



# JSC CARTU BANK

## **Pillar 3 Annual Report**

(As of 31<sup>st</sup> December 2022)

2023 Year

**Table of Contents**

<b>1. Overview</b> .....	<b>3</b>
<b>2. Management Announcement</b> .....	<b>3</b>
<b>3. Key Metrics</b> .....	<b>4</b>
<b>3.1: Capital Adequacy Ratio</b> .....	<b>4</b>
<b>3.2: Liquidity Coverage Ratio (LCR)</b> .....	<b>4</b>
<b>3.3: Net Stable Funding Ration (NSFR)</b> .....	<b>4</b>
<b>4. Group Structure</b> .....	<b>5</b>
<b>5. Capital Structure</b> .....	<b>6</b>
<b>6. Capital Adequacy</b> .....	<b>7</b>
<b>6.1: Risk Weighted Assets</b> .....	<b>7</b>
<b>6.3: Market Risk Weighted Risk Exposure</b> .....	<b>9</b>
<b>7. Liquidity Coverage Ratio (LCR)</b> .....	<b>10</b>
<b>8. Shareholders</b> .....	<b>11</b>
<b>9. Corporate Management</b> .....	<b>11</b>
<b>9.1: The Supervisory Board</b> .....	<b>11</b>
<b>9.2: The Management Board</b> .....	<b>14</b>
<b>9.3: Audit Committee</b> .....	<b>18</b>
<b>9.4: Risk Committee</b> .....	<b>19</b>
<b>9.5: Credit Committee</b> .....	<b>19</b>
<b>9.6: Small Credit Committee</b> .....	<b>20</b>
<b>9.7: Assets and Liabilities Management Committee</b> .....	<b>21</b>
<b>9.8: Business Process Management Committee</b> .....	<b>21</b>
<b>10. Risk Management</b> .....	<b>23</b>
<b>10.1: Corporate Strategy</b> .....	<b>23</b>
<b>10.2: Risk Management Framework</b> .....	<b>23</b>
<b>10.3: Credit Risk Management</b> .....	<b>27</b>
<b>10.4: Interest Rate Risk Management</b> .....	<b>28</b>
<b>10.5: FX Risk Management</b> .....	<b>29</b>
<b>10.6: Liquidity Risk Management</b> .....	<b>29</b>
<b>10.7: Operational Risk Management</b> .....	<b>29</b>
<b>11. ESG Risk Management</b> .....	<b>31</b>
<b>12. Important Updates</b> .....	<b>33</b>
<b>13. Information About Remuneration</b> .....	<b>34</b>

## 1. Overview

Pillar 3 annual report is a document that is based on the requirements of the Basel Committee on Banking Supervision, on EU 575/2013 directives (EU regulation N575/2013) and on the Regulation by National Bank of Georgia on Disclosure requirements for commercial banks within Pillar 3.

The document discloses information on the banks capital in relations with the existing requirements, on risk management policies, strategies and corporate governance model.

Pillar 3 annual report is published annually. The document is available on the web-sites of the commercial and central banks, in Georgian, as well as English languages.

## 2. Management Announcement

The management board of the bank hereby confirms the trustworthiness of all the figures and information provided in given Pillar 3 report. The report is prepared in accordance with internal control systems and procedures approved by the Supervisory Board. The given report satisfies requirements set by the June, 2017 Order #92/04 by the President of the National Bank of Georgia about the Disclosure requirements for commercial banks within Pillar 3 and other directives and norms of the National Bank of Georgia. According to the regulation Pillar 3 Annual Report is not required to be audited by an external auditor.

### 3. Key Metrics

The table of Key Metrics presents information about regulatory requirements of the capital and liquidity. Additional information is given in respective paragraphs.

#### 3.1: Capital Adequacy Ratio

In 1,000 GEL	31.12.2022	31.12.2021
Common Equity Tier 1 Capital	234,253	189,240
Additional Tier 1 Capital	72,954	83,635
Tier 2 Capital	39,328	49,523
<b>Total Regulatory Capital</b>	<b>346,536</b>	<b>322,398</b>
Risk Weighted Assets (RWA)	1,404,710	1,299,144
<u>Current Ratios</u>		
Common Equity Tier 1 Ratio	16.68%	14.57%
Tier 1 Capital Ratio	21.87%	21.00%
<b>Total Regulatory Capital Ratio</b>	<b>24.67%</b>	<b>24.82%</b>

#### 3.2: Liquidity Coverage Ratio (LCR)

In 1,000 GEL	31.12.2022	31.12.2021
Total HQLA	729,589	341,714
Net Cash Outflow	437,351	186,392
<b>Liquidity Coverage Ratio (%)</b>	<b>167%</b>	<b>183%</b>

