,612	26,129,320	4.19%
Private loans (Housing + Investment loans)	41,962	35,149	2,580,445	2,161,397	19.39%
Other	23,018	14,134	1,415,464	869,154	62.86%
Allowance for impairment of loans	9,410	8,230	578,694	506,104	14.34%
Net Loan portfolio	498,265	465,966	30,640,826	28,653,767	6.93%
Liabilities to customers	583,482	487,115	35,881,241	29,954,254	19.79%
Liabilities to banks and financial institutions (excluding PCH)	132,743	118,572	8,163,030	7,291,380	11.95%
Shareholder equity	78,829	68,996	4,847,567	4,242,785	14.25%
Income Statement					
Operating Income	28,453	17,378	1,749,727	1,068,610	63.74%
Operating Expenses	17,716	12,452	1,089,426	765,744	42.27%
Operating Profit before tax	10,737	4,925	660,301	302,866	118.02%
Net Profit	9,636	4,432	592,535	272,528	117.42%
Key ratios					
Cost/income ratio	50.67%	67.33%			
ROE	13.04%	7.35%			
Capital Ratio (IFRS)	19.57%	20.99%			
Nonperforming loans (Stage 3 loans)	2.02%	1.81%			
Operational Statistic					
Number of clients	19,903	18,630			
out of which business clients	4,200	3,942			
Loans Outstanding	11,834	10,599			
Number of deposit accounts	53,906	48,136			
Number of staff	234	215			
Number of branches and Service Centers/Points	3	2			



CORPORATE GOVERNANCE REPORT OF PROCREDIT BANK AD SKOPJE

(as required under the Decision on good Corporate governance rules for Banks (Official Gazette of the R.M. 24/2018, Official Gazette of Republic of North Macedonia 113/2019)





Introduction

This report represents the manner of implementing the corporate governance within ProCredit Bank AD Skopje Republic North Macedonia for the year ending 31 December 2023. The report shows the governing bodies of the bank, the independence of their members and the overall organizational structure of the bank which is created in a manner that prevents conflicts of interest, in accordance to the requirements set in the Law on Banks and the Decision on good Corporate governance rules for Banks. During 2023, the Bank was managed through statutory established bodies with the rights and obligations stipulated in the Law on Banks, the Law on Trade Companies and the Charter of the Bank

Based on the established corporate culture, good corporate governance is essential for the successful functioning of ProCredit Bank AD Skopje. Through the successful corporate governance, ProCredit Bank AD Skopje strives to maintain stability, responsibility and success within its framework. The successful corporate governance is demonstrated through the efficiency and quality of established processes, which are at the same time placed in a way that increases responsibility and reduces risks. The processes at the Bank are based on procedures that establish behaviour within the Bank which is based on mechanisms that prevent conflicts of interest, allow decentralisation and control of the decision-making process, maintain integrity and increase the responsibility of the managing structure. At the same time, the successful corporate governance guarantees the protection of shareholders' interests, and the transparency contributes to building and increasing customers and public confidence in the bank, which is one of the essential elements of the bank's long-term success and good reputation.

In this respect, the report contains description of the managing structure of the bank and the manner in which these principles are applied in practice in order to provide sound corporate governance management.

1. Shareholders structure of ProCredit Bank

ProCredit Holding AG is the sole shareholder of ProCredit Bank AD Skopje with a steak of 100% or owner of 5.557.351 shares with nominal value of 5 EUR per share.

The shareholders of the bank have established a managing structure within the bank in accordance with the Law on Banks and the related bylaws.

2. Information and data on the composition and the functioning of the Supervisory Board, Managing Board and other bank bodies

2.1. Information on the number and the composition of the bank bodies

As of December 31, 2023 the **Supervisory Board** of ProCredit Bank consists of the following five members:

- Jovanka Joleska Popovska
- Christian Edgardo Dagrosa
- Driss Nor
- Kaspar Baumann and
- Elena Naumovska.

In 2023, on the basis of consent from the Governor of the National Bank of RNM, Mr. Christian Edgardo Dagrosa was appointed as a member of the Supervisory Board of the Bank for a period of 4 years. Mr. Christian Edgardo Dagrosa was appointed as a member of the Bank's Supervisory Board in place of Ms. Sandrine Massiani, who stepped down as a member of the Supervisory Board.

During 2023 Ms.Jovanka Joleska Popovska was chairperson of the Supervisory Board, and Mr.Kaspar Baumann and Ms.Elena Naumovska are independent members of the board.

As of December 31, 2023 the Managing Board of the Bank consists of the following 3 (three) members:

- Emilija Spirovska – Member of the Management Board
- Stevce Kuzmanovski – Member of the Management Board
- Milan Damchevski – Member of the Management Board

All members of the Management Board are equally responsible for the banking operations and the liabilities of the bank.

Risk Management Committee as of 31 December 2023 consists of the following six members:

- Emilija Spirovska, Member of the Management Board
- Stevce Kuzmanovski, Member of the Management Board

- Milan Damchevski – Member of the Management Board
- Kristina Trpezanovska, Head of Risk Management Unit
- Ivana Doncovska, Head of Credit Risk Department
- Valentina Nikovska, Head of Finance Department

The members of the Risk Management Committee are elected from among the persons with special rights and responsibilities employed in the Bank and at least one of the members of the Bank's Managing Board. All members of the Risk Management Committee, in addition to the requirements determined by law, have appropriate experience in the area of finance and banking.

With the aim of managing the overall risk profile of the Bank, the Risk management committee holds meetings that are focused on a specific risk.

The Risk Management Committee also performs the following duties:

- permanently monitor and assess the risk level of the Bank, and determines the acceptable level of exposure to risks in order to minimize the potential losses which could result from the Bank's risk exposure,
- establishes risk management policies and monitors their implementation, and accordingly makes suggestions for revising them,
- monitors changes in the regulations of the National Bank pertaining to risk management and the Bank's compliance with such regulations,
- assess the Bank's risk management systems,
- determines short and long-term strategies for managing certain types of risks to which the Bank is exposed,
- analyzes the reports on the Bank's risk exposure developed by the bank's risk assessment units and proposes risk managing strategies, measures and instruments,
- monitors the efficiency of the internal control systems in risk management,
- monitors the implementation of the bank's internal acts relating to the identification, measurement or assessment, control or reduction and monitoring of individual risks;
- determine and regularly revise the exposure limits of individual types of risks;
- analyze the impact of risk management measures on the Bank's performance,
- analyze the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments,
- informs the Supervisory Board, on a quarterly basis, of any changes in the Bank's risk positions, the changes in the risk management strategies, the impact of risk management measures on the Bank's performance, and the measures undertaken and instruments employed for hedging risks and the effects thereof, and
- review transactions with persons related to the bank on a quarterly basis, and submit a report on such transactions to the Supervisory Board at least once in every three months.

- assess the concordance of the prices of the products and services offered by the Bank with the accepted risk level, in compliance with the business policy and the development plan of the Bank and
- approves exposures to entities exceeding 10% to 20% of the Bank's own funds,
- assesses whether the remuneration system takes into account the bank's risk profile and its solvent, liquidity and profitable position

The Risk Management Committee meets at least once a week or more frequently upon request of the Supervisory Board or of at least two of its members.

Decisions brought by the Risk Management Committee will be considered valid only when brought by simple majority of the members of the Risk management committee. Minutes will be made for the conducted meetings that will be kept in electronic form or in hard copy in chronological order by the Risk Management Department.

The **Audit Committee** of the Bank consists of the following five members:

- Christian Edgardo Dagrosa
- Jovanka Joleska Popovska
- Elena Naumovska
- Jordan Damcevski and
- Krsto Nestorov.

Mr. Christian Edgardo Dagrosa during 2023 was chairperson of the Audit committee, Mr. Jordan Damchevski and Mr. Krsto Nestorov are independent members of the Audit committee, as stipulated by the Law on Banks, Mr. Krsto Nestorov is authorized auditor.

Audit committee members are elected for period of their mandate in the Supervisory Board of the bank, except of the independent members who are appointed with no period limitation, i.e. all memebers hold the position of a Audit committee member until decision for their succession.

In 2023, based on consent of the Governor of the National Bank of RNM with which Mr. Christian Edgardo Dagrosa was appointed as a member of the Supervisory Board of the Bank, he was also appointed as a Audit committee member.

Three of the members of the Audit Committee are elected from among the members of the Supervisory Board.

The Audit Committee performs the following duties:

- reviews the financial statements of the Bank and ensures that the disclosed financial information on the Bank's operations is accurate and transparent, as specified by the accounting regulations and international accounting standards,
- reviews and makes assessments of the internal control systems,
- monitors the operations and assesses the efficiency of the Internal Audit Department,
- monitors the Bank's audit process and assesses the work of the audit firm,
- adopts the Bank's accounting policies,

- monitors the compliance of the Bank's operations with the regulations related to the accounting standards and the financial statements,
- holds meetings with the Managing Board, the Internal Audit Department and the audit firm as to the identified instances of non-compliance with the regulations and weaknesses in the Bank's operations,
- discusses the reports of the Risk Management Committee,
- proposes appointment of an audit firm and cancellation of the already signed agreement with the audit firm;
- reports to the Bank's Supervisory Board on its operations at least once per quarter and
- at least once per year makes assessment of their work form the aspect of individual members and jointly.

The Audit Committee shall submit a semi-annual and annual report on its operations to the Bank's Supervisory Board.

2.2. Procedure for appointing and dismissing members and their qualifications

The procedure for appointing and dismissing members and their qualifications is based on the criteria which are relevant for the assessment of the qualifications of the members and other conditions defined in the Law on Banks and the Charter of the Bank.

When appointing the members of the Supervisory Board, the Bank's General Assembly of Shareholders takes great care to ensure that all members of this body have the requisite professional expertise and experience and also exhibit the personal qualities needed to successfully perform the obligations and responsibilities of a member of the Supervisory Board.

Members of the Managing Board, persons with special rights and responsibilities, or net debtors of the Bank may not be at the same time members of the Supervisory Board.

The members of the Supervisory Board are elected by the General Assembly of Shareholders for a period of four years, with the right of re-election. The Supervisory Board consists of five members out of which two are independent members of the Supervisory Board.

The General Assembly of Shareholders of the Bank may not appoint the Supervisory Board members without a prior consent of the Governor of the National Bank of the Republic of North Macedonia.

Management Board members are appointed by the Supervisory Board of the Bank for period of 4 years, with right to be re-appointed. The Supervisory Board of the Bank may not appoint a member of the Managing Board without a prior consent of the Governor of the National Bank of the Republic of North Macedonia.

When appointing the members of the Audit Committee, the Bank's Supervisory Board must ensure that the persons selected meet the following criteria:

- Members must have the requested professional expertise and experience and fully understand the role of the Audit Committee and its sphere of responsibility within the Bank;

- Members must be capable of making independent judgments and assessments and approach their work in an unbiased, objective manner;
- Members must be well acquainted with the Bank's operations and its products and services;
- Members must understand the risks to which the Bank is exposed;
- Members must be acquainted with the Bank's internal control systems and risk management policies;
- Members must have a good knowledge of accounting and auditing.

2.3. The criteria for independence for a member of the Supervisory Board and the Audit Committee

In accordance with the Law on Banks, ProCredit Bank strictly complies with the principle of independence in respect of the membership in the managing bodies and decision making process. The term "Independent member" as stipulated by Law on Banks and practice within the bank means:

- a member that is not employed or does not represent a person with special rights and responsibilities in the bank,
- a member that is not a shareholder with qualified holding in the bank or does not represent a shareholder with qualified holding in the bank,
- a member that does not work, or has not been working in an audit company over the last three years which at that time audited the operations of the bank,
- a member that has not got any financial interest or business relation with the bank in an amount exceeding Denar 3,000,000,00 annually, on average, over the last three years.

2.4. Defining of the material interest and business relations with the bank

Independent members of the Supervisory Board receive payment for the performance of their duties determined with the agreement for their appointment and travel expenses related to the performance of their duties are reimbursed.

2.5. The obligations and the responsibilities of the members of both Supervisory and Managing Board

The obligations and responsibilities of the members of both Supervisory Board and the Managing Board are set forth in detail in the Law on Banks and Bank's Charter.

The Supervisory Board supervises the operations of the Managing Board and approves the policies for conducting financial activities and supervises their implementation.

The Supervisory Board also performs the following activities:

- adopts the business policy and development plan of the bank and monitors its implementation
- prepare draft proposals for amendments to the Charter
- appoint and dismiss members of the Managing Board of the Bank

- appoint and dismiss members of the Audit Committee
- appoint and dismiss members of the Risk Management Committee
- adopts the financial plan of the Bank
- organize the Internal Audit Department
- approve the annual plan of the Internal Audit Department
- adopts the information security policy
- adopts the risk management policies of the Bank
- adopt Conflict of Interests Policy which identifies any possible conflict of interests and stipulates the measures and activities for prevention of the same
- adopt Remuneration Policy, in compliance with the business policy, the development plan, the financial plan and the Conflict of Interests Policy the Bank
- adopt and implement Policy on the manner of appointing, monitoring the operation of, and relieving of duty of, the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board
- at least once a year performs an assessment of their own work from the aspect of the individual members and collectively informs the bank's assembly about this;
- reviews the reports on the activities of the Managing Board of the Bank
- reviews the reports of the Audit Committee
- reviews the reports of the Risk Management Committee
- reviews the reports of the Compliance Department
- reviews the reports of the Internal Audit Department
- approves the annual account and the financial reports of the Bank
- approves policies applicable within the ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of North Macedonia and the standards of the National Bank
- decides on the establishment, relocation, opening and closing of the branches, subsidiaries, related entities and representative offices
- approves exposures to entities exceeding 20% of the Bank's own funds, with the exception of exposures based on purchase of securities issued by the National Bank and the Republic of North Macedonia
- approves transactions with related parties with the Bank in amounts exceeding MKD 6,000,000.00
- approves the acquisition of equity holdings and the purchase of securities for amounts greater than 5% of the Bank's own funds, other than the purchase of securities issued by the National Bank of the Republic of North Macedonia
- decides on the issuance of securities, including bonds, except shares
- prepares and submits to the General Assembly proposals for the issuance of shares

- approves the proposal of the Audit Committee for appointment of an audit firm or the recommendation for termination of the agreement with the audit firm and assume responsibility for ensuring that audits are conducted appropriately
- adopts the internal audit policy and procedures, monitor the procedures to ensure that they are appropriate, and monitor the efficiency of the operations of the Internal Audit Department
- reviews the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities to overcome the identified shortcomings and weaknesses in the Bank's operations,
- approves the annual report on the Bank's operations and submits a written opinion on said report to the Bank's General Assembly of Shareholders
- reviews the report of the audit firm and submits a written opinion on said report to the General Assembly of Shareholders
- adopts the Code of Conduct of the Bank
- adopts the Code of Corporate Governance which regulates the rules for governance and supervision of the Bank
- decides on other issues as determined by the law.

The Managing Board of the Bank is responsible for the lawful operation of the Bank.

The Managing Board of the Bank performs the following activities:

- manages the operations of the Bank
- represents the Bank
- carries out the decisions of the General Assembly of Shareholders and the Supervisory Board of the Bank, i.e. ensures that they are implemented
- undertakes initiatives and submits proposals for improvement of the Bank's operations
- appoints and dismisses persons with special rights and obligations and adopts and implements Policy on the manner of appointment, monitoring the operation of, and the relieving of duty of, the persons with special rights and responsibilities, except the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board.
- prepares the business policy and development plan of the Bank
- prepares a financial plan for the Bank
- implements policies of ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of North Macedonia and the standards of the National Bank.
- prepares the information security policy of the Bank
- prepares an annual report on the Bank's operations and submits it to the Supervisory Board

- decides on granting or taking out loans/guarantees/guarantee schemes by the Bank, issuance of guarantees and other means of providing and issuing, booking and acquiring securities within the Bank's credit balance, in accordance with the law and decisions of the Shareholder's Assembly and the Supervisory Board, except for transactions for which the jurisdiction of the Assembly or the Supervisory Board is by law;
- implements the internal procedures of the Bank
- prepares a Code of Conduct for the Bank
- performs other tasks assigned to it by the Supervisory Board.

The Management Board is also responsible for:

- establishing the appropriate conditions for the operation of the Bank in accordance with the regulations
- monitoring and management of the risks that the Bank is exposed to in its operations
- attaining and maintaining an adequate level of own funds
- ensuring the smooth functioning of the internal control system in all the areas of the bank's operations
- ensuring the smooth functioning of the Internal Audit Department of the Bank on an ongoing basis, i.e. ensuring that the Internal Audit Department has the necessary access to documentation and to the employees of the Bank to allow it to implement its activities on an ongoing basis
- smooth operating of the Compliance Department i.e. ensures that the compliance officer, i.e. the department has access to the documentation and to the employees of the bank for the purpose of uninterrupted conducting of their authorizations
- keeping the trade and other books and business documentation of the Bank and preparing financial and other reports in accordance with the accounting regulations and accounting standards
- ensuring timely and accurate financial reporting
- ensuring the timeliness and accuracy of the reports submitted to the National Bank of the Republic of North Macedonia in accordance with the law and the regulations pursuant to the law; and
- implementing any measures imposed on the Bank by the Governor.

2.6. The functions of the members of the Supervisory Board outside

The members of the Supervisory Board take care to ensure that any activities in which they are engaged outside the Bank, regardless of whether or not they receive compensation for these activities, do not adversely affect their ability to perform their duties and do not damage the Bank's public image.