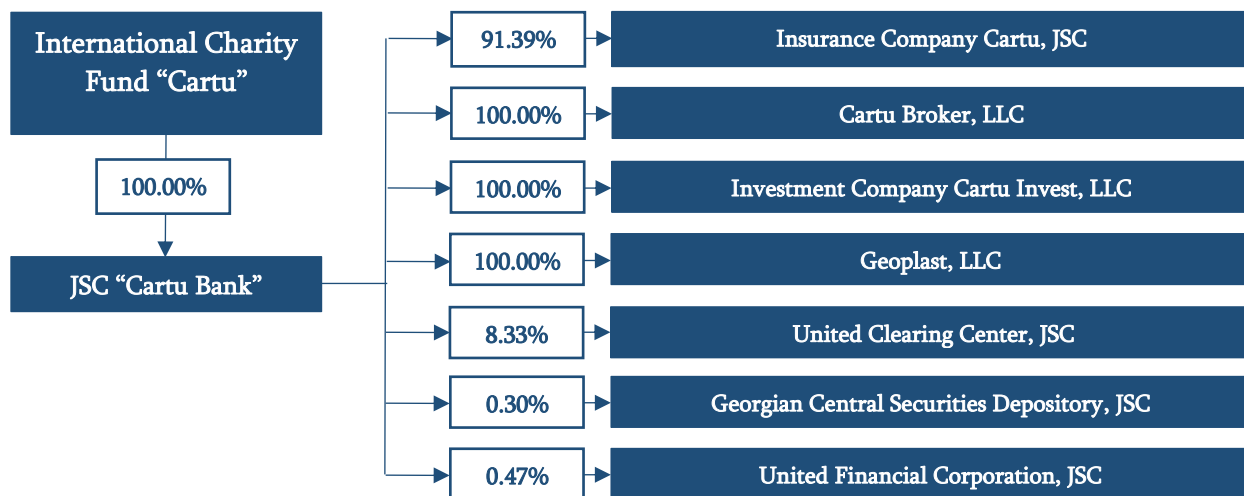
#### 3.3: Net Stable Funding Ratio (NSFR)

In 1,000 GEL	31.12.2022	31.12.2021
Available Stable Funding	1,108,500	899,894
Required Stable Funding	596,084	727,034
<b>Net Stable Funding Ratio (%)</b>	<b>186%</b>	<b>124%</b>

Other key financial ratios of the bank is given as an annex on the page “Key Ratios” of the 2022’s 4th quarter report of quarterly report form.

#### 4. Group Structure

The ultimate/beneficiary shareholder of the bank is Uta Ivanishvili. The group's structure is illustrated in the following graph:



**JSC Insurance Company Cartu, JSC** – The company has been established in 2001 and holds health, as well as non-health insurance licenses. The company information is provided in the following URL: <https://cartuinsurance.wixsite.com/cartuinsurance>; <http://insurance.gov.ge/Statistics.aspx>

**Cartu Broker, LLC** - the company has been established in 2001 and is licensed by the National Bank of Georgia, as the regulator of the securities exchanges market, as broker. The company information is provided on the following URL: <http://gse.ge/broker-companies/cartubroker>

**Investment Company Cartu Invest, LLC** - the company was established in 1999. The company is inactive since its establishment.

**Geoplast, LLC** – the bank established the company in 2017 for the effective management of its repossessed assets. No investments have been made for the moment.

**United Clearing Center** – the company owns and manages huge online portal MYPAY.GE which provides online payments for the plastic (debt/credit) cards owners. The company information is provided in the following URL: <https://www.mypay.ge/Payments/main>

**Georgian Central Securities Depository** – the company is the system operator of GCSD since 1999. The purpose of this system is to nominally hold securities that are held by its partners, provide clearing and payments, but excluding government securities. GCSD is owned by 4 local commercial banks and Georgian Stock Exchange. The company information is provided in the following URL: <http://www.gcsd.ge/>

**United Financial Corporation (UFC), JSC** – Georgia's first Processing Center was established in January 1996. Currently the processing center is serving eight banks, seven financial institutions and two companies. It provides

a full range of services according to international VISA International, MasterCard Worldwide and China UnionPay regulations and PCI (Payment Card Industry) data security standards.  
<http://www.ufc.ge/index.php?lang=geo>

## 5. Capital Structure

<b>Common Tier 1 Capital (in 1,000 GEL)</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Common Stocks	114,430	114,430
Other Reserves *	7,438	7,438
Retained Earning (Loss)	117,794	71,408
Intangible Assets (including Goodwill)	(5,440)	(3,903)
Deferred Tax Assets	-	-
Revaluation Reserves on Assets	31	133
<b>Common Tier 1 Capital</b>	<b>234,253</b>	<b>189,240</b>
<b>Additional Tier 1 Capital</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Additional Tier 1 Capital Instruments	72,954	83,635
<b>Additional Tier 1 Capital</b>	<b>72,954</b>	<b>83,635</b>
<b>Tier 2 Capital (in 1,000 GEL)</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Subordinated Debt	28,641	37,171
Reserves **	10,687	12,351
<b>Total Tier 2 Capital</b>	<b>39,328</b>	<b>49,523</b>
<b>Total Regulatory Capital</b>	<b>346,536</b>	<b>322,398</b>

\* Reserve fund of the bank was formed by retained earning of the year and the purpose was to cover possible losses arising from the banking operations.

\*\* According to the regulations by National Bank of Georgia, general reserves on standard loans are included in Tier 2 Capital, and is calculated by maximum 1.25% of the Risk Weighted Assets/position.

## 6. Capital Adequacy

### 6.1: Risk Weighted Assets

In 1,000 GEL	31.12.2022	31.12.2021
Credit Risk Weighted Risk Assets	1,257,003	1,161,154
Market Risk Weighted Risk Assets	29,901	32,704
Operations Risk Weighted Risk Assets	117,805	105,286
<b>Total</b>	<b>1,404,710</b>	<b>1,299,144</b>

## 6.2: Credit Risk Weighted Risk Asset

Date: 31.12.2022 In 1,000 GEL	Balance Sheet Amounts	Risk Weighted Amounts	Risk Weights						Credit Risk Weighted Amounts		
			0%	20%	50%	100%	150%	250%	Before Mitigation	Mitigation	After Mitigation
<b>On-Balance Sheet Positions</b>											
Due from Governments and Central Banks	359,363	359,332	37,319	-	-	322,013	-	-	322,013	-	322,013
Due from Commercial Banks	332,179	332,179	-	89,675	242,371	133	-	-	139,253	-	139,253
Due from Corporate Customers	608,356	617,859	-	-	-	617,859	-	-	617,859	41,533	576,326
Overdue Loans	68,624	68,625	-	-	-	68,625	-	-	68,625	-	68,625
Property And Equipment *	22,427	16,987	1,579	-	-	15,408	-	-	15,408	-	15,408
Cash and Cash Equivalents with Commercial Banks	27,978	27,978	27,978	-	-	-	-	-	-	-	-
Investments in FI's and Tax Assets	21,250	21,250	-	-	-	-	-	21,250	53,126	-	53,126
Other Investments in FI's	63	64	-	-	-	64	-	-	64	-	64
Other Assets **	48,954	49,236	-	-	-	48,368	-	867	50,537	2,403	48,133
<b>Total On-Balance Sheet Amounts</b>	<b>1,489,193</b>	<b>1,493,509</b>	<b>66,875</b>	<b>89,675</b>	<b>242,371</b>	<b>1,072,470</b>	<b>-</b>	<b>22,118</b>	<b>1,266,885</b>	<b>43,936</b>	<b>1,222,949</b>
<b>Off-Balance Sheet Positions</b>											
Guaranties	4,930	4,930	-	-	-	4,930	-	-	4,930	51	4,879
Non-credit criteria Guaranties	45,076	22,538	-	-	-	22,538	-	-	22,538	4,061	18,477
Credit Contingencies ***	31,665	15,832	-	-	-	15,832	-	-	15,832	466	15,366
<b>Total Off-Balance Sheet Positions</b>	<b>81,671</b>	<b>43,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,300</b>	<b>-</b>	<b>-</b>	<b>43,300</b>	<b>4,578</b>	<b>38,722</b>
<b>Total</b>	<b>1,570,864</b>	<b>1,536,810</b>	<b>66,875</b>	<b>89,675</b>	<b>242,371</b>	<b>1,115,771</b>	<b>-</b>	<b>22,118</b>	<b>1,310,185</b>	<b>48,514</b>	<b>1,261,671</b>



\* Differences between carrying value and risk exposure of property and equipment is due to intangible assets, which is deducted from the regulatory capital;

\*\* The point includes risk exposure to retail customers, repossessed assets and other receivables.

\*\*\* Risk exposure is calculated by 50% of commitment

While calculating RWA, bank uses only money on deposit accounts or cash equivalent financial instruments as means of mitigation.

### 6.3: Market Risk Weighted Risk Exposure

Risk exposure exposed to Market Risk weighting equals to overall open FX position defined by “Regulation Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks”.

### 6.4: Operational Risk Weighted Risk Exposure

In 1,000 GEL	2022	2021	2020
Net Interest Income	67,406	48,959	40,963
Profit (Loss) from property realisation	11	13	6
Total Non-Interest Income	9,531	11,305	10,356
Total Income	<b>76,926</b>	<b>60,251</b>	<b>51,312</b>
Average Total Income for last 3 Years	62,830	56,153	53,441
Operational Risk Capital (15.00%)	9,424	8,423	8,016
<b>Operational Risk Weighted Risk Exposure</b>	<b>117,805</b>	<b>105,286</b>	<b>100,203</b>

## 7. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (According to NBG)			
31.12.2021 (in 1,000 GEL)	GEL	FX	Total
Total HQLA	76,180	653,409	729,589
Net Cash Outflow	29,655	407,696	437,351
<b>Liquidity Coverage Ratio (%)</b>	<b>256.9%</b>	<b>160.3%</b>	<b>166.8%</b>
Minimum Requirement	>75%	>100%	>100%

Other key financial ratios of the bank is given as an annex on the page “Key Ratios” of the 2022’s 4th quarter report of quarterly report form. (<https://www.nbg.gov.ge/index.php?m=672&lng=eng>)

Liquidity Coverage Ratio (According to BASEL)			
31.12.2021 (in 1,000 GEL)	GEL	FX	Total
Total HQLA	51,222	273,326	324,549
Net Cash Outflow	7,905	38,370	46,275
<b>Liquidity Coverage Ratio (%)</b>	<b>648.0%</b>	<b>712.3%</b>	<b>701.3%</b>

Ratios calculated based on NBG methodology represent minimum regulatory requirements for banks, while figures calculated based on Basel methodology are disclosed for illustrative purposes. Detailed information can be found in quarterly appendix 14. LCR.