The functions of the members of the Supervisory Board of ProCredit Bank outside are the following:

- Jovanka Joleska Popovska - ProCredit Reporting DOOEL – consultant, analyst
- Christian Edgardo Dagrosa - ProCredit Holding AG– Member of the Managing Board
- Driss Nor – DOOEN foundation – executive director
- Kaspar Baumann - Clarmondial AG at Weinrebenstrasse 20, 8708 Männedorf, Switzerland- manager
- Elena Naumovska – Associate Professor at the University "St.Cyril and Methodius", Faculty of Economics -Skopje

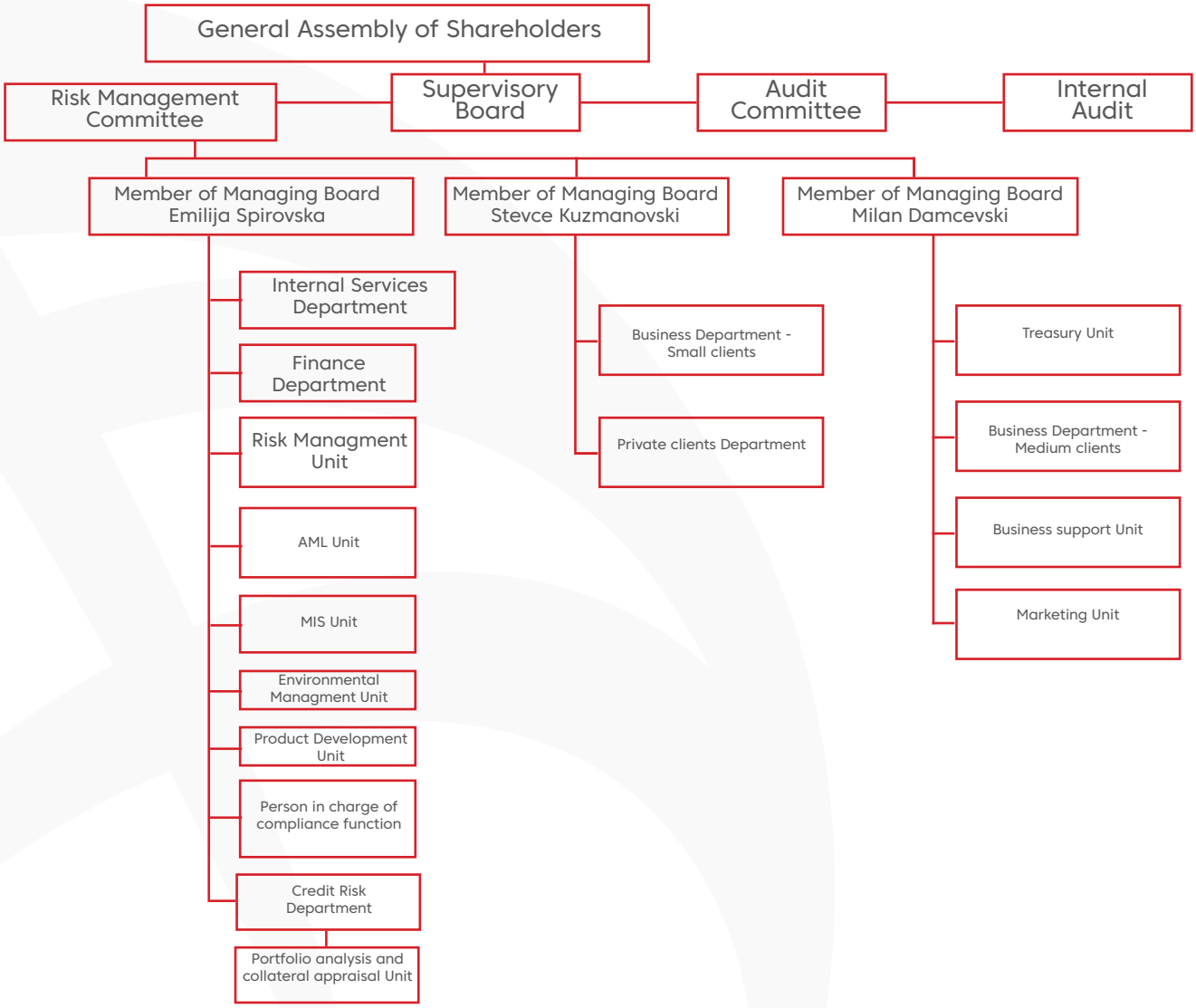
3. Information and data on the organizational structure of the bank

Most of the departments and units which carry out the Bank's activities are organised in Department that are directly supervised by the Managing Board. The organizational structure has been established so that it complies with the overall strategy of the Bank and in order to meet the objectives and goals in line with the Bank's business policy.

With the established organizational structure of the bank, the responsibilities and lines of responsibility, cooperation and exchange of information are precisely defined, where there is a clear segregation between the persons and the organizational units responsible for risk management of the persons and organizational units responsible for undertaking the risks. The division line is on the entire organizational structure up to, including, the Managing Board.

The changes in the organizational structure are presented at the regular meetings of the Supervisory Board by the members of the Managing Board. Each change in the structure is illustrated as a quality measure affecting the efficiency and the effectiveness of the Bank's operations. Based on the presentation and assessment of the effect over the banking operations, the Supervisory Board approves the organizational structure.

As of 31 December 2023, the organizational chart is as follows:



The Remuneration Policy contains clear and transparent rules and criteria for determining the total amount of compensation and, in particular, rules and criteria for clear determination of compensation according to the salary structure of the Bank. In principle, according to the Bank's pay structure, the employees, including also the members of the Managing Board, the persons with special rights and responsibilities and the other Bank employees receive fixed compensation (compensation in the form of salary). The Remuneration Policy also defines the principles and the circumstances when compensation may be variable, which depends on the long-term success in accomplishing the tasks and duties, at the same time taking into consideration the specific risk level. The independent members of the Supervisory Board are entitled to remuneration for their participation and work at the sessions, the amount of which is stipulated in the agreement for their appointment.

4. Information and data on the bank's conflict of interests prevention policy

ProCredit Bank endeavour to prevent conflicts of interest from arising and to ensure that internal information is not used in an inappropriate manner.

ProCredit Bank implements the following measures for avoiding conflict of interests:

- avoiding any situation that would lead to conflict of interest or occurrence of a conflict of interest.
- it is forbidden to undertake activities within the regular operation of the bank from which the employee may personally have additional financial interest.
- it is prohibited from participating in Bank matters that involve the financial interests of employees' family; partner; or an organization of which employee serve as an officer,director, trustee, or employee.
- it is not allowed to accept gifts, meals, favours, services, entertainment, or anything else of monetary value from any person or organization that seeks action by the Bank, does business with or seeks to do business with the Bank, or may be affected by your work at ProCredit Bank.
- Employees do not participate in the hiring process of new staff if the candidate is a relative or friend of such employee.

The employees of the Bank should report any situations in which a conflict of interest might occur.

A written statement shall be submitted regarding any conflicts of interest prior to the meeting of the relevant body at which the transaction in question is to be dealt with in order to permit a thorough review of the situation before a decision is taken, an agreement is concluded or a business activity is initiated. The written statement shall be submitted to both the Supervisory Board and the Managing Board of the Bank, and it shall describe the precise nature of the conflict between the personal interests of the respective member of the Managing Board and the interests of the Bank and explain how it originated.

If a member of the Supervisory Board finds that he/she is in a situation involving a conflict of interest, or can anticipate that he/she will become involved in a situation of this type at some point in the future, he/she shall report this information to the chairperson of the Supervisory Board in a timely manner.

5. Information related to the outsourcing services

"Outsourcing services" implies the transfer of the rights that the Bank has to another entity (legal/private person) to carry out activities and processes relating to banking, financial and other services usually performed within the Bank. The use of services by external persons by the Bank is governed in details by the Outsourcing Policy of the bank.ProCredit Bank AD Skopje has established a system for managing the outsourcing services. For the Bank to transfer the right of another entity to carry out activities and processes by external persons, it is necessary for it to carry out a detailed risk analysis beforehand and to approve such transfer by the Bank's Management Board. The service transferred to external persons is integrated into the established control system in the scope of the risk management system.

The bank uses a total of 14 services from outsiders at the end of 2023, 4 of which are estimated material. On a regular basis, the quality of the outsourcing services is monitored, depending on the type of service, monitoring is done monthly, quarterly or annually. The quality of the services is reported at least once a quarter at a meeting of the Operational Risk Management committee, and is reported annually to ProCredit Holding.

6. Information related to enforcement of the Code of Corporate Governance

The Code of Corporate Governance (the Code) has been duly enforced in each aspect defined by it.

In this manner, during 2023 all procedures defined with the Code, specifically convening the General Assembly of shareholders, appointment of members of Supervisory Board were conducted as prescribed by the Code and the regulations related to these procedures.

In this manner, all criteria as set in the Code and the regulations were met.

Additionally, the co-operation between the Supervisory Board and the Managing Board was as set in the Code; especially in defining the Bank's business objectives; defining the strategies for ensuring sound risk management; determining the Bank's risk profile; establishment of policies to enable the Bank to achieve its goals and the objectives which are defined with regard to its risk profile; holding regular meetings (at least once per quarter); circulating proposals for measures to improve the Bank's corporate governance etc.

The Managing Board has provided the Supervisory Board with all reports and has fulfilled the requirements from the Supervisory Board.

The Internal Audit Department and the compliance function of the Bank's operate with the regulations defined in the Code and the legal framework.


ProCredit Bank

PROCREDIT BANK AD SKOPJE

Financial Statements

for the year ended 31 December 2023

With the Independent auditor's report thereon

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PROCREDIT BANK AD SKOPJE

Independent auditor's report

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Blvd. Jane Sandanski, No. 111
1000 Skopje
Republic of North Macedonia

To
The shareholder of
ProCredit Bank AD Skopje

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of ProCredit Bank AD Skopje ("the Bank"), which comprise the statement of financial position as of 31 December 2023, the statements of profit or loss and other comprehensive income, statement of changes in equity and a statement of cash flows, for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing adopted and published in the Official Gazette of the Republic of North Macedonia no. 79 from 11 June 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Blvd. Jane Sandanski, No. 111
1000 Skopje
Republic of North Macedonia

To
The shareholder of
ProCredit Bank AD Skopje

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Skopje, 25 April 2024

Dragan Dimitrov, Certified auditor
Manager

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PROCREDIT BANK AD SKOPJE

Audited Financial Statements

ProCredit Bank AD Skopje

Financial Statements

for the year ended 31 December 2023

With the Independent auditor's report thereon

Statement of profit or loss

in '000 MKD	Note	01.01.-31.12.2023	01.01.-31.12.2022
Interest income (effective interest method)		1,956,432	1,133,743
Interest expenses		(616,267)	(355,705)
Net interest income	(24)	**1,340,165**	**778,038**
Fee and commission income		415,702	366,328
Fee and commission expenses		(189,730)	(155,478)
Net fee and commission income	(25)	**225,972**	**210,850**
Result from foreign exchange transactions	(26)	189,967	160,275
Result on derecognition of financial assets measured at amortised cost		18	114
Net other operating income (expense)	(27)	(6,396)	(80,667)
Operating income		**1,749,727**	**1,068,610**
Personnel expenses	(28)	(267,210)	(215,539)
Administrative expenses	(29)	(619,352)	(503,692)
Loss allowance	(30)	(202,864)	(46,513)
Profit before tax		**660,301**	**302,866**
Income tax expenses	(38)	(67,765)	(30,338)
Profit of the period		**592,535**	**272,528**

Statement of Other Comprehensive Income

in '000 MKD	Note	01.01.-31.12.2023	01.01.-31.12.2022
Profit of the period		**592,535**	**272,528**
Items that are or may be reclassified to profit or loss		**14,846**	**(11,411)**
Change in revaluation reserve		16,453	(12,695)
Change in value not recognised in profit or loss		16,062	(12,828)
Change in loss allowance (recognised in profit or loss)		391	133
*Change in deferred tax on revaluation reserve**		(1,606)	1,283
Other comprehensive income of the period, net of tax		**14,846**	**(11,411)**
Total comprehensive income of the period		**607,382**	**261,117**

**Previous year presentation and figures have been adapted to the current disclosure structure*

Statement of financial position

in '000 MKD

Assets	Note	31.12.2023	31.12.2022
Cash	(32)	522,060	602,300
Central bank balances	(32)	14,595,551	8,054,975
Loans and advances to banks	(33)	704,993	3,084,353
Investment securities	(34)	2,436,259	1,027,204
Loans and advances to customers	(35)	30,640,826	28,653,767
Property, plant and equipment	(36)	667,067	679,950
Intangible assets	(37)	1,104	1,749
Current tax assets	(38)	-	-
Other assets	(39)	187,613	183,292
Total assets		**49,755,471**	**42,287,590**
Liabilities			
Liabilities to banks	(41)	8,163,030	7,291,380
Liabilities to customers	(42)	35,881,241	29,954,254
Other liabilities	(43)	70,250	58,103
Provisions	(45)	31,196	22,216
Current tax liabilities	(38)	51,064	7,372
Deferred tax liabilities	(38)	23,705	24,109
Subordinated debt	(43)	687,418	687,371
Total liabilities		**44,907,904**	**38,044,805**
Equity			
Subscribed capital	(48)	1,708,148	1,710,748
Capital reserve (share premium)		74,633	74,633
Legal reserve	(48)	101,830	90,871
Retained earnings		2,961,868	2,380,291
Revaluation reserve		1,088	(13,758)
Total equity		**4,847,567**	**4,242,785**
Total equity and liabilities		**49,755,471**	**42,287,590**

The Bank's financial statements for the financial year ended 31 December 2023 were approved for issue by the Supervisory Board on April 23, 2024 and signed on their behalf by:

Emilija Spirovska
Member of Managing Board

Stevce Kuzmanovski
Member of Managing Board

Milan Damcevski
Member of Managing Board

ProCredit Bank AD - Skopje

Statement of Changes in Equity

in '000 MKD	Note	Subscribed capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total Equity
Balance as of 1 January 2023		**1,710,748**	**74,633**	**90,871**	**2,380,291**	**(13,758)**	**4,242,785**
Corrections on the initial balance		(2,600)	-	-	-	-	(2,600)
Restated balance as of 1 January 2023		**1,708,148**	**74,633**	**90,871**	**2,380,291**	**(13,758)**	**4,240,185**
Change in fair value reserve		-	-	-	-	14,846	14,846
Other comprehensive income of the period, net of tax		**-**	**-**	**-**	**-**	**14,846**	**14,846**
Profit of the period		-	-	-	592,535	-	592,535
Total comprehensive income of the period		-	-	-	592,535	14,846	607,381
Transfer to legal reserve		-	-	10,959	(10,959)	-	-
Distributed dividends		-	-	-	-	-	-
Balance as of 31 December 2023		**1,708,148**	**74,633**	**101,830**	**2,961,867**	**1,088**	**4.847,567**

in '000 MKD	Note	Subscribed capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total Equity
Balance as of 1 January 2022		**908,713**	**74,633**	**90,871**	**2,107,763**	**(2,347)**	**3,179,633**
Change in fair value reserve		-	-	-	-	(11,411)	(11,411)
Other comprehensive income of the period, net of tax		**-**	**-**	**-**	**-**	**(11,411)**	**(11,411)**
Profit of the period		-	-	-	272,528	-	272,528
Total comprehensive income of the period		-	-	-	272,528	(11,411)	261,117
Distributed dividends		-	-	-	-	-	-
Capital increase		802,035					802,035
Balance as of 31 December 2022		**1,710,748**	**74,633**	**90,871**	**2,380,291**	**(13,758)**	**4,242,785**

Cash Flow Statement

in '000 MKD	Note	01.01.-31.12.2023	01.01.-31.12.2022
Profit of the period		592,535	272,528
Income tax expenses (continuing operations)		67,765	30,338
Profit before tax (including discontinued operations)		**660,300**	**302,866**
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets		46,296	46,625
Gains / losses from disposal of fixed assets		(622)	310
Net Interest Income		(1,340,165)	(778,038)
Net Impairment losses of loans and advances		202,864	46,513
Subtotal		(431,327)	(381,724)
Net change in assets and liabilities from operating activities:			
Loans and advances to banks		(885,057)	(325,522)
Loans and advances to customers		(2,234,696)	(731,051)
Other assets from operating activities		(4,321)	88,542
Liabilities to banks (deposits only)		-	3,466
Liabilities to customers		5,955,431	3,800,556
Other liabilities from operating activities		41,728	(24,056)
Interest received		1,999,051	1,166,938
Interest paid		(568,870)	(304,321)
Income tax paid		(19,657)	(3,859)
Cash flow from operating activities		**3,852,282**	**3,288,969**
Proceeds from disposal of fixed assets		1,599	19,587
Payments for purchase of fixed assets		(33,744)	(58,971)
Investment securities acquired		(2,360,470)	(953,569)
Proceeds from sale of investment secirities		953,569	668,257
Cash flow from investing activities		**(1,439,046)**	**(324,696)**
Dividends paid		-	-
Proceeds from subordinated loans		-	(685,899)
Proceeds from borrowings		3,389,237	2,153,469
Payments of borrowings		(2,593,381)	(3,727,319)
Proceeds from capital increase		(2,600)	802,035
Lease payments		(10,576)	(10,491)
Cash flow from financing activities		**782,680**	**(1,468,205)**
Cash and cash equivalents at end of previous year		**8,924,627**	**7,428,558**
Cash flow from operating activities		3,852,282	3,288,969
Cash flow from investing activities		(1,439,046)	(324,696)
Cash flow from financing activities		782,680	(1,468,205)
Cash and cash equivalents at end of period	**(32)**	**12,120,546**	**8,924,627**

Notes to the Financial Statements

A. Basis of Preparation

1) Reporting entity and compliance with International Financial Reporting Standards
2) Compliance with local law
3) Comparative information
4) Use of judgements and estimates
5) Accounting developments

B. Summary of Significant Accounting Policies

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7) Financial instruments
8) Foreign currency translation
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14) Impairment of non-financial assets
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18) Post-employment benefits and other employee benefits
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25) Net fee and commission income
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28) Personnel expenses
29) Administrative expenses
30) Loss allowance
31) Earnings per share

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34) Investment securities
35) Loans and advances to customers

36) Property, plant and equipment
37) Intangible assets
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40) Pledged and transferred assets
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44) Other liabilities
45) Provisions
46) Maturities of assets and liabilites
47) Fair value of financial instruments
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E. Risk Management

49) Capital management
50) Management of individual risks
- Credit risk
- Counterparty risk, including issuer risk
- Foreign currency risk
- Interest rate risk
- Liquidity risk
- Funding risk
- Operational risk
- Risks arising from money laundering, terrorist financing and other acts punishable by law
- Other material risks

F. Additional Notes

51) Contingent liabilities and commitments
52) Related party transactions
53) Key management compensation
54) Significant post-balance sheet events
55) Exchange rates
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Notes to the Financial Statements

Basis of Preparation

1) Reporting entity and compliance with International Financial Reporting Standards

Reporting entity

ProCredit Bank AD Skopje ("the Bank") focuses on financing Small and Medium-sized Enterprises (SMEs) and on direct banking activities for private clients. Through its business activities the Bank aim to provide a sustainable return on investment for the shareholders while making a contribution to economic, social and ecological development. The parent company of the Bank is ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), domiciled at Rohmerplatz 33-37, 60486 Frankfurt am Main, Germany (Commercial Register Frankfurt, Section B No. 91858).

The Bank is licensed to perform all banking activities in accordance with the law. The main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

Compliance with International Financial Reporting Standards

These financial statements represent individual financial statements of the Bank in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Bank does not prepare consolidated financial statements.

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank.

Functional and presentation currency

All amounts are presented in thousands of Macedonian denars (MKD), unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

2) Compliance with local law

ProCredit Bank AD Skopje is a joint stock company. For supervisory purposes, ProCredit Bank AD qualifies as a Bank according to the Macedonian Banking Law and is therefore supervised by the National Bank of the Republic of North Macedonia (NBRNM).

The Supervisory Board approved the Bank's financial statements for the fiscal year 2023 for issue on April 23, 2024.

3) Use of judgements and estimates

The Bank's financial reporting and its financial results are influenced by accounting policies, assumptions, estimates, and management judgement, which necessarily have to be made in the course of preparing the financial statements.

All estimates and assumptions necessary for compliance with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and the management's judgement with respect to certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following position:

(a) Impairment of financial assets

By applying IFRS 9, loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all financial instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with different stages. The Bank reports the balance sheet items "Central bank balances", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the bank's accounting policy on loan loss provisioning can be found in Note (10) and Note (51).

4) Accounting developments

a) Standards, amendments and interpretations that are already effective

- Amendments to IAS 1 and to IFRS Practice Statement 2: "Making Materiality Judgements" have a negligible impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8: "Definition of accounting estimates" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 12: "Deferred Taxes related to Assets and Liabilities arising from a Single Transaction" have a minor impact on the measurement of deferred taxes. The amendments are effective for annual periods beginning on or after 1 January 2023.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on our financial statements: IFRS 17 "Insurance Contracts", amendments to IFRS 17 "Insurance Contracts" and amendments to IAS 12 "International Tax Reform - Pillar Two Model Rules".

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

- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" and "Non-current Liabilities with Covenants" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2024.
- Amendments to IFRS 16: "Lease Liability in a Sale and Leaseback" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2024.

- Amendments to IAS 7 and IFRS 7: “Supplier Finance Arrangements” have no impact on the financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 21: “Lack of Exchangeability” have no impact on the financial statements. The amendments are, subject to the still pending EU endorsement, effective for annual periods beginning on or after 1 January 2025.

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

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5) Comparative information

In order to ensure consistency to the current year, the comparative information may be modified accordingly. The changes made are not material and are intended to improve comparability, except those described in detail in the notes, if any.

6) Measurement basis

Upon acquisition, financial instruments are measured at fair value. This is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are recognised in the statement of financial position subsequently either at (amortised) cost or fair value. In general, financial instruments at fair value are measured on a recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.
The Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

(a) Active market: Quoted price (Level 1)

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

(b) Valuation technique using observable inputs (Level 2)

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and valuation techniques using observable market parameters. Each subsidiary applies individual observable interest and exchange rates that are provided by the local central banks, among other bodies.

(c) Valuation technique with significant non-observable inputs (Level 3)

Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit Group Funding interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

7) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity. The financial assets of our group are mainly debt instruments, with only a small proportion consisting of equity instruments. Equity instruments are recognised at fair value through other comprehensive income. For debt instruments, IFRS 9 is based on a consistent approach to classify and measure financial assets according to the underlying business model in which the financial assets are managed and to their cash flow characteristics.

We differentiate between the following business models:

- “Hold to collect”: the financial assets are held with the aim of collecting the contractual cash flows.
- “Hold to collect and sell”: the financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets.
- "Other": this business model is used for financial assets that are neither allocated to the “hold to collect" business model nor to the "hold to collect and sell" business model.

Our business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. We take the following criteria, among others, into account:

- our business strategy and risk strategy,
- the way in which the development of the business model is evaluated and reported to our Management and Supervisory Board,
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the “hold to collect” business model are: “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers” and “Other assets”. “Investment securities” are allocated to the “hold to collect” or the “hold to collect and sell” business model.

Subsequent recognition of financial liabilities is at amortised cost; only derivative financial liabilities are recognised at fair value through profit or loss.

a) Financial assets and liabilities at amortised cost

A financial asset is classified “at amortised cost” when the financial asset is assigned to the “hold to collect” business model with the objective to solely collect contractual cash flows through interest and principal payments (SPPI conform). The review of the SPPI criterion is a discretionary decision of the Management.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Expected credit losses (ECL) are recognised using a three-stage model (see note 12)). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been substantially modified, or we have transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is settled, cancelled or expired.

b) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income

A financial asset is classified and recognised as “Fair Value through Other Comprehensive Income” (“FVOCI”), if the financial asset is allocated to the “hold to collect and sell” business model.

In general, part of “Investment securities” are allocated to this business model. The cash flow criterion is checked individually. Investment securities of the ProCredit group fulfil the cash flow criterion (SPPI conform) but can be sold if required. Furthermore, a small amount of shares included under the balance sheet position “Other assets” are classified as FVOCI. There is no intention to trade or sell these shares.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Statement of Other Comprehensive Income under “Revaluation reserve”. If the financial asset is derecognised (see note 12 for details on impairment), the cumulative gain or loss previously recognised in the “Revaluation reserve” is recognised in the Statement of Profit or Loss. Interest calculated using the effective interest rate method and foreign currency gains and losses on

monetary assets classified as FVOCI financial instruments are recognised in the Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or been significantly modified, or when we have transferred substantially all risks and rewards of ownership.

c) Financial assets and financial liabilities at fair value through profit or loss

Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Derivative financial liabilities”. We designate certain derivatives as hedging instruments in qualifying hedging relationships (hedge accounting) in accordance with IFRS 9. At the inception of the hedging relationship, we formally document the relationship between the hedging instrument(s) and hedged item(s), including risk management objectives and strategies for undertaking the hedge, and the method of assessing effectiveness. We assess compliance with the effectiveness requirements both at the inception of the hedging relationship and on an ongoing basis.

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the Bank commits to purchase or sell the instrument. Subsequently, the financial instruments are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been significantly modified, or where the Bank has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is settled, cancelled or expired.

8) Foreign currency translation

(a) *Functional and presentation currency*
Items included in these financial statements are measured in Macedonian denars (MKD), which is the functional currency of the Bank.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign currency monetary assets and liabilities are translated using the closing exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss (result from foreign exchange transactions).

Foreign non-monetary items measured at amortised cost are translated with the historical exchange rate as at the date of the transaction.

The reporting exchange rates and average rates for the period used in the balance sheet and the income statement are listed in section (55) of these notes.

9) Cash and cash equivalents

Cash and central bank balances comprise cash on hand, treasury bills issued by Central Bank and balances at central banks that are highly liquid and readily convertible to cash with insignificant risk of changes in value and other bills eligible for discounting with central banks.

For the purposes of the cash flow statement, central bank balances comprise balances with less than three months' maturity from the date of acquisition. Restricted central bank balances (i.e. mandatory reserves) are deducted for cash flow purposes. Loans and advances to banks and amounts due from other banks with a maturity of less than three month like current accounts or nostro accounts, are accounted for in the respective accounts of the balance sheet position: "loans and advances to banks", but are included as cash for purposes of the cash flow statement.

10) Loans and advances to banks

The amounts reported under "Loans and advances to banks" consist mainly of loans and advances issued, allocated to the business model "hold to collect" (SPPI conform).

In addition to overnight and term deposits, the amounts reported under receivables from banks include nostro account balances.

All loans and advances to banks are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the expected life of the financial instrument in the income statement under "Net interest income".

For the purposes of the cash flow statement, claims to banks with original maturity of less than three months from the date of acquisition are recognised under "Cash and cash equivalents" (see note 32).

11) Loss allowance

We establish loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for investment securities recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for contingent liabilities. A three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, discretionary decisions are made when determining the probability of occurrence for various scenarios.

The Bank sets aside loss allowances for the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers", "Investment securities", for the financial assets under "Other assets" and for contingent liabilities. These are recognised at net value within the corresponding balance sheet position; the exceptions are "Investment securities"

recognised at fair value and contingent liabilities. The loss allowance for investment securities at fair value is recognised through profit or loss directly in shareholders' equity under "Revaluation reserve". Loss allowances for contingent liabilities are reported under the balance sheet position "Provisions".

Change in loss allowances

Recognition of loss allowances uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: All financial assets are allocated to Stage 1 upon recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). We establish loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as Stage 2 and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Impaired financial assets are classified as Stage 3 and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined individually on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised on the net book value (with consideration of loss allowances).

Financial assets which are already impaired at initial recognition (POCI) are reported as part of the impaired exposures. These financial assets are initially recognised at fair value and thus no loss allowances are established. In subsequent periods, changes in the expected loss over the entire remaining maturity are recognised as an expense in the Statement of Profit or Loss.

A non-substantial modification exists if a financial asset is modified without derecognition. The modification gain or loss is recognised in "Change in loss allowances". The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

Migration between the stages is possible in both directions (except for POCI), provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reduced.

For the "Other assets" position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date

in an amount equivalent to the expected credit losses during the total maturity period. For these short-term assets, the total maturity period has been simplified as 12 months.

Recoveries of written-off loans and direct write-offs

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

12) Intangible assets

(a) *Computer software*

Software is stated at acquisition or production cost less scheduled depreciation and impairment losses. The acquisition or production costs include all expenses to acquire or to develop and bring to use the specific software. Management makes the discretionary decision to amortise software on a straight-line basis over an expected useful life of up to five years. In addition, software is tested for impairment on an annual basis and in response to relevant events or changed circumstances. Moreover, impairment tests are performed for the cash-generating unit. Depreciation and impairment are recognised within “Administrative expenses”.

13) Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset’s carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period.

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

– Buildings	40 years
– Leasehold improvements	5 years
– Computers	4 years
– Furniture	5 years
– Motor vehicles	4 years
– Other	5 - 7 years

Depreciation and impairment are recognised within “Administrative expenses”.
The Bank does not hold investment property.

a) Repossessed properties

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. All subsequent impairment losses and reversals of impairment up to the original amount are recognised in the Statement of Profit or Loss in “Net other operating result”.

14) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying value exceeds its recoverable amount.

The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

15) Leases

(a) *ProCredit is the lessee*

The leases disclosed by the Bank are divided into finance lease and operating lease. As a lessee, the Bank leases branch and other premises. Under IFRS 16, the Bank recognises “right-of-use” assets under “Property, Plant and Equipment” and leasing liabilities under “Other liabilities” in the balance sheet for these leases.

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

Right-of-use asset (ROU asset) represents the Bank’s right to use an underlying asset for the lease term. Right to direct the use of an asset is the right to decide when, how and in which way the asset will be used.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, if any.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the bank's incremental borrowing rate. In general, the Bank uses its incremental borrowing rate as discount rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank determine incremental borrowing rate in a currency in which the lease payments are denominated.
Subsequently, the lease liability is measured at amortised cost using the effective interest rate method. The Bank measure the lease liability by reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications.

Additionaly, IFRS 16 contains two exemptions for lease contract to be classified as a lease: short-term leases, and leases for which the underlying asset is of low value. The Bank has elected not to recognise ROU assets and lease liabilities for short-term leases and leases of low-value. The term "low-value" is defined as any amount under EUR/USD 5.000 per item. Short-term leases are leases with a lease term of 12 months or less. The lease term also includes periods covered by an option to extend, or an option to terminate, if the lessee is reasonably certain to exercise the extension option, or not to exercise the termination option. A lease that contains purchase option is not a short-term lease. Short-term leases or leases based on assets of minor value are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the statement of profit or loss over the term of the lease.

(b) *ProCredit is the lessor*

The Bank does not act as lessor.

16) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date of 10%, and any adjustment to tax payable in respect of previous years.

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

However, the deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss, and does not give rise to equal taxable and deductible differences.

We recognise deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the current business planning and reflects the Management's view of future business prospects.

Changes of deferred taxes related to fair value re-measurement of investment securities are charged to the Statement of Other Comprehensive Income. The presentation in the Statement of Other Comprehensive Income is made on a gross basis.

17) Provisions

Provisions are established when we have a present legal or constructive obligation resulting from past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount of provisions represents the best possible estimate, taking into account estimation uncertainties regarding the amount to be paid or the probability of occurrence. The majority our obligations will be settled within a one-year period.

Provisions for post-employment benefits include obligations for staff pensions. Provisions for contingent liabilities include provisions for financial off-balance sheet transactions. Provisions for legal risks are mainly established for legal cases. Provisions for untaken vacation are established for employee vacation days still outstanding as of the reporting date. Provisions for unbilled services are established for services which have been provided but not yet invoiced as of the reporting date.

18) Post-employment benefits and other employee benefits

(a) Employee benefits

Employee benefits comprise all kinds of benefits provided for the Bank's employees. This item includes salaries and wages as well as social contribution and fringe benefits.

The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages according to the legislation requirements. The Bank makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments. The Bank pays contributions to public pension insurance fund on a mandatory basis.

Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in personnel expenses. The cost of these payments is charged to the income statement in the same period as the related salary cost. The Bank does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions to the employees. In addition, the Bank does not operate shared based compensation plan in exchange to the employee services provided.

(b) Other post-employment obligations

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement. There is no additional liability in respect of post retirement.

The long-term employee benefits are discounted to determine their present value.

19) Subordinated debt

Subordinated debt consists mainly of liabilities to shareholders, which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost.

20) Equity capital

Equity capital comprises of ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds as (negative) capital reserve.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the bank's shareholders.

21) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overs and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of: the amount initially recognised, less amortization of the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

22) Interest income and expense

Interest income and expenses are recognised in the Statement of Profit or Loss and reported on an accrual basis. Net interest income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in net interest income, but rather under "Loss allowance".

23) Fee and commission income and expenses

Fees are charges for services rendered by the bank. The Bank charges fees from banks and clients for services such as maintenance fee, transaction-based fees or product issuing fees. They are transaction-based and often computed as a fixed percentage of the transaction value.

Fees and commissions, which are integral part of the effective interest rate of financial instruments are included in the calculation of the effective interest rate and are amortized over the expected

life of the financial instrument. These fees and commissions are gradually differentiated and recognized as part of the amortized amount for the period, within interest income or expenses.

For fees and commissions which are not integral part of the effective interest rate, the Bank recognize revenue and respective expenses when the Bank satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

Fees received for performing significant activity are recognized as income / expenses when the respective activity has been performed.

Result for the financial year

24) Net interest income

	1.1-31.12.2023	1.1-31.12.2022
Interest income from		
Cash and central bank balances	225,748	25,711
Loans and advances to banks	60,775	6,511
Investment securities FVOCI	63,408	7,067
Loans and advances to customers	1,596,411	1,090,959
Prepayment penalty	10,091	3,495
Interest income (effective interest method)	**1,956,433**	**1,133,743**
Interest expenses on		
Liabilities to banks	(162,076)	(75,758)
Liabilities to customers	(420,585)	(203,042)
Interest expenses from unwinding provisions	(186)	-
Subordinated debt	(33,420)	(63,527)
Negative interest from assets	-	(13,378)
Interest expenses	**(616,267)**	**(355,705)**
Net interest income	**1,340,165**	**778,038**

25) Net fee and commission income

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
Fee and commission income from		
Payment services	150,560	124,986
Debit/credit cards	70,552	64,789
Account maintenance fee	130,081	126,741
Letters of credit and guarantees	45,724	34,761
Others	18,785	15,051
Fee and commission income	**415,702**	**366,328**
Fee and commission expenses on		
Payment services	(79,321)	(54,940)
Debit/credit cards	(79,279)	(68,121)
Account maintenance fee	(435)	(406)
Letters of credit and guarantees	(28,924)	(30,415)
Others	(1,771)	(1,596)
Fee and commission expenses	**(189,730)**	**(155,478)**
Net fee and commission income	**225,972**	**210,850**

The item “other fee and commission income” consists of transactions carried out on behalf of third parties.

26) Result from foreign exchange transactions

"Result from foreign exchange transactions" refers to the results of foreign exchange dealings with and for customers. The Bank is not engaged in any foreign currency trading on its own account. In addition, this position includes unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IFRS 9.

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
Currency exchange	187,293	159,442
Net gains and losses from FX revaluation	2,674	833
Total	**189,967**	**160,275**

27) Net other operating income/expense

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
Other operating income from		
Reversal of provisions	-	-
Repossessed properties	13,076	2,504
Sale of property, plant and equipment	862	1,524
Others	37,888	16,847
Other operating income	**51,826**	**20,875**
Other operating expenses for		
Deposit insurance	(28,483)	(24,414)
Disposal of property, plant and equipment	(239)	(1,834)
Impairment of repossessed properties	(16,041)	(29,082)
Administration of repossessed properties	(622)	(2,227)
Others	(12,837)	(43,985)
Other operating expenses	**(58,222)**	**(101,542)**
Net other operating result	**(6,396)**	**(80,667)**

28) Personnel expenses and employees

Personnel expenses can be broken down as follows:

in '000 MKD	1.1.-31.12.2023	1.1-31.12.2022
Salary expenses	(263,278)	(213,477)
Post-employment benefits plans (Defined benefit plans)	(2)	(2,584)
Other employee benefits	(3,930)	(4,646)
Personnel expenses	**(267,210)**	**(215,539)**

29) Administrative expenses

"Administrative expenses" include the following items:

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
Depreciation fixed and intangible assets (incl. Impairment)	(46,296)	(46,625)
IT expenses	(252,877)	(208,205)
Office space-related expenses	(74,236)	(70,099)
Non-profit tax	(54,611)	(43,513)
Legal and consulting fees	(32,673)	(32,542)
Marketing, advertising and representation	(48,589)	(24,006)
Transport	(12,594)	(7,013)
Recruitment and other personnel-related expenses	(78,104)	(61,667)
Insurances	(8,397)	(5,882)
Lease expenses	(2,171)	(1,495)
Other administrative expenses	(8,804)	(2,645)
Administrative expenses	**(619,352)**	**(503,692)**

Of the total administrative expenses, MKD 26,409 thousand (2022: MKD 18,790 thousand) was incurred for staff training.