## 8. Shareholders

The charter regulates rights of the shareholder and general shareholders meetings. Shareholders rights include: amending charter, changing the company brand name, choosing and changing members of the supervisory board, approving bank's annual reports, financial reports and audit committee reports. General shareholders meeting is eligible for taking decision of the reorganization and liquidation of the bank.

According to the charter, shareholders meeting has to be held every year, normally, in 2 months after beginning of the reporting year. As bank has an only one shareholder, there is no necessity of the meeting and the shareholder makes an individual decision.

## 9. Corporate Management

### 9.1: The Supervisory Board

The Supervisory board of JSC "Cartu Bank" consists of four members:

1. Nikoloz Chkhetiani - The Chairperson
2. Besik Demetrashvili – Member
3. Thea Jokhadze – Member
4. Zaza Verdzeuli – Independent Member

The Chairperson of the Supervisory Board, Nikoloz Chkhetiani, graduated from the Faculty of Law of Iv. Javakhishvili Tbilisi State University in 2001, he also holds Master Degree in Law assigned by Bremen University. From 2012 he takes the position of the Chairman of the Management Board at International Charity Foundation Cartu. For 5 years during 2007-2012 years, he was a lawyer of the above-mentioned foundation. Simultaneously, in 2007-2014 years he was in charge of the Deputy Head of Legal Department and lately the Head of Legal Department at Cartu Group. Before joining Cartu Group, he used to be a lawyer at Law Firm "Gabisonia and Partners" between 2004-2006 years. He started his career at the Ministry of Foreign Affairs of Georgia at the Centre for Research and Analysis of the Foreign Policy, as the senior specialist.

Besik Demetrashvili has graduated from the Faculty of Law of Tbilisi State University. From 2012, he takes positions of the Head of LLC Management Service and LLC Georgian French School. From 2014, he is the Chief Executive Officer at LLC Agro Cartu, while from 2015 takes the same position in following companies LLC Riviera XXI and JSC Didveli. He is being a member of Georgian BAR Association from 2008. Simultaneously, he is a Legal Adviser at LLC FINSERVICE XXI. Mr. Demetrashvili used to be a Head of Legal Departments at LLC Burji and Non-Profit Organization Association ATU in 2005-2006 years, while in 2002-2006 took position of Securities Registrar at LLC Registry XXI. Besik Demetrashvili worked as a lawyer at Tbilisi City Council in 1999-2000 and at NGO Article 42 of the constitution.

Thea Jokhadze, CFA has graduated from Georgian Technical University with Bachelor's degree in International Economics, later in 1998 graduated from Copenhagen University, Institute for Political Science. As for the Master's she obtained the degree in International Economics from John Hopkins University, School of Advanced

International Studies. From 2019 she takes the position of the independent member of the supervisory board at Cartu Bank JSC. Simultaneously from 2019 on, she is a Deputy CEO of the Georgian Co-Investment Fund, before from 2014 she was in position of the Managing Director of the same Fund and for a year from 2013 was the Chief Financial Officer. Before joining Co-Investment Fund she used to manage Funding and Debt Capital Market as an acting Head at Bank of Georgia, JSC. Ms. Jokhadze was serving as a Senior Consultant, Financial Advisory Services in Pace Global Energy Services, LLC in Washington DC, USA. During different periods of time she was serving as a Structuring Analyst in CMS Energy Corp., Marketing, Services & Trading in Houston, Texas, USA; Assistant Program Officer at International Institute for Democracy & Electoral Assistance in Stockholm, Sweden and Information Officer at United Nations Office for the Coordination of Humanitarian Affairs in Tbilisi, Georgia; Research Fellow in the Organization for Security and Cooperation in Europe (OSCE) in Copenhagen, Denmark and the Program Analyst in the United Nations Development Program (UNDP) in Tbilisi, Georgia.

Zaza Verdzeuli has obtained his Bachelor and Master's degrees in Trade Economics and Commodity Studies from the Tbilisi State University. In 2019 Mr. Verdzeuli was assigned to the position of the independent member of the supervisory board of Cartu Bank, JSC. From 2007 till 2019 he was taking position of the Head of Risk Management Department as well as the Deputy Director at Ziraat Bank, JSC. In 2006 he was in charge of the Head of Retail Business Department at Silk Road Bank, JSC. From 1995 till 2004 he was responsible for Currency Operations, Branch Management, Correspondent Relations and Settlements at Georgian Post Bank, JSC. His career start is connected to Caucasus Bank in Georgia and Bank Liutvi JSC in Russia, where he oversaw accounting.

The authority period for the members of the Supervisory Board is set to 4 years. Supervisory board is actively involved in planning and monitoring of all the ongoing processes and has the leading role in managing the bank.