30) Loss allowance

Risk provisioning on loans and advances to customers is reflected in the income statement as follows:

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
Change in loss allowances	(229,705)	(72,156)
Recovery of written-off loans	26,841	26,986
Direct write-offs	-	(1,343)
Loss allowance	**(202,864)**	**(46,513)**

31) Earnings per share

in '000 MKD	1.1-31.12.2023	1.1-31.12.2022
Profit of the period	592,535	272,528
Profit attributable to ProCredit shareholders	*592,535*	*272,528*
Weighted average number of ordinary shares	5,557,351	5,557,351
Earnings per share	**0,1**	**0,05**

Notes to the Statement of Financial Position

32) Cash and Central Bank balances

in '000 MKD	31.12.2023	31.12.2022
Cash in hand	522,060	602,300
Balances at Central Banks	14,012,045	7,515,062
Treasury bills with original maturity of less than three months	585,930	541,788
Loss allowance for central banks	(2,425)	(1,875)
Cash and central bank balances	**15,117,610**	**8,657,275**
Loans and advances to banks with a maturity up to 3 months	704,993	3,084,353
Minumum reserve, which does not qualify as cash for the statement of cash flows	(3,702,058)	(2,817,001)
Total cash and balances with the Central Bank	**12,120,545**	**8,924,627**

Treasury bills are issued by National Bank of North Macedonia and can be traded on the secondary market. These bills are with original maturity of 28-49 days and interest rate is 6,30% (2022: 4,75%).

Mandatory reserve is calculated based on the average balance of deposit liabilities as defined in the Decision of Mandatory reserve issued by National Bank of North Macedonia. The amount of mandatory reserve in MKD is 1,279,333 MKD thousand as of 31.12.2023 (2022: 1,150,432 MKD thousand), while in foreign currency the amount of mandatory reserve is 2,422,725 MKD thousand (2022: 1,667,570 MKD thousand). Mandatory reserve in MKD is non-interest bearing, while for mandatory reserve in foreign currency the Bank pays/receives compensation at the rate equal to the lower of 0% and the interest rate of the available overnight deposit of the European Central Bank.

Loans and advances to Banks with original maturity up to three months, which qualify as cash and cash equivalents are sign deposits on nostro accounts, unrestricted demand deposits and placements with other banks and financial institutions with the original maturity less than three months.

The changes in cash and cash equivalents and the respective loss allowances are presented in the following tables:

in '000 MKD	31.12.2023	31.12.2022
Gross outstanding amount as of 1 January	8,659,150	7,008,297
New financial assets originated	5,203,069	3,937,918
Derecognition	(3,939,200)	(1,808,135)
Change in exposure and exchange rate movements	5,194,594	478,930
Gross outstanding amount as of 31 December	**15,117,613**	**8,659,150**

in '000 MKD	31.12.2023	31.12.2022
Loss allowances as of 1 January	(1,875)	(1,638)
New financial assets originated	(26)	(35)
Release due to derecognition	**35**	15
Change in credit risk	(559)	(217)
Loss allowances as of 31 December	**(2,425)**	**(1,875)**

33) Loans and advances to Banks

Loans and advances to Banks are as follows:

in '000 MKD	31.12.2023	31.12.2022
up to three months	704,993	3,084,353
Loans and advances to banks	**704,993**	**3,084,353**

The changes in loans and advances to banks and the respective loss allowances are presented in the following tables. All loans and advances to banks are classified as Stage 1.

in '000 MKD	31.12.2023	31.12.2022
Gross outstanding amount as of 1 January	3,084,494	2,913,385
New financial assets originated	189	1,084,671
Derecognition	(1,076,399)	(338,949)
Change in exposure and exchange rate movements	(1,303,291)	(574,613)
Gross outstanding amount as of 31 December	**704,993**	**3,084,494**

in '000 MKD	31.12.2023	31.12.2022
Loss allowances as of 1 January	(141)	(7)
New financial assets originated	-	(139)
Release due to derecognition	141	4
Change in credit risk	-	1
Loss allowances as of 31 December	**-**	**(141)**

34) Investment securities

in '000 MKD	31.12.2023 Investment securities at FVOCI	31.12.2022 Investment securities at FVOCI
Fixed interest rate securities	2,436,259	1,027,204
Investment securities	**2,436,259**	**1,027,204**

This balance sheet item includes bills issued by Ministry of finance, in amount of 2,360,470 MKD thousand (2022: 953,569 thousand), with original maturity of up to 1 year and interest rates from 3.50% to 4.25% and Eurobonds, issued by Ministry of Finance of Republic of North Macedonia, in net amount of 75,789 thousand (2022: 73,635 thousand), with nominal coupon rate of 3.675% and maturity in June 2026.

The changes in investment securities and the respective loss allowances are presented in the following tables. All investment securities are classified in Stage 1.

in '000 MKD	31.12.2023 Investment securities at FVOCI	31.12.2022 Investment securities at FVOCI
Gross outstanding amount as of 1 January	1,027,204	754,427
New financial assets originated	2,360,470	953,569
Derecognition	(953,569)	(668,257)
Change in exposure and exchange rate movements	2,154	(12,535)
Gross outstanding amount as of 31 December	**2,436,259**	**1,027,204**

in '000 MKD	31.12.2023 Investment securities at FVOCI	31.12.2022 Investment securities at FVOCI
Loss allowances as of 1 January	(387)	(254)
New financial assets originated	(732)	(342)
Release due to derecognition	341	209
Loss allowances as of 31 December	**(778)**	**(387)**

The Bank is making regular revaluation of the Fair Value of these investments according to the values calculated with a valuation technique based on currently observable market data. The revaluation reserve for investment securities in equity in other comprehensive income shows the following changes:

in '000 MKD	31.12.2023	31.12.2022
Revaluation reserve as of 1 January	**(13,758)**	**(2,346)**
Changes in fair value	16,062	(12,828)
Change in loss allowance	391	133
Deferred taxes	(1,606)	1,283
Revaluation reserve as of 31 December	**1,089**	**(13,758)**

35) Loans and advances to customers

	31.12.2023			
in '000 MKD	**Gross outstanding amount**	**Loss allowance**	**Net outstanding amount**	**Share of total portfolio**
Business loans	**27,223,612**	**(488,129)**	**26,735,483**	**87.25%**
Wholesale and retail trade	9,154,273	(86,696)	9,067,577	29.59%
Agriculture, forestry and fishing	1,602,025	(21,303)	1,580,722	5.16%
Production	6,548,173	(270,985)	6,277,188	20.49%
Transportation and storage	2,202,160	(16,429)	2,185,731	7.13%
Electricity, gas, steam and air conditioning supply	1,385,791	(6,344)	1,379,447	4.5%
Construction and real estate	4,257,677	(30,372)	4,227,305	13.8%
Hotel, restaurant and catering	644,475	(35,608)	608,868	1.99%
Other economic activities	1,429,038	(20,393)	1,408,645	4.6%
Private loans	**3,995,908**	**(90,565)**	**3,905,343**	**12.75%**
Housing	2,185,289	(30,033)	2,155,256	7.03%
Investment loans	395,156	(11,553)	383,603	1.25%
Consumer loans	1,415,464	(48,979)	1,366,484	4.46%
Total	**31,219,520**	**(578,694)**	**30,640,826**	**100.0%**

	31.12.2022			
in '000 MKD	**Gross outstanding amount**	**Loss allowance**	**Net outstanding amount**	**Share of total portfolio**
Business loans	**26,129,320**	**(410,091)**	**25,719,230**	**89.8%**
Wholesale and retail trade	8,751,480	(72,434)	8,679,046	30.3%
Agriculture, forestry and fishing	1,758,106	(28,102)	1,730,004	6.0%
Production	6,809,773	(197,166)	6,612,607	23.1%
Transportation and storage	2,016,527	(41,370)	1,975,158	6.9%
Electricity, gas, steam and air conditioning supply	475,265	(4,707)	470,557	1.6%
Construction and real estate	3,954,655	(26,541)	3,928,114	13.7%
Hotel, restaurant and catering	681,550	(10,332)	671,218	2.3%
Other economic activities	1,681,964	(29,438)	1,652,526	5.8%
Private loans	**3,030,551**	**(96,014)**	**2,934,537**	**10.2%**
Housing	1,762,144	(36,615)	1,725,529	6.0%
Investment loans	399,253	(16,318)	382,935	1.3%
Consumer loans	869,154	(43,081)	826,073	2.9%
Total	**29,159,871**	**(506,104)**	**28,653,767**	**100.0%**

The tables below are showing movements in Gross outstanding amounts and Loss allowances by Stage for 2023 and 2022.

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January 2023	**27,917,885**	**713,711**	**527,568**	**707**	**29,159,871**
New financial assets originated	12,277,655	-	-	-	**12,277,655**
Modification of contractual cash flows of financial assets	15,790	1,285	529	-	**17,604**
Derecognitions	(3,485,173)	(146,388)	(59,604)	(137)	**(3,691,302)**
Write-offs	-	-	(176,682)	-	**(176,682)**
Changes in interest accrual	53,144	4,705	6,716	10	**64,575**
Changes in the principal and disbursement fee	(6,034,338)	(301,740)	(95,866)	(43)	**(6,431,987)**
Transfers to stage 1	504,363	(490,177)	(14,187)	-	**-**
Transfers to stage 2	(1,679,261)	1,682,422	(3,162)	-	**-**
Transfers to stage 3	(150)	(438,351)	438,501	-	**-**
Foreign exchange and other movements	(5,152)	(1,532)	6,471	-	**(213)**
Gross outstanding amount as of 31 December 2023	**29,564,763**	**1,023,936**	**630,286**	**536**	**31,219,520**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1 January 2023	**(181,929)**	**(36,932)**	**(287,243)**	**-**	**(506,104)**
New financial assets originated	(86,627)	-	-	-	**(86,627)**
Release due to derecognition	14,790	3,291	33,791	-	**51,871**
Transfers to Stage 1	(7,286)	6,706	580	-	**-**
Transfers to Stage 2	24,369	(24,476)	107	-	**-**
Transfers to Stage 3	4	14,960	(14,964)	-	**-**
Change in credit risk	46,248	(5,156)	(254,874)	-	**(213,783)**
Usage of allowance	-	-	176,682	-	**176,682**
Foreign exchange and other movements	(26)	(3)	(704)	-	**(734)**
Loss allowances as of 31 December 2023	**(190,458)**	**(41,610)**	**(346,624)**	**-**	**(578,694)**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January 2022	**27,435,300**	**482,063**	**519,018**	**1,827**	**28,438,208**
New financial assets originated	8,822,610	-	-	610	**8,823,220**
Modification of contractual cash flows of financial assets	50	(45)	(3)	-	**2**
Derecognitions	(3,245,999)	(53,364)	(27,640)	-	**(3,327,004)**
Write-offs	-	-	(17,319)	(1,637)	**(18,955)**
Changes in interest accrual	18,842	1,121	10,161	-	**30,124**
Changes in the principal and disbursement fee	(4,583,470)	(102,210)	(71,249)	(95)	**(4,757,025)**
Transfers to stage 1	119,807	(100,832)	(18,976)	-	**-**
Transfers to stage 2	(618,681)	627,309	(8,629)	-	**-**
Transfers to stage 3	(281)	(138,729)	139,011	-	**-**
Foreign exchange and other movements	(30,292)	(1,602)	3,195	2	**(28,698)**
Gross outstanding amount as of 31 December 2022	**27,917,885**	**713,711**	**527,568**	**707**	**29,159,871**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1 January 2022	**(177,740)**	**(28,840)**	**(241,664)**	**(74)**	**(448,318)**
New financial assets originated	(62,849)	-	-	-	**(62,849)**
Release due to derecognition	11,597	1,320	14,585	-	**27,503**
Transfers to Stage 1	(2,174)	1,691	483	-	**-**
Transfers to Stage 2	7,760	(8,151)	392	-	**-**
Transfers to Stage 3	6	5,321	(5,327)	-	**-**
Change in credit risk	41,227	(8,277)	(74,058)	-	**(41,108)**
Usage of allowance	-	-	17,539	74	**17,613**
Foreign exchange and other movements	244	4	807	-	**1,055**
Loss allowances as of 31 December 2022	**(181,929)**	**(36,932)**	**(287,243)**	**-**	**(506,104)**

All financial assets are allocated to Stage 1 at initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). The movements in line “New financial assets originated” in Stage 2 and Stage 3 refer to transfers of existing exposures to higher risk category due to increase in the risk classification after initial recognition during the financial year. Additionally, in this position are included overdrafts and credit lines withdrawn during the year from existing clients classified in Stage 2.

36) Property, plant and equipment

The development of property, plant and equipment was as follows:

in '000 MKD	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total
Total acquisition costs at January 1, 2023	**712,852**	**56,833**	**521,418**	-	**1,291,103**
Additions	-	11,774	21,970	-	33,744
Transfers	-	-	-	-	-
Disposals/Write offs	-	(7,210)	(10.954)	-	(18,164)
Total acquisition costs at December 31, 2023	**712,852**	**61,397**	**532,434**	**-**	**1,306,683**
Accumulated depreciation at January 1, 2023	**129,931**	**36,131**	**445,091**	-	**611,153**
Depreciation	15,291	9,563	20,797	-	45,652
Disposals/Write offs	-	(6,477)	(10,711)	-	(17,188)
Accumulated depreciation at December 31, 2023	**145,222**	**39,217**	**455,178**	**-**	**639,617**
Net book value at December 31, 2023	**567,630**	**22,180**	**77,256**	**-**	**667,067**

in '000 MKD	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total
Total acquisition costs at January 1, 2022	**758,259**	**56,833**	**472,744**	-	**1,287,836**
Additions	-	-	58,905	-	58,905
Transfers	-	-	-	-	-
Disposals/Write offs	(45,407)	-	(10.231)	-	(55,638)
Total acquisition costs at December 31, 2022	**712,852**	**56,833**	**521,418**	**-**	**1,291,103**
Accumulated depreciation at January 1, 2022	**141,253**	**26,891**	**433,835**	-	**601,979**
Depreciation	16,099	9,240	19,575	-	44,914
Disposals/Write offs	(27,421)	-	(8,319)	-	(35,740)
Accumulated depreciation at December 31, 2022	**129,931**	**36,131**	**445,091**	-	**611,153**
Net book value at December 31,2022	**582,921**	**20,702**	**76,327**	-	**679,950**

37) Intangible assets

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

in '000 MKD **Software**	**1.1-31.12.2023**	**1.1-31.12.2022**
Net book value at January 1	**1,749**	**3,393**
Total acquisition costs at January 1	61,790	61,724
Additions	-	228
Disposals	-	-
Total acquisition at December 31	**61,790**	**61,951**
Accumulated depreciation at January 1	(60,041)	(58,331)
Amortization	(645)	(1,710)
Disposals	-	(161)
Transfers	-	-
Accumulated depreciation at December 31	**(60,686)**	**(60,203)**
Net book value at December 31	**1,104**	**1,749**

38) Income taxes

The following table shows the main components of income tax expense:

in '000 MKD	**1.1-31.12.2023**	**1.1-31.12.2022**
Current tax	69,775	19,972
Deferred tax relating to origination and reversal of temporary differences	(2,010)	10,365
Income tax expenses	**67,765**	**30,338**
Deferred tax on revaluation reserve	(34)	1,572
Items charged or credited directly to equity	**(34)**	**1,572**
Total	**67,731**	**31,910**

Deferred tax assets and deferred tax liabilities result from taxable/deductible temporary differences, which arise between the carrying amount of an asset/liability in the balance sheet and its tax base (the amount that is attributed to that asset/liability for tax purposes). The table below shows the changes in deferred income taxes and the underlying business transactions:

in '000 MKD **Movement in deferred tax balances**	**1.1-31.12.2023**	**1.1-31.12.2022**
Net balance at January 1	(24,109)	(15,026)
- Recognised in OCI	(1,606)	1,283
- Recognised in profit or loss	2,010	(10,365)
Deferred tax assets/(liabilities)	**(23,705)**	**(24,109)**

Reconciliation of effective tax rate

in '000 MKD	31.12.2023	31.12.2023	31.12.2022	31.12.2022
Profit/(loss) before tax	%	**660,301**	%	**302,866**
Tax using the domestic tax rate	10.00%	66,030	10.00%	30,287
Non-tax deductible expenses	0.26%	1,735	1.32%	3,994
Tax incentive	(0.00%)	(-)	(1.30%)	(3,943)
Total income tax expense in profit and loss	**10.26%**	**67,765**	**10.02%**	**30,338**

in '000 MKD	31.12.2023	31.12.2022
Tax assets		
Current tax assets	-	-
Total	**-**	**-**

in '000 MKD	31.12.2023	31.12.2022
Tax liabilities		
Current tax liabilities	(51,064)	(7,372)
Deferred tax liabilities	(23,705)	(24,109)
Total	**(74,769)**	**(31,481)**

39) Other assets

in '000 MKD	31.12.2023	31.12.2022
Accounts receivable	8,985	25,470
Prepayments	48,310	19,762
Others	91,971	93,686
Loss allowance	(346)	(508)
Other financial assets	**148,921**	**138,410**
Repossessed properties	36,972	44,101
Inventory and assets to be sold	1,720	782
Other non-financial assets	**38,692**	**44,882**
Total	**187,613**	**183,292**

The changes in other financial instruments and the respective loss allowances are presented in the following tables. The simplified approach is used when establishing loss allowances.