The main roles of the Supervisory Board include:

- Consideration and approval of the main principles of the bank's operation and the strategic development plan;
- Invitation of a general meeting of shareholders, determining the agenda;
- Appointment of the Director General and other members of the Board of Directors, supervision of their activities, restriction/termination of their authorities. Determination of the terms of remunerations and termination of an employment contract with them;
- Control the activities of the Board of Directors (ad of each of its members);
- Nomination of a candidate for approval to the general meeting of shareholders, for carrying out an external audit of the bank;
- Establishment of committees under the Supervisory Board, including the Audit Committee and Risk Committee, determination of their quantitative and personnel structure, terms and remunerations of members. As well as the approval of the policy documents of these committees;
- Revision, evaluation and approval of the bank's Recovery Plan;
- Monitoring the Pillar 3 reporting process, including ESG issues, and approval of the annual Pillar 3 report;
- Approval of the Banks ESG risk management policy;

In accordance with the Order No. 215/04 of the President of the National Bank of Georgia dated September 26, 2018 "On the Approval of the Corporate Governance Code of Commercial Banks", the Supervisory Board of the Bank performs an annual self-assessment of its activities. The bank has conducted an assessment of the Supervisory Board's activities as of 2022 by an external consultant.

The independent consulting company Moore has conducted the evaluation of the working activities for the Supervisory Board as well as committees for the year 2022. Moore has used several mechanisms while evaluation the effectiveness of the board as well as compliance with the corporate governance requirements for commercial banks: The self-assessment of the board members, interviews, analyzing the provided documentation, etc.

The purpose for the evaluation was to highlight the issues which need to be developed as well as consideration of the current situation and future plans by the board members.

According to the results, it is approved that the whole board as well as the individual members are fully aware of the own rights and obligations, bank's mission and vision and the development strategy. Members of the board are well-informed about the regulatory frame, corporate governance standards and the best practices.

The qualification of the board members fully fits the legal requirements, bank's needs and corporate governance code requirements. Composition of the board as well as committees during the year was compliant with the requirement set by the code as well as the practice examples. Important to notice that after December 7, 2022 there is a vacant place in the board as well as in committee, which needs to be settled in a timely manner.

The results received by the external consultant proves that the members of the committee are eligible to:

- Effectively set the priorities and possible outcomes of own activities. The board has the compliant policies and internal regulations, guidelines and procedures in place;
- Properly analyze the received information. Effectively monitor the fulfillment of the decisions made and control the board of directors on their responsibility level;
- Maintain fruitful business relations with the board of directors of the bank simultaneously with avoiding harming the control and monitoring functions. Require the needed information in a proper and timely manner;
- Control the reporting process. Plan, conduct and manage risks related to the reporting process through appropriate committees;
- Understand and critically evaluate the information about bank's activities, require the accountability of the board of directors; Has the logical belief that the board of directors are fulfilling the goals set by the supervisory board according to the priorities set beforehand.

Among the strength of the board the following issues can be highlighted, members of the board are sharing the common values, they are actively involved in terms of own competences and abilities to critically and sharply evaluate the challenges which are being faced by the bank. Additionally, they do share the vision about future development and important fields.

The members of the board are actively participating in the activities of the board as well as board meetings. Despite the electronic communication cause by the pandemic, members were involved in ongoing topic discussions. Topics set by the agenda were discussed in open, non-formal manner, which ensured the detail examination of issues.

Members of the supervisory board and board of directors cooperated with the high working performance culture and sharp consideration of the mission of the bank. Worth mentioning that the process has never caused harming the functions of the control, monitoring or responsibilities.



The external consultant Moore has evaluated the activities of the board as well as the committees in a positive manner. The external consultant believes that board activities are fully compliant with the legislature, current regulations and the best practices of corporate governance.

Additionally, the performance can be further developed by organizing periodic training and activities for the members of the board in regards to the requirements and qualifications of the members. Additional attention is recommended to be set to the formalizing of processes and managing documentation for corporate memory and board inheritance.

## 9.2: The Management Board

The Management board is the executive board of the bank and its authority is set to 4 years. As of December 31, 2022 the Management Board consisted of following members:

1. Nato Khaindrava - Chief Executive Officer
2. Grigol Katsia – Deputy CEO
3. Givi Lebanidze – Deputy CEO, Chief Financial Officer
4. Beka Kvaratskhelia - Deputy CEO, Chief Risk officer
5. Zurab Gogua - Deputy CEO, Chief Commercial Officer
6. David Galuashvili - Deputy CEO, Chief Operating Officer
7. George Sulamanidze – Deputy CEO, Director of Digital Banking

Chief Executive Officer, Nato Khaindrava, graduated from Tbilisi State University with degree in Economics in 1988. She has been working at the Banking sector, since 1982. From year 2016, she takes position of CEO at Cartu Bank as well as Chief Non-executive Officer at JSC Cartu Group. Before taking the position of CEO, she used to serve as a Chief Financial Officer during years 2013-2015. From 2011 till 2013, Mrs. Khaindrava was the First Deputy Director at Cartu Bank. Between 2003-2011 years, she was Deputy Director of the bank as well as heading Internal Audit and Financial Departments of the bank. In 2002-2003 years was working as a liquidator in the National Bank of Georgia's Division of Banks Supervision. Before joining NBG was a Chief Accountant of the liquidation committee at Tbilkombank. From 1993 until 2001 was taking positions of Chief Accountant, Deputy Director and Chief Accountant of the Liquidation Committee at Sigma Bank. Before joining Sigma Bank, from 1982 was serving as a Chief Controller, Head of the Branch and the Chief Accountant at Saving Banks Nadzaladevi Branch.

Deputy CEO, Grigol Katsia, obtained bachelor's degree in economics in 1998 and Masters Degree in Macroeconomics in 2000 from Tbilisi State University. During 2003-2005 was studying Corporate Banking at Sparkasse Banking School. Before taking the position of the Deputy CEO he was Director of the Electronic Commercial at Cartu Bank, JSC. He was heading GNR Management, LLC as a Director General during the years 2021-2022. Mr. Katsia was an adviser in Steel International Trading Company, LLC from 2020 up to 2021, while prior to it took a CFO position in Georgian Manganese, LLC. During 2018-2019 he took an office of the Deputy Minister of the Regional Development and Infrastructure of Georgia. From 2011 to 2017 was advising the CEO of TBC Bank, JSC while working as a Deputy Corporate Director. Throughout 2009-2011 was a counselor of the CEO of Bank Republic, JSC and before Vice-President of the VTB Bank, JSC in 2009. He oversaw different responsibilities in European Bank of Reconstruction and Development (EBRD) including member of the Credit Board of Directors, CCO, Chairman of the Board of Directors, CEO and Senior Banker. Prior to EBRD, in 1996-



2003 oversaw the following positions in Bank Republic, JSC – Credit Officer, Operational Officer and Head of Credit Department.

Chief Financial Officer, Givi Lebanidze, graduated from the Economic Faculty of Tbilisi State University with the degree of Economic Cybernetics and qualification of Economist-Mathematician. In 2019, Mr. Lebanidze obtained Masters Degree in Finance from the Georgian Technical University. From March 2016, takes current position of Chief Financial Officer at Cartu Bank, while in 2018 he also became the Chief Financial Officer of the Insurance Company Cartu, JSC. From January 2013, Mr. Lebanidze became Deputy Director of Risk Management Department as well as Head of Financial Risk Management Division at Cartu Bank before he was promoted to Director of Risk Management Department in January 2016. He was heading Investment Division of Cartu Bank in 2010-2013 years. In years 2009-2010 and 2007-2009 used to be Corporate Banker and SME Credit Expert respectively. From December 2012, he simultaneously was working at Global Contact Consulting, JSC as a member of the supervisory board and after 2 years became the Chairman of the Supervisory Board of the same company.

Chief Risk Officer, Beka Kvaratskhelia, got a degree in International Economic Relations at Tbilisi State University, Faculty of Economics. From 2013 until now, he is a Chief Risk Officer at Cartu Bank. Before being promoted to CRO, Mr. Kvaratskhelia served as a Director of Risks Management Department in years 2009-2013, whilst as a Head of Risks Management Division during 2006-2009 years. He used to work as a Deputy Director of the Credit Department and Head of Corporate Credit Division from 2004 until 2006. From 1997 to 2001 was a Credit Officer and later till 2004 the Chief Credit Officer at Cartu Bank.

Chief Commercial Officer, Zurab Gogua, holds graduate and postgraduate degrees in Economics and Macro Economics from Tbilisi State University and Ministry of Economy Institute of Economy and Social Problems. From 2013, Mr Gogua takes the current position of Chief Commercial Officer. He used to lead Credit Department in years 2004-2013, whilst Credit Division in 2002-2004 years. Starting from 2000, until 2002 he was serving as a Deputy Head of Credit Division. He was Head of Monitoring and Analysis Division in 1998-2000 years, whilst Credit Officer in 1997-1998 and Economist of Cartu Bank in 1997. Before joining Cartu Bank, Mr. Gogua was a Manager of Marketing Research Center in 1995-1997.

Chief Operating Officer, Mr. David Galuashvili, graduated from the Economic Faculty of Tbilisi State University in 1995. Mr. Galuashvili holds current position as a Chief Operating Officer from 2013, after being a Deputy General Director from 2011 until 2013. Before entering COO office, he used to take positions of the First Deputy Chief Accountant, Senior Accountant, Head of Control Group and Accountant during 1997-2011 years. In 1995-1997 years was a Front Desk Officer at Bank of Georgia, while in 1994-1995 was the Head of Division for International Transfers at commercial bank Narikala.

Director of Digital Banking, George Sulamanidze graduated from the Georgian Technical University with the following degrees – Bachelor's degree in Economics and mechanical engineering, Master's degree in Economics and PHD in Banking. He joined Cartu Bank, JSC in September 2022 on the current position. Before joining Cartu Bank, during 2022 he was CEO of the Microfinance Organisation Euroins Georgia. From 2020 he took a position of the Head of Internal Audit Department, while from 2018 was Chief Operating Officer of the same Microfinance Organisation. During 2014-2018 he took an office of the Director of Business Development at KAPI, LLC. In 2013-2014 he took a post of the Director of Banking Services in the IT solution Provider company Asseco Georgia. He was heading the Central Back Office Division and Department of Plastic Cards and Remote Banking Services in Bank Republic during years 2008-2013 and 2005-2008 respectively. Mr. Sulamanidze was member of the supervisory board of Georgian Card, JSC during 2005-2013. He took different responsibilities in VTB Bank, JSC



during 1999-2005, including Director of the Plastic Cards Department, Deputy Director and senior specialist of the same department.