Other financial assets

in '000 MKD	31.12.2023	31.12.2022
Gross outstanding amount as of 1 January	138,918	145,132
Change in exposure and exchange rate movements	10,349	(6,214)
Gross outstanding amount as of 31 December	**149,267**	**138,918**

Loss allowances other financial assets

in '000 MKD	31.12.2023	31.12.2022
Loss allowances as of 1 January	(508)	(529)
Change in credit risk	162	21
Loss allowances as of 31 December	**(346)**	**(508)**

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible.

Repossessed properties have net decrease by 7,128 MKD thousands (in 2022 there was net increase as of 74,167 MKD thousands).

Repossessed properties

in '000 MKD	31.12.2023	31.12.2022
Outstanding amount as of 1 January	44,101	118,268
Additions	28,903	20,041
Impairment	(9,378)	(23,782)
Disposal of Impairment in case of write-off and sale	33,012	39,307
Reversal of impairment	-	-
Sale (disposal at time of sale)	(59,666)	(109,733)
FX differences	-	-
Total	**36,972**	**44,101**

40) Pledged and transferred assets

	31.12.2023		31.12.2022	
in '000 MKD	Pledged assets that can be repledged or sold	Related liability	Pledged assets that can be repledged or sold	Related liability
Loans and advances to banks	-	-	-	-
Loans and advances to customers	1,981,960	2,658,693	2,100,678	2,776,795
Other assets	-	-	-	-
Total	**1,981,960**	**2,658,693**	**2,100,678**	**2,776,795**

The total volume of this item consist of pledged receivables toward clients for channelled loans funded from Development Bank of North Macedonia. The pledges would be exercised in case of default of interest or principal payment on the respective loans .The maturities of the pledges are in line with the related liabilities.

41) Liabilities to Banks

Balance of liabilities to banks consist of short term interbank loans, long term loans from ProCredit Bank Germany and loans received from domestic and international development banks. The table below shows outstanding balance of liabilities toward these institutions split by remaining maturity:

in '000 MKD	31.12.2023	31.12.2022
up to three months	935,705	213,022
up to one year	1,029,437	2,289,710
more than one year	6,197,889	4,788,648
Liabilities to banks	**8,163,030**	**7,291,380**

	31.12.2023	31.12.2022
Current	1,965,141	2,502,732
Non-current	6,197,889	4,788,648
Total	**8,163,030**	**7,291,380**

As of 31.12.2023 the following long term deposits and loans are outstanding:

1) Loans received from ProCredit Bank Germany:
   - Long term loan in amount of 2,400,000 EUR withdrawn on 30.10.2017, with maturity date 29.10.2027;
   - Long term loan in amount of 1,700,000 EUR withdrawn on 29.01.2018, with maturity date 31.01.2028;
   - Long term loan in amount of 1,700,000 EUR withdrawn on 20.02.2018, with maturity date 18.02.2028;

2) Loans received from Council of Europe Development Bank:
   - Long term loan with original principal in amount of 2,600,000 EUР withdrawn on 12.02.2019 with maturity date 12.02.2024. Outstanding liabilities as of 31.12.2023 are amounting to 260,000 EUR;
   - Long term loan with original principal in amount of 7,500,000 EUР withdrawn on 31.10.2022 with maturity date 31.10.2029. Outstanding liabilities as of 31.12.2023 are amounting to 6,428,752 EUR.

3) Loans received from European Investment Bank:
   - Long term loan with original principal in amount of 5,000,000 EUR withdrawn on 10.07.2015 with maturity date 12.07.2027. Outstanding liabilities as of 31.12.2023 are amounting to 2,352,941 EUR;
   - Long term loan with original principal in amount of 15,000,000 EUR withdrawn on 09.08.2021 with maturity date 09.08.2028. Outstanding liabilities as of 31.12.2023 are amounting to 13,636,363 EUR.

4) Loans received from European Bank for Reconstruction and Development:
   - Long term loan with original principal in amount of 5,000,000 EUR withdrawn on 23.12.2019 with maturity date 04.10.2026. Outstanding liabilities as of 31.12.2023 are amounting to 2,727,273 EUR;

- Long term loan with original principal in amount of 1,000,000 EUR based on agreement signed on 22.10.2019 withdrawn in 3 separate tranches during 2020. Outstanding liabilities as of 31.12.2023 are amounting to 636,364 EUR;
- Long term loan with original principal in amount of 2,500,000 EUR withdrawn on 12.03.2021 with maturity date 29.12.2027. Outstanding liabilities as of 31.12.2023 are amounting to 1,818,182 EUR;
- Long term loan with original principal in amount of 1,000,000 EUR withdrawn on 11.03.2021 with maturity date 29.12.2027. Outstanding liabilities as of 31.12.2023 are amounting to 727,273 EUR;
- Long term loan with original principal in amount of 2,000,000 EUR based on agreement signed on 06.09.2021 withdrawn in 2 separate tranches during 2021.Outstanding liabilities as of 31.12.2023 are amounting to 1,818,182 EUR;
- Long term loan with original principal in amount of 2,000,000 EUR withdrawn on 20.07.2022 with maturity date 17.05.2029. Outstanding liabilities as of 31.12.2023 are amounting to 2,000,000 EUR;
- Long term loan with original principal in amount of 1,500,000 EUR withdrawn on 25.01.2023 with maturity date 15.12.2029. Outstanding liabilities as of 31.12.2023 are amounting to 1,500,000 EUR;
- Long term loan with original principal in amount of 1,000,000 EUR withdrawn on 25.11.2023 with maturity date 11.09.2028. Outstanding liabilities as of 31.12.2023 are amounting to 1,000,000 EUR;
- Long term loan with original principal in amount of 3,500,000 EUR withdrawn on 21.12.2023 with maturity date 21.11.2028. Outstanding liabilities as of 31.12.2023 are amounting to 3,500,000 EUR;
- Long term loan with original principal in amount of 2,000,000 EUR withdrawn on 21.12.2023 with maturity date 21.11.2028. Outstanding liabilities as of 31.12.2023 are amounting to 2,000,000 EUR.

5) Loans received from European Fund for Southeast Europe:

- Loan term loan with original principal in amount of 10,000,000 EUR withdrawn in two separate tranches during 2023 on 15.09.2023 and 15.12.2023, with maturity date on 15.06.2028. Outstanding liabilities as of 31.12.2023 are amounting to 10,000,000 EUR.

6) Loans received from Development Bank of North Macedonia as follows:

a) Credit line for support of small and medium enterprises with outstanding balance of 4,727,727 EUR. Within this line the bank pays different interest rates as follows:
   - 1 loan in amount in amount of 77,727 EUR withdrawn in 2015 with maturity date in 2026;
   - 3 credit lines in amount in amount of 4,650,000 EUR withdrawn in 2016 and 2017 with maturity in 2027 and 2028.

b) Credit line for agricultural support with outstanding balance of 143,449 EUR withdrawn after 2011 and maturity date in 2026.

c) Credit line with funds from European Investment Bank with outstanding balance of 47,940,555 EUR withdrawn after 2019 and maturing in 2035.

Part of the outstanding borrowings in the amount of MKD 2,658,693 thousand (2022: MKD 2,776,795 thousand) are secured over loans and advances to customers with a carrying amount of MKD 1,981,960 thousand (2022: MKD MKD 2,100,678 thousand).

The changes in liabilities to banks are as follows:

		Cashflow			Non-cashflow		
in '000 MKD	31.12.2022	Cash out (principal)	Cash out (interest)	Cash in (principal)	Deferred fees and accrued interest	Foreign exchange movement	31.12.2023
Liabilites to banks	**7,291,380**	(2,593,381)	(173,297)	3,389,237	248,848	213	**8,163,030**
Total	**7,291,380**	**(2,593,381)**	**(173,297)**	**3,389,237**	**248,848**	**213**	**8,163,030**

42) Liabilities to customers

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

in '000 MKD	31.12.2023	31.12.2022
Current accounts	**20,723,303**	**16,837,753**
-private individuals	2,330,348	2,101,770
-legal entities	18,392,955	14,735,984
Savings accounts	**3,189,888**	**4,065,733**
-private individuals	3,189,888	4,065,733
Term deposit accounts	**11,713,934**	**8,646,639**
-private individuals	7,244,398	4,527,885
-legal entities	4,469,536	4,118,754
Other liabilities to customers	**254,115**	**404,129**
Total	**35,881,241**	**29,954,254**

Current	30,976,919	25,114,034
Non-current	4,904,322	4,840,220
Total	**35.881,241**	**29,954,254**

The category “legal entities” includes liabilities to commercial companies, non-governmental organisations (NGOs) and public-sector institutions.

43) Subordinated debt

The subordinated debt can be broken down as follows:

in '000 MKD	up to 3 months	3-12 months	1-5 years	more than 5 years	noncash-relevant	31.12.2023
Subordinated debt	-	10,973	-	676,445	-	687,418
Subordinated debt	**-**	**10,973**	**-**	**676,445**	**-**	**687,418**

The change in subordinated debt is as follows:

in '000 MKD	
Book value as of 31.12.2022	**687,371**
Cashflow	
Cash out	(33,363)
Cash in	-
Non-cashflow	
Deferred fees and accrued interest	33,420
Exchange rate movements	(9)
Book value as of 31.12.2023	**687,418**

The Bank uses Subordinated loans from ProCredit Holding in the amount of 11,000,000 EUR out of which:

- EUR 8,000,000 originated in 2015 with contractual maturity of ten years. On 24.02.2020 Amendment of the agreement was signed, for extension of the maturity for additional 5 years. Maturity date for this loan is 25.02.2030;
- EUR 3,000,000 originated in 2020 with contractual maturity of ten years. Maturity date for this loan is 25.09.2030.
-

The Bank repaid subordinated loans in amount of 10,000,000 EUR during 2022. Bank includes subordinated loans as part of Total Capital in capital adequacy calculation in Tier II.

44) Other liabilities

in '000 MKD	31.12.2023	31.12.2022
Liabilities for goods and services	2.351	629
Lease liabilities	23.336	21.957
Others	33.116	25,381
Deferred income	4.556	3.423
Non-income tax liability	6.890	6.713
Total	**70.250**	**58,103**

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

45) Provisions

The amount of provisions represents the best possible estimate, taking into account estimation uncertainties regarding the amount to be paid or the probability of occurrence. The majority our obligations will be settled within a one-year period.

in '000 MKD	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2023	**948**	**-**	**9,752**	**3,441**	**8,076**	**-**	**22,217**
Additions	1,294	4,355	10,440	-	3,326	560	**19,975**
Releases	-	-	-	-	(657)	-	**(657)**
Used	(948)	-	(9,752)	-	-	-	**(10,700)**
Change in credit risk	-	-	-	-	177	-	**177**
Exchange rate movements	-	-	-	-	(2)	-	**(2)**
Unwinding	-	-	-	186	-	-	**186**
Book Value as of 31.12.2023	**1,294**	**4,355**	**10,440**	**3,628**	**10,920**	**560**	**31,196**

in '000 MKD	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2022	**1,047**	**-**	**7,787**	**5,895**	**8,480**	**468**	**23,677**
Additions	948	-	9,752	-	4,403	-	**15,103**
Releases		-	-	(2,584)	(434)	-	**(3,018)**
Used	(1,048)	-	(7,787)	-	-	(468)	**(9,303)**
Change in credit risk	-	-	-	-	(4,373)	-	**(4,373)**
Exchange rate movements	-	-	-	-	-	-	**-**
Unwinding	-	-	-	130	-	-	**130**
Book Value as of 31.12.2022	**947**	**-**	**9,752**	**3,441**	**8,076**	**-**	**22,216**

"Other provisions" includes used provisions related to services already received and invoiced from Quipu for development of different kind of IT projects.

46) Maturities of assets and liabilities

In the following table, we show amounts for assets and liabilities that will be settled within twelve months (short term) and more than twelve months (long term) after the balance sheet date. Financial instruments without contractual maturities as well as cash and central bank balances are classified as short term. We classify the balance sheet items Property, plant and equipment, Intangible assets and Deferred tax assets/liabilities as long term.

in '000 MKD	Short-term	Long-term	31.12.2023	Short-term	Long-term	31.12.2022
Assets						
Cash	522,060	-	522,060	602,300	-	602,300
Central bank balances	14,595,551	-	14,595,551	8,054,975	-	8,054,975
Loans and advances to banks	704,993	-	704,993	3,084,353	-	3,084,353
Investment securities	2,362,176	74,082	2,436,259	955,275	71,929	1,027,204
Loans and advances to customers	12,976,081	17,664,744	30,640,826	17,151,227	11,502,540	28,653,767
Property, plant and equipment	-	667,067	667,067	-	679,951	679,951
Intangible assets	-	1,104	1,104	-	1,749	1,749
Current tax assets	-	-	-	-	-	-
Other assets	187,613	-	187,613	183,292	-	183,292
Total assets	**31,348,474**	**18,406,997**	**49,755,471**	**30,031,422**	**12,256,168**	**42,287,590**
Liabilities						
Liabilities to banks	1,982,104	6,180,926	8,163,030	2,510,077	4,781,303	7,291,380
Liabilities to customers	31,223,268	4,657,972	35,881,241	25,114,034	4,840,220	29,954,254
Other liabilities	50,903	19,347	70,250	44,946	13,156	58,103
Provisions	23,851	7,345	31,196	15,307	6,909	22,217
Current tax liabilities	51,064	-	51,064	7,372	-	7,372
Deferred tax liabilities	-	23,705	23,705	-	24,109	24,109
Subordinated debt	10,973	676,425	687,418	10,946	676,425	687,371
with fixed interest rate	10,973	676,425	687,418	10,946	676,425	687,371
with variable interest rate	-	-	-	-	-	-
Total liabilities	**33,342,164**	**11,565,741**	**44,907,904**	**27,702,682**	**10,342,123**	**38,044,805**

47) Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank. The following table shows the distribution of fair values over the different fair value hierarchies:

in '000 MKD **31.12.2023**

Financial assets	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Central bank balances	AC	15,117,611	15,117,611	-	15,117,611	-
Loans and advances to banks	AC	704,993	704,993	-	704,993	-
Investment securities	FVOCI	2,436,259	2,436,259	75,789	2,360,470	-
Loans and advances to customers	AC	30,640,826	28,253,159	-	-	28,253,159
Other assets (Financial instruments)	AC	148,921	148,921		148,921	-

Financial liabilities	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Liabilities to banks	AC	8,163,030	6,989,525	-	1,762,238	5,227,287
Liabilities to customers	AC	35,881,241	35,727,022	-	24,167,700	11,559,322
Other liabilities	AC	70,250	70,250	-	70,250	-
Subordinated debt	AC	687,418	687,418	-	687,418	-

in '000 MKD **31.12.2022**

Financial assets	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Central bank balances	AC	8,657,275	8,657,275	-	8,657,275	-
Loans and advances to banks	AC	3,084,353	3,084,353		3,084,353	-
Investment securities	FVOCI	1,027,204	1,027,204	73,635	953,569	-
Loans and advances to customers	AC	28,653,767	27,374,603	-	-	27,374,603
Other assets (Financial instruments)	AC	138,410	138,410		138,410	-

Financial liabilities	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Liabilities to banks	AC	7,291,380	6,384,387	-	2,394,755	3,989,632
Liabilities to customers	AC	29,954,254	29,842,087	-	21,305,330	8,536,757
Other liabilities	AC	58,103	58,103	-	58,103	-
Subordinated debt	AC	687,371	687,371	-	687,371	-

48) Equity

As at December 31, 2023 the shareholder structure was as follows:

	31.12.2023			31.12.2022		
Shareholder	Size of stake in %	Number of shares	Amount (in '000 MKD)	Size of stake in %	Number of shares	Amount (in '000 MKD)
Procredit Holding AG, Frankfurt am Main, Germany	100.00%	5,557,351	1,708,148	100.00%	5,557,351	1,710,748
Total Voting Capital	**100.00%**	**5,557,351**	**1,708,148**	**100.00%**	**5,557,351**	**1,710,748**

	Subscribed capital		Number of ordinary shares	
	31.12.2023	**31.12.2022**	**31.12.2023**	**31.12.2022**
As of 1 January	1,708,148	1,710,748	5,557,351	5,557,351
As of 31 December	**1,708,148**	**1,710,748**	**5,557,351**	**5,557,351**

The Bank's share capital consists of 5,557,351 ordinary shares. All shares have a par value of 5 EUR (2022: 5 EUR). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

Legal reserve

Under local statutory legislation, the Bank is required to set aside 5 percent of its net profit for the year in a legal reserve until the level of the reserve reaches 1/10 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the legal reserve exceeds the minimum required level, and when all losses are covered, the legal reserve can also be used for distribution of dividends, based on a decision of the shareholders, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's statute.

Dividends

in '000 MKD	**31.12.2023**	**31.12.2022**
Dividends paid	-	-

No dividend liabilities have been provided for at the end of the year in statement of financial position.

The Bank has not declared any dividends after the balance sheet date.

Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The primary objective of the risk management function is managing the identified material risks with the help of established risk limits, and ensuring that the exposure stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

49) Capital management

Capital management is guided by the principle that the bank may not, at any time, incur greater risks than it is able to bear.

The principle of capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators include, in addition to regulatory standards, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of economic perspective.

The capital management framework of the Bank has the following objectives:

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the bank is able to act

The capital management of ProCredit bank is governed by group policies and monitored on a monthly basis by the Group Risk Management Committee.

Capital adequacy in the economic perspective

Ensuring that the bank maintains sufficient capitalisation in the economic perspective at all times is a key element of ProCredit's group-wide risk management and capital management processes. Capitalisation in the economic perspective was adequate at all times during the course of 2023. In the context of the economic perspective, the capital needs arising from bank's specific risk profile are compared with the available capital resources to assure that bank's capitalisation is at all times sufficient to match its risk profile. It is an ongoing process that raises group-wide awareness of our capital requirements and exposure to risks.

The methods the bank uses 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 bank's calculations is that the bank is able to withstand strong shock scenarios.

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

- Credit risk, comprising:
  - Costumer credit risk
  - Counterparty risk, including issuer risk
- Foreign currency risk
- Interest rate risk
- Operational risk

The bank's risk-taking potential (RTP), defined as the equity (net of intangibles and deferred tax assets), amounted to MKD 4,846 million as of the end of December 2023 (2022: MKD 4,917 million). As end of December 2023, the Management set the Resources Available to Cover Risk (RAtCR) at the amount of MKD 3,877 million (2022: MKD 2,950 million). This reflects the acceptable risk amount for the bank; moreover, taking account for the conservative risk tolerance, it was set below the bank's RTP in order to ensure the existence of a sufficient security buffer. The decrease in RTP resulted from methodological exclusion of subordinated debt from the calculation.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation. In the standard scenario, which is calculated with a 99.9% confidence level, the bank needs 50.8% of its RAtCR (2022: 64.6%) to cover its risk profile.

		31.12.2023	31.12.2022
in '000 MKD	**Limit**	**Limit Used**	**Limit Used**
Customer Credit & Counterparty Risk	2,471,696	1,621,039	1,505,207
Currency Risk	145,394	251	1,433
Interest rate Risk	630,040	212,324	275,742
Operational Risk	630,040	136,414	123,869
Total	**3,877,170**	**1,970,027**	**1,906,252**
Total limit used in %		**51%**	**65%**

Capital adequacy in the normative perspective

The normative perspective analyses whether regulatory and supervisory capital requirements have been met on a continuous basis. During the reporting period, all capital requirements were met at all times. Bank's capital ratios calculated in accordance to the CRR requirements are presented below:

	Limit	**31.12.2023**	**31.12.2022**
Common equity Tier 1 capital ratio	≥ 10%	17.1%	18.1%
Tier 1 capital ratio	≥ 11%	17.1%	18.1%
Total capital ratio	**≥ 13%**	**19.6%**	**21.0%**

As end of 2023, the CET1 ratio and Tier 1 ratio were at the level of 17.1%. The total capital ratio by the end of the year was at the level of 20%. The level of capitalisation of ProCredit bank is higher than the current policy and regulatory requirements.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. The minimum is set at 5% and as end of December 2023 the bank reported confortable leverage ratio of 9.0%.

in '000 MKD	**31.12.2023**	**31.12.2022**
Equity	4,726,736	4,219,611
Assets	52,764,180	44,875,346
Leverage ratio	**9.0%**	**9.4%**

50) Management of individual risks

The material risks for the ProCredit Bank are credit risk, market risks (foreign currency risk and interest rate risk), liquidity and funding risk, operational risk, risks arising from money laundering, terrorist financing and other acts punishable by law, business risk and model risk.

ESG risks are environmental, social or corporate governance events or conditions whose occurrence may have an actual or potential negative impact on financial position and financial performance as well as on reputation. We deliberately do not give separate treatment to ESG risks, as it would hardly be possible to isolate such risks.

Managing ESG risks is an integral part of our business strategy. ESG risks can have a material impact on all of our identified risks, contributing as a factor in their materiality. We assume that ESG risks for the ProCredit Bank have the greatest impact on credit risk arising from business with clients, i.e. the impact that ESG risks have on our clients and the corresponding business models and thus on their ability to survive.

The management of material risks in ProCredit Bank is described in greater detail in the following section.

- **Credit risk**

Credit risk is defined as the risk that the party to a transaction cannot fulfil its contractual obligations, not in full or not on time. Within overall credit risk, we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk faced by the Bank, and customer credit exposures account for the largest share of that risk.

in '000 MKD	**31.12.2023**	**31.12.2022**
Central bank balances	14,595,551	8,054,975
Loss allowances for central bank balances	(2,425)	(1,875)

Loans and advances to banks	704,993	3,084,353
Loss allowances for loans to banks	-	(141)
Investment securities	2,436,259	1,027,204
Loss allowances for Investment securities	(778)	(387)
Loans and advances to customers	*31,219,520*	*29,159,871*
Loss allowance for loans to customers	*(578,694)*	*(506,104)*
Other assets (financial instruments)	*148,921*	*138,410*
Loss allowance for other assets (financial instruments)	*(346)*	*(508)*
Contingent liabilities	*6,877,573*	*5,776,344*
Provisions for contingent liabilities	*(10,920)*	*(8,076)*
Total	**55,389,654**	**46,724,066**

a) Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio, as well as appropriate coverage of credit risks with loss allowances.

ProCredit bank serves a clear target group. For our relatively small business clients with increasingly formalised structures, our private customers from the middle class all the way up to larger SMEs, the following principles, among others, apply to our lending activities:

- Intensive analysis of the debt capacity and repayment capacity of borrowers, taking account for expected future cash flows as well as assessing ESG aspects
- Carefully documenting the risk assessments and the processes conducted during lending operations, such that the analyses performed can also be understood by expert third parties
- Avoiding over indebtedness among credit clients
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure in regular monitoring reports
- Monitoring the repayment of credit exposures
- Customer-oriented, intensified loan management in the event of arrears
- Collecting collateral in the event of insolvency

The Bank's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the bank, the principles for the organisation of the lending business, the principals involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the bank's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, loss allowances 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).

ProCredit Bank divides its credit exposures mainly into 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: involvement of back-office functions, 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 operations.

The experience of the Bank has shown that a careful creditworthiness assessment is a necessary form of credit risk management. The credit decisions of the Bank are therefore based predominantly on an analysis of the client's financial situation and on an assessment of creditworthiness. We maintain regular contact with our business clients, including regular on-site visits to ensure that we give adequate consideration to their specific risk profileand needs. For private customers, the assessment is mainly based on the amount and source of income and their overall debt.

Assessment of ESG risks as part of credit risk

Our credit risk assessment takes ESG risks into account at all levels of the lending and monitoring process. The process starts at the loan application stage with a screening of potential borrowers against our exclusion and watch lists for environmental and social impact. As a matter of principle, we do not wish to enter into business relationships with customers who are exposed to significant governance, environmental and/or social risks, nor do we want to finance projects and economic activities that have a negative impact on the environment or society. All business customers are assigned an environmental category based on the environmental impact caused by their business operations. Customers with a high environmental impact are generally subject to a more detailed and comprehensive assessment, including governance and climate change aspects regarding the environmental and social risks of their business model. Environmental and social risk assessments at borrower level are carried out to varying degrees, depending on the environmental category of the borrower, the level of individual credit risk and, in the case of renewable energy project finance, based on installed capacity. This internal risk assessment is part of the annual monitoring process.

Approval process for credit exposures

All credit decisions are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. Granting of medium credit exposures is carried out exclusively by credit committees at the banks' head offices.
The most important factor for credit committee decisions is a funding and collateral structure that is based on the client's needs and conditional on the respective risk profile. In general, high collateral requirements apply to our exposures in the SME sector; specifically: the lower the loan amount, the more detailed the documentation, the shorter the loan period, the longer the client's history with the bank, and the higher the account turnover with the bank, then the lower our collateral requirements will be.
The Bank's credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans can also be issued without being fully collateralised. Credit exposures are primarily covered with collateral security, mostly through mortgages.
As a rule, the valuation of collateral is based on assessments conducted by external, independent experts. In order to ensure that impairment is identified at an early stage and that appropriate measures are initiated, a plausibility check of the collateral value is performed when there are indicators of impairment and at least annually. External assessments are updated at regular intervals, with plausibility checks being carried out by specialised ProCredit bank staff.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions and economic sectors, similar to the distribution of the loan portfolio of the Bank. In this context, the concentration risk via collateral is considered to be low.
The following table provides an overview of the loan portfolio coverage with loss allowances and collateral:

	31.12.2023		31.12.2022	
in '000 MKD	**Defaulted LP**	**Total LP**	**Defaulted LP**	**Total LP**
Loan portfolio	630,822	31,219,520	528,275	29,159,871
Loss allowance	(346,626)	(578,694)	(287,243)	(506,104)
Coverage ratio excluding collateral	54.95%	1.85%	54.37%	1.74%
Loan collateral	473,231	21,348,858	343,523	20,937,012
Coverage ratio including collateral	130%	70%	119%	74%

Early risk detection and monitoring

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients. This is done at the individual customer level and at portfolio and sub-portfolio level (e.g. for clients in specific industries or specific regions) based on the currently available and relevant information such as customer financial data or market information.

Supplementary to that assessment, we have early warning indicators based on quantitative and qualitative risk features; these indicators are implemented by the bank and monitored at portfolio level. These are in part client-specific and include: declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, arrears, and changes in the structure of the business. In addition, we identify potential risks for customers with common risk factors, such as those arising from specific economic sectors or geographical regions. Such risk factors can also lead to limits on exposures to certain groups of customers. If we cannot rule out an increase in the credit risk of a customer, they are added to a watch list and monitored more carefully; this acts as a preliminary stage of intensified management. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to branch management, the bank's head office and in aggregated form to ProCredit Holding. Exceptional events which could have an impact on large areas of the loan portfolio (common risk factors) are analysed and managed appropriately at group and bank level.

Relevant credit risk events

We monitor our loan portfolio continuously for possible risk-relevant developments. During the 2023 financial year, several macroeconomic developments were identified as negative factors influencing credit risk and the repayment capacity of our customers. These include the rapid rise in interest rates following the restrictive monetary policy of the National bank, the persistently high inflation, particularly in the first half of the year, and the elevated uncertainty regarding the stability of global energy supplies and prices, especially at the beginning of the year. Many of these developments were also exacerbated in part by a deterioration in the global security situation, including the war against Ukraine and the renewed conflict in the Middle East.

We are also monitoring the potential impact of the war in Ukraine on the operations of our other banks. Here, the analysis and assessment includes the second-round effects on customers from sectors that could be exposed to potential impacts from supply chain disruptions, economic slowdowns, inflation, and energy availability issues. The persistently challenging macroeconomic conditions in 2023, in particular the strong inflation, continue to be analysed regularly in the context of our clients. A systematic deterioration in the quality of our loan portfolio due to the economic conditions was not observed.

Due to the sharp rise in interest rates this year, we are still paying particular attention to the potential negative impact of elevated interest charges on our clients. The primary goal is the early identification of customers for whom further interest rate increases could lead to limited repayment capacity. These are monitored more closely as part of a watch list, with further measures being considered in order to prevent possible defaults. Our analyses showed that the vast majority of customers are in a position to bear or pass on the increased interest burden. Based on the quality indicators for our loan portfolio at the end of the year, we were unable to identify any significant change in riskiness in our bank. Furthermore, we are currently observing an easing of the relevant reference rates as compared with the increases in 2022 and the first half of 2023. Nevertheless, we continue to take the above-mentioned effects into account as part of a general negative outlook.

Risk and quality-dependent treatment
On the basis of asset quality indicators, the loan portfolio is divided into categories: performing, underperforming and defaulted. This categorisation is based on a risk classification system that takes account for repayment arrears as well as other risk characteristics, including the initiation of bankruptcy or legal proceedings, restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The portfolio indicators allow for a clear overview of the quality of the Bank's portfolio and represent one of the most important tools for the credit risk management process. The indicators and the associated internal processes are defined in accordance with the requirements of the European Banking Authority.

- The performing loan portfolio shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.

- The underperforming loan portfolio comprises exposures with elevated credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or by a deterioration in the financial circumstances of clients, as expressed through an adjustment of the risk classification. Nevertheless, the bank still assesses full repayment of the exposure to be possible, e.g. after restructuring.

- The defaulted loan portfolio comprises all exposures in default, pursuant to the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178), that have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet their loan obligations to the bank in full or when insolvency proceedings have been initiated. Further details are provided below.

Once we identify a higher risk of default for a credit exposure, it is placed under intensified management and assigned to the underperforming category. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. For private customers, any changes in the income or debt situation are investigated in more detail by initiating contact. 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. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure. One of the first steps in managing the exposure is to determine the current economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay. When a credit exposure is classified as defaulted, specialised officers take over dealings with these loans. Based on the prospects for the customer, a strategy is developed with the goal of either restructuring or winding down the exposure. These officers are supported by the legal department of the Bank. In the event of collateral realisation, items are sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 MKD	31.12.2023	31.12.2022
Real Estate	43,011	66,236
Other	1,324	2,400
Total	**44,335**	**68,636**

- **Loss allowances**

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach
Loans and advances to customers are broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for

each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- *Stage 1* comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3; this also includes exposures which have been re-assigned to Stage 1 from other stages. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures, the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.

- *Stage 2* comprises exposures for which credit risk as of the reporting date has significantly increased since initial recognition, but for which there is no objective indication of impairment; this also includes exposures which have been re-assigned to Stage 2 from Stage 3. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

- *Stage 3* includes all defaulted exposures (except POCI); i.e. as of the reporting date, there are objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.

- POCI exposures refer to defaulted exposures; however, they are recorded separately and are differentiated from other exposures in Stage 3 in the recognition of loss allowances.

Calculation of expected credit loss (ECL)

The following parameters are used in the calculation of expected credit loss:

- Exposure at default (EAD):

EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the expected exposures (including credit risk from off-balance sheet business) at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overfacilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

- Probability of default (PD):

The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer

segments defined at bank level. The ProCredit group uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. (PiT estimate). In addition, we estimate the PDs over the remaining lifetime of an exposure.

- Loss given default (LGD):

The LGD reflects the expected extent of the loss from a defaulted credit exposure. The figure comprises the probability of recovery from the default and the estimated recovery rates for both scenarios (recovery/non-recovery). The recovery rates are calculated from the discounted cash flows based on historical data on funds received from defaulted customers and on the realisation of collateral and guarantees. The estimated probabilities and recovery rates are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The multi-stage selection process for relevant macroeconomic factors, which address various dimensions of the economic environment (economic performance, inflation, unemployment, interest rate environment, currency strength, energy prices), is based on professional discretion, their statistical significance and economic relevance. Publications of the International Monetary Fund (IMF), the Economist Intelligence Unit (EIU) and the European Central Bank (ECB) are used as data sources for the historical data and forecasts of the following relevant macroeconomic factors: GDP, inflation, unemployment rate, lending rate, purchasing power parity, gas and oil price index.

In order to establish the ECL parameters, a probability-weighted average value is calculated based on various scenarios for the macroeconomic factors.

The calculation of loss allowances is automated and parameter-based for exposures in Stage 1 and Stage 2 as well as individually insignificant Stage 3 exposures. Loss allowances for individually significant Stage 3 exposures are estimated by portfolio analysts.

The current macroeconomic forecasts from the IMF World Economic Outlook Database and the EIU were used in establishing loss allowances. The parameters are calculated by weighting the three scenarios (baseline/downside/upside), with the base scenario normally weighted at 50% and the alternative scenarios at 25%. The weighting was adjusted to reflect the assessment of a currently tense macroeconomic situation. A detailed description can be found in the section on overlays.

Baseline scenario	**GDP growth in %**			**Inflation rate in %**			**Unemployment rate in %**		**Change in credit interest rate in %**			**Change in purchasing power parity in %**		**Change in gas price in %**		**Change in oil price in %**			**Weight**
Country	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2025**	
North Macedonia	2.5	3.2	-	-	2.3	-	14.1	14	1	-	-	-	-	-59	31	-	-	-	50%

Downside scenario	GDP growth in %			Inflation rate in %			Unemployment rate in %		Change in credit interest rate in %			Change in purchasing power parity in %		Change in gas price in %		Change in oil price in %			Weight
Country	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2025**	
North Macedonia	1.5	2.2	-	-	5	-	14.1	14	1.5	-	-	-	-	-22.3	67.8	-	-	-	40%

Upside scenario	GDP growth in %			Inflation rate in %			Unemployment rate in %		Change in credit interest rate in %			Change in purchasing power parity in %		Change in gas price in %		Change in oil price in %			Weight
Country	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2025**	
North Macedonia	4.5	5.2	-	-	0.3	-	12.5	12.4	0.4	-	-	-	-	-88.6	1.6	-	-	-	10%

In case of insignificance, the respective macroeconomic factor is not specified.

The sensitivity of our loss allowances is analysed in terms of the influence of relevant macroeconomic factors. Sensitivity is calculated by simultaneously increasing or decreasing all the applied macroeconomic model factors by 10%, depending on the expected direction of the factor's impact, in order to simulate a positive or negative macroeconomic environment. The following table presents the loss allowances for the Bank with the respective macroeconomic changes.

Adapted new provisions MEV +/- 10%"	Current provisions	Adapted new provisions MEV +/- 10%
564,674	578,694	594,228

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. In this context, discretionary decisions and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Our discretionary decisions reflect, among other aspects, the applied default definitions, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors and scenarios.

The calculation of the loss given default (LGD) was adjusted in the first half of 2023. Estimates for LGDs have been based on cash flows, using historical data about payments received from defaulted customers, taking into account the cost of recovery and the size of the credit exposure. The new elements of the LGD calculation provide a granular estimate of the loss given default, incorporating the probability of a return to non-default status and of the realisation of available collateral and utilisation of guarantees. The parameters are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environmentAt the moment of its introduction, the change to this methodology led to a EUR 0.9 million decrease in loss allowances for the Bank.

Overlays

Due to the ongoing tense situation in the Russo-Ukrainian War, with possible spill-over effects impacting the economic situation of the country, the adjusted weighting of scenarios (baseline/downside/upside) for the calculation of loss allowance parameters remained consistent with the previous year. Likewise unchanged, the baseline scenario has a weighting of 50%, the weighting of the downside scenario is 40% and the upside scenario is 10%. This overlay has an effect amounting to an EUR 0.2 million increase in loss allowances for the Bank.

The current global economic environment is characterised by several interrelated crises with negative consequences for the energy market, price developments and interest rates. A slight easing can be observed in all these areas, particularly compared to the first half of the year. Nevertheless, the overlays have been retained.
The extent of an energy crisis, with volatile prices and limited availability, as well as elevated inflation and higher interest rates, cannot be reflected in all model parameters due to the lack of statistical correlations in the macroeconomic factors and historical default/loss rates. Therefore, parameter adjustments were made to the PD and LGD.
The adjustments were based on observations of maximum default and loss rates from historical default events in the crises that serve as stress levels. The key parameters, PD and LGD, have been increased using the defined probability of occurrence of the stress level (20%, based on expert assessment). The introduction of the new methodology for estimating LGD led to an adjustment in the calculation of the stress level; the underlying assumptions for the calculation were not changed compared to the previous methodology. As part of the calculation of LGD, it is assumed that the probability of a defaulted credit exposure migrating back to Stage 1 or 2 is zero. A further measure was the increase in the credit conversion factors for potential receivables from off-balance sheet items by 20%. The overlay leads to a EUR 1.7 million increase in loss allowances.