The Management board organizes banks day-to-day activities, executes decisions made by supervisory board and general shareholders meeting. Board is responsible for banks financial standing. The main duties of the board of directors also include:

- Generation of the banks Recovery Plan and presentation to the supervisory board for approval;
- Periodically discuss and evaluate the banks credit assets through the ESG standards set by the ESG Policy approved by the supervisory board.

In case of equal distribution of votes during voting procedure, CEO's vote is decisive. At the same time, directors individually represent the bank in relation to third parties.

During the period of 2022, the management board has discussed and made decisions on the following issues:

In accordance to the Order No. 131/04 of the President of the National Bank of Georgia dated June 29, 2020 "Rule on Developing and Assessment of Recovery Plan of a Commercial Bank", the bank has developed the Recovery Plan and presented to the supervisory board for the further consideration and approval.

Bank has actively started activities connected to cessation of the USD LIBOR Rate, including accepting and using The Secured Overnight Financing Rate in internal asset management.

Bank continues working on diversifying and effectively managing the correspondent network, therefore throughout the year several important correspondent accounts were opened and managed according to the decision of the directorate.



The following chart represents scheme of the bank according to leading directors.



### 9.3: Audit Committee

The Audit Committee represents the consultative body existing under the surveillance of the Supervisory Board, decisions made by the Audit Committee serves as a recommendation to the Supervisory Board. The key role of the committee is to promote the functioning of the internal and external auditors.

The purpose of the committee is to support the Board to carry out supervising functions and to properly inform members of the board on the following issues:

- Completeness and reliability of the Banks financial statement;
- Efficient functioning of the Internal Audit Department;
- Independence and qualification of the external auditor, also the quality of the service provided, amount of work and payment;
- Internal control system of the bank, efficiency and reliability of risks management;
- Details considered in the recommendation letter issued by the external auditor and information about the monitoring results of the board of directors implementing the solvings for the gaps highlighted by the auditor;

The Audit Committee addresses the Supervisory Board with an oral or written recommendation, expresses its own view and valuation about improving the forms of supervision. At the end of the year it makes reports about the performed work.

The Audit Committee consists of three members, including two independent ones. They are not connected to a bank, also, they or people related to them, according to the Civil Code of Georgia, who are among the circle of legal heirs, in the I and II grade, do not have the financial responsibility towards the bank. None of them is a member of a supervisory board or management board of any other commercial bank. The supervisory board, while choosing members, takes into consideration the compliance of the education and the experience also compliance of the quality of independence with the internal standards.

Committee shall meet in person minimum once in a quarter, as for special cases the meeting is called by the request of the chairman of the supervisory board, chairman of the committee or two members of the committee. Also, by the request of the head of Internal Audit Department of the bank.

In accordance to the Order No. 215/04 of the President of the National Bank of Georgia dated September 26, 2018 “On the Approval of the Corporate Governance Code of Commercial Banks”, the Audit Committee annually considers and assesses the independence level of the external auditor. The member of the Big Four, EY, LLC provides the audit service to the bank for the financial year 2022, whose independence quality was well evaluated and accepted by the Audit Committee. Information about the costs and fees connected to the service of the external auditor can be found in the banks Audit Report for the financial year 2022.

The Audit Committee Statute approved by the supervisory board in 2021 regulates the work of the committee.

#### 9.4: Risk Committee

Risk Committee represents the collegial body of the risk management in the bank existing under the surveillance of the Supervisory Board. The work of the committee is conducted according to the bank strategy and the risk appetite. It is based upon the local legislature, charter of the bank and other internal standards, also, the international practice in effective risk management is being taken into consideration.

Amongst functions of the risk committee are as follows:

- Defining the risk management strategy on the level of individual risk as well as on the aggregated basis. Reporting results to the Supervisory Board on the quarterly basis in the written manner, including information about acting as well as about the future risk appetite;
- At least annually reporting to the Supervisory Board about the internal risk management culture and results of the surveillance of the acting policies about the risk management;
- Coordination with the Chief Risk Officer and monitoring the performance;
- Monitoring the management strategy for the capital, liquidity at the same time all types of other risks including credit, market, operational and reputation risks, in order them to be aligned with the risk appetite;
- Conducting the stress scenario analysis as well as all types of scenarios with the possible impact on the risk profile;
- Analysing the Pillar 3 reports including ESG reports and providing recommendations to the Supervisory Board;
- Discussing the Recovery Plan of the bank and presenting the following recommendations to the Supervisory Board;

The Risk Committee consists of three members, including two independent ones. They are not connected to a bank, also, they or people related to them, according to the Civil Code of Georgia, who are among the circle of legal heirs, in the I and II grade, do not have the financial responsibility towards the bank. None of them is a member of a supervisory board or management board of any other commercial bank. The supervisory board, while choosing members, takes into consideration the compliance of the education and the experience also compliance of the quality of independence with the internal standards.

The risk committee is chaired by the independent member of the supervisory board.

Committee shall meet in person at minimum once in a quarter, taking the risk type of the bank as well as requirements and development, the meeting can be called additionally.

The Risk Committee Statute approved by the supervisory board in 2021 regulates the work of the committee.

#### 9.5: Credit Committee

The committee represents the highest collegial body in the credit management of the bank. The supervisory board delegates the authority to the committee to adopt decisions about bank procedures connected to crediting and managing it. The work of the committee is fully based upon the charter of the bank, internal standards and the international practice used in crediting.