Overall, the amount for all overlays for Bank increased compared to the previous year by EUR 0.4 million to EUR 1.9 million.

		31.12.2023		31.12.2022	
Loan portfolio	**12m PD range**	**Loan portfolio in '000 MKD**	**Loan portfolio in %**	**Loan portfolio in '000 MKD**	**Loan portfolio in %**
Risk classes: 1-5: Performing*	0-1,5%	11,276,149	36.12%	17,673,693	60.61%
	1,5-4%	8,059,748	25.82%	5,966,853	20.46%
	4-7%	5,635,703	18.05%	-	-
Risk classes 6-7: Underperforming*	7-10%	-	-	823,713	2.82%
	10<100%	707,986	2.27%	236,167	0.81%
Risk class 8: Default	100%	568,248	1.82%	437,192	1.50%
Wthout risk class**		4,971,686	15.92%	4,022,253	13.79%
Gross outstanding amount		**31,219,520**	**100.00%**	**29,159,871**	**100.00%**

*** Loans to private customers and business customers with a credit volume of EUR 50,000 and less are not assessed with an internal risk classification.*

The PDs are assigned to the scale for internal risk classification. This results in a breakdown of the loan portfolio into the presented PD intervals. Exposures assigned to risk classes 6 and 7 correspond to the underperforming category and are considered to have higher risk. They therefore show PDs of generally more than 7%. The risk classifications are assigned according

to an internal evaluation process for the current repayment capacity of the credit exposure, based on quantitative as well as qualitative factors.

Significant increase in credit risk (SICR)

Quantitative and qualitative information is used to determine whether there is a significant increase in credit risk.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exists if the difference between the PDs exceeds a factor of 2.5. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk is no longer significantly elevated. In addition, qualitative criteria are used for SICR decisions.

A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days;
- Classification of the customer as “restructured” (forbearance) pursuant to internal policies (adjustment of contractually agreed conditions);
- Classification of the loan in risk classes 6 or 7, which are associated with an increase in credit risk.
- Recognition of a possible increase in credit risk based on information from the early warning system.

A return from Stage 2 to Stage 1 occurs when no overdue payments are outstanding for more than 30 days and no other Stage 2 criteria are met. Forborne exposures are subject to an additional two-year probationary period during which no payments due may be outstanding for more than 30 days. The period begins with the restructuring of the contract.

Impaired credit exposures

If a credit exposure is deemed to be impaired, it is transferred to Stage 3 accordingly. The definition of impairment according to IFRS 9 corresponds to the definition used for the Defaulted portfolio in internal risk management, and thus also the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178). This default definition is applied to all exposures which are part of the loan portfolio of the Bank. An exposure is considered to be impaired if at least one of the criteria of the default definition is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When establishing Stage 3 loss allowances, a distinction is likewise drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 250,000 (for all exposures to a client). For indications of impairment of significant exposures, an individual assessment is performed to determine loss allowances, taking account for probability-weighted expected inflows in various scenarios, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk with the ECL model.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. Unrestructured loans can be repaid no sooner than three months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. Restructured loans can be repaid no sooner than 12 months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. No migration between stages is possible for POCI exposures

Purchase or Originated Credit Impaired (POCI) exposures

In line with IFRS guidelines, the Bank performs separate recognition of POCI exposures. Within our business model, the acquisition of impaired exposures is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation through substantial modification of the contractually agreed cash flows. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, all changes with regard to the expected losses over the remaining maturity period (lifetime ECL) are recognised as an expense in the income statement and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)

Changes to the originally agreed contractual conditions of an exposure are possible, in particular with the aim of improving the prospects of repayment and, if possible, avoiding default, foreclosure or the realisation of collateral. The bank uses qualitative and quantitative factors to determine the
existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed conditions of an exposure (net present value test). In the event of a substantial change, the original contract is derecognised and a new exposure is recognised at the fair value at the time of modification. In the case of a non-substantial change, the gain or loss from modification is recognised through profit or loss.

Write off

When a loan is uncollectible, it is written off against the corresponding loss allowance, which has been set aside, provided there is no justified expectation of repayment. The direct and indirect costs of actively managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure.

For exposures of any size, the bank carry out an individual assessment of the justified feasibility of repayments. Based on the assessment, the bank may decide to write off the exposure or continue to actively manage the exposure in order to allow for further repayment of the loan.
Portions of written-off exposures are still subject to enforcement activities.

	31.12.2023			
In '000 MKD	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Written-off exposures in current year subject to enforcement activity	-	-	173,535	-

	31.12.2022			
In '000 MKD	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Written-off exposures in current year subject to enforcement activity	-	-	12,541	-

The following table presents gross and net exposures, broken down according to internal risk classification.

In '000 MKD

		31.12.2023				
Loan portfolio		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	97,093	-	-	-	**97,093**
	2	3,371,249	-	-	-	**3,371,249**
	3	7,807,807	-	-	-	**7,807,807**
	4	8,059,748	-	-	-	**8,059,748**
	5	5,529,904	105,800	-	-	**5,635,703**
Underperforming	6	-	164,760	-	-	**164,760**
	7	-	543,226	-	-	**543,226**
Defaulted	8	-	-	568,248	-	**568,248**
Without risk class*		4,698,962	210,150	62,038	536	**4,971,686**
Gross outstanding amount		**29,564,763**	**1,023,936**	**630,286**	**536**	**31,219,520**

In '000 MKD

		31.12.2022				
Loan portfolio		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	86,797	-	-	-	**86,797**
	2	3,078,814	4360	-	-	**3,083,174**
	3	6,334,363	-	-	-	**6,334,363**
	4	8,169,359	-	-	-	**8,169,359**
	5	5,960,994	5,859	-	-	**5,966,853**
Underperforming	6	457,986	365,728	-	-	**823,713**
	7	-	236,167	-	-	**236,167**
Defaulted	8	-	-	436,485	707	**437,192**
Without risk class*		3,829,572	101,597	91,083	-	**4,022,253**
Gross outstanding amount		**27,917,885**	**713,711**	**527,568**	**707**	**29,159,871**

** Loans to private customers and business customers with a credit volume of EUR 50,000 and less are not assessed with an internal risk classification.*

The following table presents gross and net exposures, broken down according to economic sector and by stage.

in '000 MKD	Business loans								Private loans			
As of 31 December 2023	**Wholesale and retail trade**	**Agriculture, forestry and fishing**	**Production**	**Transportation and storage**	**Electricity, gas, steam and air conditioning supply**	**Construction and real estate**	**Hotel, restaurant and catering**	**Other economic activities**	**Housing**	**Investment loan**	**Consumer loans**	**Total**
Stage 1												
Gross outstanding amount	8,825,102	1,588,107	5,805,519	2,098,186	1,385,007	4,117,764	521,411	1,357,451	2,154,715	373,550	1,337,952	29,564,763
Loss allowance for loans to customers	(35,024)	(16,750)	(23,181)	(7,809)	(6,332)	(18,748)	(2,415)	(6,713)	(25,977)	(7,387)	(40,120)	(190,458)
Net outstanding amount	8,790,078	1,571,358	5,782,338	2,090,377	1,378,675	4,099,015	518,996	1,350,738	2,128,737	366,162	1,297,831	29,374,305
Stage 2												
Gross outstanding amount	242,133	8,378	360,463	97,080	784	135,895	23,421	53,607	20,268	15,004	66,902	1,023,936
Loss allowance for loans to customers	(12,063)	(97)	(13,230)	(3,987)	(11)	(7,606)	(332)	(1,522)	(679)	(400)	(1,684)	(41,610)
Net outstanding amount	230,070	8,281	347,233	93,093	773	128,289	23,089	52,086	19,590	14,605	65,217	982,325
Stage 3												
Gross outstanding amount	87,039	5,539	382,190	6,894	-	4,018	99,644	17,979	10,306	6,066	10,610	630,286
Loss allowance for loans to customers	(39,609)	(4,456)	(234,574)	(4,633)	-	(4,018)	(32,861)	(12,158)	(3,378)	(3,766)	(7,174)	(346,626)
Net outstanding amount	47,429	1,084	147,616	2,261	-	-	66,783	5,821	6,929	2,300	3,436	283,659
POCI												
Gross outstanding amount	-	-	-	-	-	-	-	-	-	536	-	**536**
Loss allowance for loans to customers	-	-	-	-	-	-	-	-	-	-	-	**-**
Net outstanding amount	-	-	-	-	-	-	-	-	-	536	-	**536**

in '000 MKD As of 31 December 2022	Business loans								Private loans			
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Electricity, gas, steam and air conditioning supply	Construction and real estate	Hotel, restaurant and catering	Other economic activities	Housing	Investment loans	Consumer loans	Total
Stage 1												
Gross outstanding amount	8,469,156	1,739,385	6,351,932	1,877,131	473,848	3,881,846	527,400	1,626,851	1,748,223	386,670	835,443	**27,917,884**
Loss allowance for loans to customers	(29,362)	(19,106)	(25,248)	(7,694)	(3,291)	(13,008)	(3,029)	(7,330)	(31,367)	(11,825)	(30,668)	**(181,929)**
Net outstanding amount	8,439,794	1,720,279	6,326,684	1,869,437	470,557	3,868,838	524,370	1,619,520	1,716,856	374,844	804,775	**27,735,955**
Stage 2												
Gross outstanding amount	235,481	2,876	128,889	83,695	-	57,659	151,560	17,952	10,103	6,708	18,788	**713,711**
Loss allowance for loans to customers	(17,410)	(64)	(5,222)	(3,649)	-	(570)	(5,972)	(986)	(1,430)	(827)	(801)	**(36,931)**
Net outstanding amount	218,070	2,812	123,667	80,047	-	57,088	145,589	16,965	8,673	5,881	17,987	**676,780**
Stage 3												
Gross outstanding amount	46,843	15,723	328,951	55,687	1,416	15,151	2,590	37,162	3,818	5,306	14,923	**527,569**
Loss allowance for loans to customers	(25,662)	(8,932)	(166,695)	(30,027)	(1,416)	(2,963)	(1,331)	(21,122)	(3,818)	(3,665)	(11,612)	**(287,243)**
Net outstanding amount	21,181	6,791	162,256	25,659	-	2,188	1,259	16,040	-	1,640	3,311	**240,325**
POCI												
Gross outstanding amount	-	123	-	15	-	-	-	-	-	570	-	**708**
Loss allowance for loans to customers	-	-	-	-	-	-	-	-	-		-	**-**
Net outstanding amount	-	123	-	15	-	-	-	-	-	570	-	**708**

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write-offs, coverage level and concentration risk. Concentration risk in the loan portfolio is effectively limited by a high degree of diversification, lending in particular to small and medium-sized businesses in various economic sectors and to private clients.

in '000 MKD As of 31 December 2023	EUR < 100,000	EUR 100,000 - 250,000	EUR 250,000 - 750,000	EUR 750,000- 1,500,000	EUR >1,500,000	Total
Business loans	**5,661,843**	**6,803,478**	**10,213,325**	**3,176,649**	**1,368,317**	**27,223,612**
Wholesale and retail trade	1,899,721	2,481,552	3,370,995	1,051,259	350,746	**9,154,273**
Agriculture, forestry and fishing	696,297	276,842	447,786	181,099	-	**1,602,025**
Production	1,084,100	1,704,137	2,603,271	945,246	211,418	**6,548,173**
Transportation and storage	871,636	564,755	541,547	70,231	153,992	**2,202,160**
Electricity, gas, steam and air conditioning supply	18,054	141,987	347,844	384,520	493,385	**1,385,791**
Construction and real estate	537,225	987,228	2,161,984	412,464	158,776	**4,257,677**
Hotel, restaurant and catering	158,742	161,576	214,114	110,044	-	**644,475**
Other economic activities	396,069	485,401	525,783	21,785	-	**1,429,038**
Private loans	**3,019,731**	**663,776**	**256,380**	**56,022**	**-**	**3,995,908**

Housing	1,484,348	526,257	118,661	56,022	-	**2,185,289**
Investment loans	330,094	65,062	-	-	-	**395,156**
Consumer loans	1,205,289	72,457	137,718	-	-	**1,415,464**
Customer loan portfolio (gross)	**8,681,574**	**7,467,253**	**10,469,705**	**3,232,671**	**1,368,317**	**31,219,520**

in '000 MKD **As of 31 December 2022**	**EUR < 100,000***	**EUR 100,000 - 250,000***	**EUR 250,000 -750,000***	**EUR 750,000- 1,500,000***	**EUR >1,500,000**	**Total**
Business loans	**5,303,078**	**6,452,790**	**10,006,293**	**2,997,503**	**1,369,657**	**26,129,320**
Wholesale and retail trade	1,740,986	2,269,090	3,494,762	928,138	318,504	**8,751,480**
Agriculture, forestry and fishing	684,895	334,851	496,916	241,445	-	**1,758,106**
Production	978,902	1,547,051	2,861,715	1,123,691	298,415	**6,809,773**
Transportation and storage	816,983	628,905	503,209	33,216	34,214	**2,016,527**
Electricity, gas, steam and air conditioning supply	15,470	43,066	66,104	138,622	212,001	**475,265**
Construction and real estate	543,017	927,594	1,609,399	368,122	506,523	**3,954,655**
Hotel, restaurant and catering	117,351	138,816	306,632	118,750	-	**681,550**
Other economic activities	405,474	563,416	667,556	45,518	-	**1,681,964**
Private loans	**2,443,326**	**440,803**	**88,689**	**57,733**	**-**	**3,030,551**
Housing	1,247,905	395,520	60,986	57,733	-	**1,762,144**
Investment loans	353,970	45,283	-	-	-	**399,253**
Consumer loans	841,450	-	27,703	-	-	**869,154**
Customer loan portfolio (gross)	**7,746,403**	**6,893,593**	**10,094,982**	**3,055,236**	**1,369,657**	**29,159,871**

** Previous year presentation and figures have been adapted to the current disclosure structure.*

In addition, the Bank limits the concentration risk of the portfolios by means of the following requirements: Large credit exposures (those exceeding 10% of regulatory capital) require the approval of the bank's Supervisory Board and the Group Risk Management Committee. No large credit exposure may exceed 25% of regulatory capital of the bank, and the sum of all large credit exposures of the bank may not exceed 150% of its regulatory capital.

The quality of the loan portfolio in all client categories is monitored by credit control units on bank level. They assess the quality of the credit analysis as well as compliance with internal procedures and identify signs of fraudulent activity. These teams comprise experienced staff who conduct on-site visits to customers and also systematically screen the portfolio for irregularities.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner. That is why the quality of the ProCredit bank's loan portfolio is higher than the sector average in the country, even in times when recovering outstanding loan repayments is more difficult.

- **Counterparty risk, including issuer risk**

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

Typically, bank's counterparties are the central bank, central government and commercial banks. The main types of exposure are account balances, short-term deposits, and highly liquid securities.

Counterparty risk is managed according to the principle that bank's liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. 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, the bank only works with carefully selected reliable banks that usually have a high credit rating, local Banks with a good reputation and financial standing, typically places money for short terms (typically up to three months) and uses only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. ProCredit bank is prohibited from engaging in speculative trading. Liquidity in domestic currency is predominantly invested in central bank papers or sovereign bonds issued by the local government.

The position loans and advances to banks is primarily related to current account balances and deposits in low risk OECD countries. As of 2022, the largest share of the balances on this position are placed in DZ Bank, UniCredit Bank Austria AG, and ProCredit Bank AG Germany. Fitch Ratings assigned these banks with the following long term issuer default rating: DZ Bank long term issuer default rating of AA- (2022: AA-), ProCredit Bank Germany long term issuer default rating of BBB (2022: BBB), and UniCredit Bank Austria AG is not rated by Fitch. UniCredit Bank's rating according to Standard and Poor's rating agency was BBB+ (2022: BBB+). Smaller amount of the position loans and advances to banks is placed in domestic banks, which are not assigned any rating.

in '000 MKD	**31.12.2023**	**31.12.2022**
Central bank balances	14,012,045	7.515,062
Mandatory reserve	3,702,058	*2,817,001*
Other balances with central banks	*10,309,988*	*4,698,060*
Loss allowances for central bank balances	*(2,425)*	*(1,875)*
Loans and advances to banks	*704,993*	3,084,494
Loss allowances for loans and advances to banks	-	*(141)*
Investment securities	2,436,259	1,027,204
Loss allowances for Investment securities	(778)	(387)
Total	**17,150,094**	**11,624,357**

The creditworthiness of another financial asset, i.e. a counterparty, is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. Due to the careful selection of the counterparties, as of 31 December 2023 none of the positions shown was past due nor showed any signs of impairment. The bank has established provisions in accordance with IFRS 9 requirements.

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 conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved by bank's ALCO. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. As a general rule, the Bank approves limits of up to 10% of its regulatory capital on exposures to banking groups whose ultimate parent is headquartered in non-OECD countries and up to 25% on banking groups whose ultimate parent is headquartered in OECD countries. Higher limits are subject to approval by the Group ALCO/RMC.

The tables below provides a breakdown of the balances with central banks, loans and advances to banks, and of the investment portfolio by rating category and corresponding loss allowances. Counterparties are assigned to rating categories based on the "long-term issuer default rating" from Fitch; if unavailable, then from S&P or Moody's, or according to our own methodology.

in '000 MKD	31.12.2023		31.12.2022	
Ratings	**Gross outstanding amount**	**Loss allowance**	**Gross outstanding amount**	**Loss allowance**
BB+	14,012,045	(2,425)	8,054,975	(1,875)
Central bank balances	**14,012,045**	**(2,425)**	**8,054,975**	**(1,875)**

in '000 MKD	31.12.2023		31.12.2022	
Ratings	**Gross outstanding amount**	**Loss allowance**	**Gross outstanding amount**	**Loss allowance**
AA-	364,832	-	1,008,443	(1)
A-	-	-	738,124	(42)
BBB+	34,099	-	680,918	(1)
BBB	294,585	-	308,541	-
BBB-	5,749	-	7,743	-
BB	5,728	-	2,030	-
B+	-	-	428	-
B	-	-	338,267	(97)
Loans and advances to banks	**704,993**	**-**	**3,084,494**	**(141)**

in '000 MKD	31.12.2023		31.12.2022	
Ratings	**Gross outstanding amount**	**Loss allowance**	**Gross outstanding amount**	**Loss allowance**
BB+	2,436,259	(778)	1,027,204	(387)
Investment securities	**2,436,259**	**(778)**	**1,027,204**	**(387)**

- **Foreign currency risk**

We define foreign currency risk as the risk that the institution as a whole incurs losses due to exchange rate fluctuations or that 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 bank's 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). Limits for OCP are set at bank level.

Bank's Treasury Unit is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury Unit manages Bank's currency positions on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. Bank's foreign currency exposure is monitored and controlled on a daily basis by Treasury back office and risk management function.

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

Facts and figures concerning foreign currency risk

The following table shows the distribution of the Bank's balance sheet items across its material operating currencies, which are USD and EUR. Indexed loans and deposits are treated as foreign currency items for this purpose.

in '000 MKD	EUR	USD	MKD	Other currencies	Total
As at December 31, 2023					
Assets					
Cash and cash equivalents	6,141,621	-	8,975,990	-	15,117,611
Loans and advances to banks	227,729	429,969	208	47,087	704,993
Investment securities	75,789	-	2,360,470	-	2,436,259
Loans and advances to customers	18,003,919	20,644	12,616,263	-	30,640,826
Other financial assets	5,240	11,103	84,268	-	100,611
Total assets	**24,454,298**	**461,716**	**24,037,199**	**47,087**	**49,000,300**
Liabilities					
Liabilities to banks	7,960,195	2,866	199,970	-	8,163,031
Liabilities to customers	15,779,507	459,674	19,599,889	42,171	35,881,241
Other liabilities	25,844	38	44,368	-	70,250
Subordinated debt	687,418	-	-	-	687,418
Total liabilities	**24,452,964**	**462,578**	**19,844,227**	**42,171**	**44,801,940**
Net position	**1,334**	**(862)**	**4,192,972**	**4,916**	**4,198,360**
Contingent commitments	**1,291,171**	**42,326**	**5,544,072**	**-**	**6,877,569**

in '000 MKD	EUR	USD	MKD	Other currencies	Total
As at December 31, 2022					
Assets					
Cash and cash equivalents	2,790,713	665	5,324,109	-	8,115,487
Loans and advances to banks	2,726,360	283,152	428	74,413	3,084,353
Investment securities	73,635	-	1,495,357	-	1,568,992
Loans and advances to customers	16,142,784	25,316	12,485,667	-	28,653,767
Other financial assets	8,158	11,317	99,172	-	118,647
Total assets	**21,741,650**	**320,450**	**19,404,733**	**74,413**	**41,541,246**
Liabilities					
Liabilities to banks	7,191,914	266	96,685	2,515	7,291,380
Liabilities to customers	13,932,637	310,903	15,648,511	62,203	29,954,254
Other liabilities	28,611	98	58,982	-	87,691
Subordinated debt	687,371	-	-	-	687,371
Total liabilities	**21,840,533**	**311,267**	**15,804,178**	**64,718**	**38,020,696**
Net position	**(98,883)**	**9,183**	**3,600,555**	**9,695**	**3,520,550**
Contingent commitments	**1,170,880**	**33,338**	**4,571,879**	**-**	**5,776,097**

- **Interest rate risk**

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The measurement, monitoring, limiting and managing of interest rate risk is based on economic value impact and P&L-oriented indicators.

The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Interest-bearing sight deposits and savings accounts with unspecified contractual fixed interest are included in the gap analysis according to country- and currency-specific analyses of historical data. In addition, regularly updated assumptions on planned business developments are used to calculate the P&L indicator.

The bank assumes a +/– parallel shift of the yield curves. The magnitude of the interest rate shock is essentially determined on the basis of a historical analysis of the corresponding yield curves. For each currency, only the parallel shift scenario that results in considered in the calculation. Limits are set in relation to regulatory capital for the economic value impact and in relation to the forecast net interest income for the P&L effect. In addition, further scenarios are considered.

Interest rate risk is quantified and limited on the basis of economic value impact and on the basis of the 12-month P&L effect.

in '000 MKD	31.12.2023		31.12.2022	
	Economic Value Impact	**12 month P&L-Effect**	**Economic Value Impact**	**12 month P&L-Effect**
Total	-212,324	-100,690	-275,772	-185,724

In 2023 the economic value impact decreased to MKD 212 million from MKD 275 million at end of 2022. The 12-month P&L effect equaled to MKD 101 million. The decreased economic value impact is attributed to smaller mismatch between assets and liabilities in euro. The 12-month P&L effect decreased to MKD 101 million from MKD 186 million as result of expected lowering interest rates on the local and international markets in the next 12 months. Both indicators remained within their limits.

- **Liquidity 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.

Liquidity risk

The bank assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and the bank monitors this risk using numerous indicators. These include a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), a survival period, and the Liquidity Coverage Ratio, LCR as an early warning indicator. The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the bank is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the bank. LCR indicates 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.

Market-wide, institution-specific (idiosyncratic), combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, the bank has a contingency plan, containing early warning indicators, responsibilities and measures that may be taken in case of liquidity crisis. If unexpected circumstances arise and the bank proves not to have sufficient liquid funds, 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.

Liquidity is managed on a daily basis by the Treasury Unit and is monitored by risk management function and ALCO. In 2023 the bank had enough liquidity available at all times to meet all its financial obligations in a timely manner.

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

in '000 MKD **As of 31 December 2023**	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**More than 5 years**	**Maturity not applicable***	**Total**	**Carrying amount**
Assets:								
Cash	522,060	-	-	-	-	-	522,060	522,060
Central bank balances	14,596,779	-	-	-	-	-	14,596,779	14,595,551
Loans and advances to banks	704,993	-	-	-	-	-	704,993	704,993
Investment securities	189,920	353,643	1,821,551	79,958	-	-	2,445,072	2,436,259
Loans and advances to customers	1,736,435	3,351,741	14,006,878	16,379,927	6,004,095	(44,842)	41,434,235	30,640,826
Other financial assets	148,921	-	-	-	-	-	148,921	148,921
Total assets (contractual maturity dates)	**17,899,108**	**3,705,384**	**15,828,429**	**16,459,885**	**6,004,095**	**(44,842)**	**59,852,059**	**49,048,608**

in '000 MKD **As of 31 December 2023**	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**More than 5 years**	**Maturity not applicable***	**Total**	**Carrying amount**
Liabilities:								
Liabilities to banks:	235,724	732,445	1,170,025	5,186,369	1,376,111	(16,963)	8,683,712	8,163,030
Liabilities to customers:	24,499,239	1,132,743	5,694,274	4,493,545	385,346	-	36,205,145	35,881,241
Provisions	17	16,374	6,900	6,646	699	-	30,637	31,196
Current tax liabilities	-	51,064	-	-	-	-	51,064	51,064
Other liabilities	39,069	3,288	8,546	12,481	2,309	4,556	70,250	70,250
Subordinated debt	-	-	44,449	133,631	732,427	-	910,507	687,418
Total liabilities (contractual maturity dates)	**24,774,049**	**1,935,914**	**6,924,194**	**9,832,671**	**2,496,893**	**(12,406)**	**45,951,315**	**44,884,199**
Total off balance sheet items	**6,871,423**	**-**	**-**	**-**	**-**	**-**	**6,871,423**	**6,877,573**
Net liquidity gap	**(13,746,364)**	**1,769,470**	**8,904,235**	**6,627,214**	**3,507,202**		**7,029,321**	**(2,713,164)**

in '000 MKD **As of 31 December 2022**	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**More than 5 years**	**Maturity not applicable***	**Total**	**Carrying amount**
Assets:								
Cash	602,300	-	-	-	-	-	602,300	602,300
Central bank balances	8,055,865	-	-	-	-	-	8,055,865	8,054,975
Loans and advances to banks	2,470,544	615,739	-	-	-	-	3,086,283	3,084,353
Investment securities	192,988	78,676	705,190	72,089	-	-	1,048,943	1,027,204
Loans and advances to customers	1,329,273	2,508,552	14,172,528	10,020,942	3,672,618	(45,882)	31,658,031	28,653,767
Other financial assets	138,410	-	-	-	-	-	138,410	138,410
Total assets (contractual maturity dates)	**12,743,498**	**3,202,967**	**14,877,718**	**10,093,031**	**3,672,618**	**(45,882)**	**44,589,832**	**41,561,008**

in '000 MKD **As of 31 December 2022**	**Up to 1 month**	**1 - 3 months**	**4 - 12 months**	**1 - 5 years**	**More than 5 years**	**Maturity not applicable***	**Total**	**Carrying amount**
Liabilities:								
Liabilities to banks:	210,068	22,003	2,351,875	3,800,093	1,144,573	(7,345)	7,521,267	7,291,380
Liabilities to customers:	21,376,813	479,841	3,291,042	4,722,585	278,749	-	30,149,030	29,954,254
Provisions	984	338	13,985	2,611	4,299	-	22,217	22,217
Current tax liabilities	-	7,372	-	-	-	-	7,372	7,372
Other liabilities	21,267	11,099	12,580	6,737	6,419	-	58,103	58,103
Subordinated debt	-	-	44,575	133,747	765,761	-	944,082	687,371
Total liabilities (contractual maturity dates)	**21,601,787**	**520,653**	**5,714,056**	**8,665,773**	**2,199,801**	**(7,345)**	**38,702,070**	**38,020,696**
Total off balance sheet items	**5,776,097**	**-**	**-**	**-**	**-**	**-**	**-**	**5,748,973**
Net liquidity gap	**(14,634,386)**	**2,682,314**	**9,163,661**	**1,427,258**	**1,472,817**	**(38,537)**	**5,887,761**	**(2,208,661)**

.

Off balance items:

As at December 31, 2023	Up to 1 month	1-3 months	3-6 months	6-12 Months	1-5 years	Over 5 years	Total
Performance guarantees, payment guarantees and letters of credit	3,773,129	-	-	-	-	-	3,773,129
Loan commitments (revocable)	3,104,444	-	-	-	-	-	3,104,444
Loan commitments (irrevocable)	-	-	-	-	-	-	-
Total 2023	**6,877,573**	**-**	**-**	**-**	**-**		**6,877,573**

As at December 31, 2022	Up to 1 month	1-3 months	3-6 months	6-12 Months	1-5 years	Over 5 years	Total
Performance guarantees, payment guarantees and letters of credit	3,184,695	-	-	-	-	-	3,184,695
Loan commitments (revocable)	2,591,402	-	-	-	-	-	2,591,402
Loan commitments (irrevocable)	-	-	-	-	-	-	-
Total 2022	**5,776,097**	**-**	**-**	**-**	**-**		**5,776,097**

In order to measure the liquidity risk of the bank, some positions, especially customer deposits, are distributed into the time buckets according to assumptions about inflows and outflows based on their observed historical behaviour in stress situations.

Short-term liquidity risk is measured particularly by means of LCR. As of 31 December 2022, the LCR was 432% (2022: 281%), and thus above the requirement of 100% as bank's internally defined early warning threshold. This indicates a confortable liquidity situation for the bank.

The bank had adequate liquidity levels at all times during the 2023 financial year.

- **Funding risk**

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that the bank finances the lending operations primarily through customer deposits; bank's deposit-taking operations focus on the target group of business clients and private clients/savers, with whom the bank establishes strong relationships. The financial crisis in 2008 and 2009 has shown that the customer deposits are a stable and reliable source of

funding. These are supplemented by long-term credit lines from ProCredit Germany or ProCredit Holding, Development Bank of North Macedonia, and international financial institutions (IFIs).

The bank makes little use of the interbank market. In addition, the bank primarily issues instalment loans with monthly repayments. As of end of December 2023, the largest funding source were customer deposits amounting to MKD 35,881 million. Liabilities to banks are the second-largest source of funding, accounting for MKD 8,163 million.

ProCredit bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the bank, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. A key indicator for limiting funding risk is the deposit concentration indicator.

- **Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems (e.g. failure of data-processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) or from external events (e.g. criminal activities, natural disasters). This definition also takes into account fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Operational risk management aims to identify, analyse and assess all material risks at an early stage and to avoid their recurrence.

One of the key components of operational risk management is the detailed recording of risk events arising from operational risks. In this context, a Risk Event Database was developed to ensure that all risk events identified in the group and in the bank with realised or potential losses from operational risks are recorded, analysed and communicated effectively. Through this uniform, pre-defined structure for the documentation of risk events, it is ensured that adequate attention is paid to the implementation of necessary corrective and/or preventive measures for reducing or avoiding operational and fraud risk. The number of loss events during the financial year was 22 (2022: 26).

In addition, risk assessments are carried out annually. In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, these risk assessments are systematically performed in order to identify and evaluate key risks and to assess the adequacy of the control processes. Risk mitigation measures are defined for the areas identified as high risk. These two control components complement each other and provide an overall picture of the operational risk profile for ProCredit bank.

In addition, early warning indicators have been defined, in order to identify areas of banking business with increased fraud risk. The early warning indicators are analysed regularly and, where needed, preventive measures are agreed upon.

To complete the management of operational risk, all new products and/or activities, as well as outsourcing activities, need to be analysed to identify and manage potential risks before implementation.

Operational risk is accounted for and monitored within the scope of the capital adequacy calculation in the economic approach.
The bank has defined detailed guidelines and standards to ensure the confidentiality, availability and integrity of all information and information-processing IT systems requiring protection.

Regular controls of information security and business continuity are part of existing processes and procedures. The bank carries out a classification of their information assets and conduct a risk assessment on their critical information assets each year. 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. The IT service provider, Quipu, is part of the ProCredit group and supports the bank with respect to software and hardware.

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

Responsible behaviour is an integral part of our values-oriented business model. This is reflected in the Code of Conduct for the employees as well as in the contents of the introductory courses for new staff and in the curricula of the ProCredit academies. The prevention of money laundering, terrorist financing and fraud is a key component of our self-perception. This is illustrated by the criteria used to select customers and by the few cases of internal fraud within the group.

The Bank is in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Moreover, the Bank has implemented the group-wide guidelines on the prevention of money laundering and terrorist financing. Implementation is regularly reviewed by the group's Anti-Money Laundering Officer.

As the ProCredit group is supervised by the German financial supervisory authorities, we implement the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level, across the group as minimum requirements in all of ProCredit banks. As the superordinated company for the ProCredit group, ProCredit Holding is responsible for ensuring group-wide compliance with these requirements. All ProCredit banks also have their own independent money laundering officers, who in turn implement both group-wide requirements and national regulations for the prevention of money laundering and terrorist financing in the respective banks.

Our ethical responsibility is documented in the form of our Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit bank are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

Besides identifying all contracting parties and clarifying the purpose of the business relationship, at our bank the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client.

All ProCredit banks use specialised software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers work closely with the responsible law enforcement authorities and report regularly to the Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

Additional Notes

51) Contingent liabilities and commitments

in '000 MKD	31.12.2023	31.12.2022
Credit commitments (revocable)	3,104,444	2,591,402
Payment guarantees	1,631,291	1,487,159
Performance guarantees	2.103.035	1,637,816
Letters of credit	38,803	59,720
Total	**6,877,573**	**5,776,344**

The table above discloses the contractually agreed maximum amounts of contingent liabilities, without consideration of collateral. We expect that the most significant portion of guarantees will expire without being drawn upon. It is not practicable to estimate the future use of the credit commitments.

52) Related party transactions

The ultimate parent company of the Bank is ProCredit Holding AG. The Bank's related parties include the parent, fellow subsidiaries, key management personnel, close family members of key management personnel and entities, which are controlled or significantly influenced by key management personnel or their close family members.

Transactions of Bank with ProCredit group companies
According to the group's strategy, the Parent acts as an additional provider of funds (including subordinated debt) for its subsidiaries.

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	ProCredit Holding and Procredit Banks	Zeitinger Invest GmbH	01.01. - 31.12.2023
Income	115	39	-	8,120	-	8,274
Expenses	62	79	-	462,142	-	462,282
Net income	**53**	**(39)**	**-**	**(454,022)**	**-**	**(454,008)**
Assets	1,376	616	-	316,917	-	318,909
Liabilities	9,612	8,678	-	1,936,233	-	1,954,523

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	ProCredit Holding and Procredit banks	Zeitinger Invest GmbH	01.01. - 31.12.2022
Income	162	73	-	5,834	-	6,069
Expenses	(47)	(19)	-	(380,793)	-	(380,859)
Net income	**115**	**55**	**-**	**(374,959)**	**-**	**(374,790)**
Assets	2,918	1,231	-	329,745	-	333,894
Liabilities	5,072	3,994	-	2,682,432	-	2,691,498

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

53) Key management compensation

During the reporting period, total compensation paid to the Managing Board amounted to:

in '000 MKD	1.1.-31.12.2023	1.1.-31.12.2022
short-term benefits	17,430	9,255
Total	**17,430**	**9,255**

To the members of the Supervisory Board travel expenses related to the performance of their duties are reimbursed and additionally the independent members of the Supervisory Board receive payment for the performance of their duties determined with the agreement for their appointment, which in 2023 represent total amount of MKD 488 thousands.

54) Significant post-balance sheet events

No material events subsequent to the statement of financial position date have occurred which require disclosure in the financial statements.

55) Exchange rates

For the balance sheet and the income statement, the following exchange rates used for translation of EUR to MKD were applied:

(amount of MKD for 1 EUR)		2023		2022	
Currency code	**Country**	**At balance sheet date**	**Average for the year**	**At balance sheet date**	**Average for the year**
MKD	North Macedonia	61.4950	61.5570	61.4932	61.6219

56) Address and general information

ProCredit Bank A.D., Skopje has been registered as a Stock Company domiciled in Republic of North Macedonia. The address of its registered office is as follows:

Manapo 7
1000 Skopje
Republic of North Macedonia

The names of the members of Managing Board of the Bank serving during the financial year and to the date of this report are as follows:

Member of Managing Board	Emilija Spirovska
Member of Managing Board	Milan Damcevski
Member of Managing Board	Stevce Kuzmanovski