The direct functions of the committee are to discuss all types of credit applications; to make final decision on approval or rejection; to agree on parameters related to specific loans, such as limits, currency, validity periods and interest rates; to make decision on defining and changing them, restructuring, prolonging, and correcting the possible loan loss provisions.

The Committee is being appointed and approved by the supervisory board. The committee unites the following authorized permanent members:

- Chief Executive Officer (Chairman of the committee)
- Chief Financial Officer
- Chief Commercial Officer
- Chief Risks Officer
- Chief Operating Officer
- Deputy CEO
- Director of Credit Department
- Director of Legal Department

The Credit committee member cannot be a person who is not an employee of the bank, an employee of the internal audit or any other person of a controlling body, in order to avoid the conflict of interests due to their position.

The committee meetings normally are held once in a week. The chairperson of the committee defines the agenda and topics to discuss.

The credit management committee is directly responsible towards the managing board of the bank and as a rule, once in a quarter submits the report about their activities.

#### **9.6: Small Credit Committee**

Like the credit committee, small credit committee also represents the banks collegial body in the credit business management, though it can operate within the limited frames defined by the supervisory board.

The supervisory board appoints members and defines people with the appropriate delegated authority. The committee consists of three authorized members: Chief Commercial Officer, Chief Risk Officer and Head of Credit Department.

Any loan application, which does not confront with the credit policy of the bank, may be reviewed by the committee, thereto the whole debt of the business group, approved loan or requested amount in total should not be more than USD 300,000 or equivalent in other currency.

Committee is neither allowed to review the non-collateralized application, the application of the insider and of the enterprise created with the government share. Furthermore, it is not allowed to establish less interest rate on standard classified loans than it is already established, to introduce more than six-month grace period on profit payout and twelve- month grace period on capital amount.

The small credit committee is directly responsible towards the credit committee. Once in a quarter, the small credit committee submits the report to the credit committee about their activities.

### 9.7: Assets and Liabilities Management Committee

Assets and liabilities management committee represents a collegial body, its purpose is to maintain and improve the financial qualitative factors on the basis of effective management of assets and liabilities of the bank.

The main mission of the committee is to provide the compliance of the ALM policy with the strategy and other policies of the bank, to facilitate the operational management process of the mobilized resources in the bank by means of effective management, to define the desired volume and parameters of obligations and allocations, to choose and adopt the methodologies and models for managing liabilities and allocations, to monitor the execution and elaboration of the policy in order to protect economic standards established by the regulatory body.

The committee is appointed and approved by the Supervisory Board. The Committee consists of seven authorized members:

- Chief Executive Officer (Chairman of the committee)
- Chief Financial Officer
- Chief Risk Officer
- Chief Commercial Officer
- Chief Operating Officer
- Deputy CEO
- Director of the Treasury Department
- Director of the Economic Analysis Department

Assets and Liabilities meeting is scheduled by the chairperson, if required. The ALM Committee charter approved by the supervisory board of the bank in September, 2022 regulates the activity of the committee.

### 9.8: Business Process Management Committee

The main functions of the Business Process Management Committee are to discuss and adopt new/current/optimised business processes, block-diagrams of business processes and in case it is needed, auxiliary documents (applications, technical tasks, etc).

Members of the committee are chosen and approved by the management board of the bank. The committee consists of seven authorized members:

- Chief Operating Officer (Chairman of the committee)
- Head of Operational Risk Management Division
- Head of Quality Management Division
- Director of Commercial Network Management Department
- Director of Centralized Administration Department
- Director of Business Development Department
- Director of Legal Department

The member of the committee cannot be a person who is not an employee of the bank, an employee of the internal audit department or any other person of a controlling body, in order to avoid the conflict of interests due to their position.



The committee meeting is scheduled by the chairman, if required. Head of the Compliance and Methodology Division is in charge of the secretary of the committee. The topics for discussion are proposed by the Compliance and Methodology Division.

The committee is directly responsible towards the managing board of the bank. Once in a quarter, the committee submits the report representing their activities and results.

The Committee charter approved by the Management Board on November 09, 2018, regulates the activity of the committee.

## 10. Risk Management

### 10.1: Corporate Strategy

The significant part of the bank's corporate strategy is credit granting to corporate and small and medium-sized enterprises (SMEs). The bank is planning to maintain existing profile and increase the share of SMEs in its credit portfolio in the medium term.

It is significant for the bank to improve the quality of assets, which implies the bank to reduce the share of repossessed assets in its total assets, reduce the share of non-performing loans in the total credit portfolio, maintain or upgrade its international credit ratings and diversify its credit portfolio across the different industries.

In the long term the bank is planning to change the structure of raised funds, in name, to substitute comparatively short-term funds by the longer-term funds and also to diversify funding sources.

### 10.2: Risk Management Framework

JSC Cartu Bank's business model is designed to ensure that the bank preserves above-average capitalization level, and resources are distributed to the sectors and assets that supports the achievement of sustainable and balanced growth.

The principal risks that Cartu Bank encounters in the pursuit of its strategic objectives have been categorised as follows: Credit, Market, Liquidity, Operational and Other Non-Financial Risks.

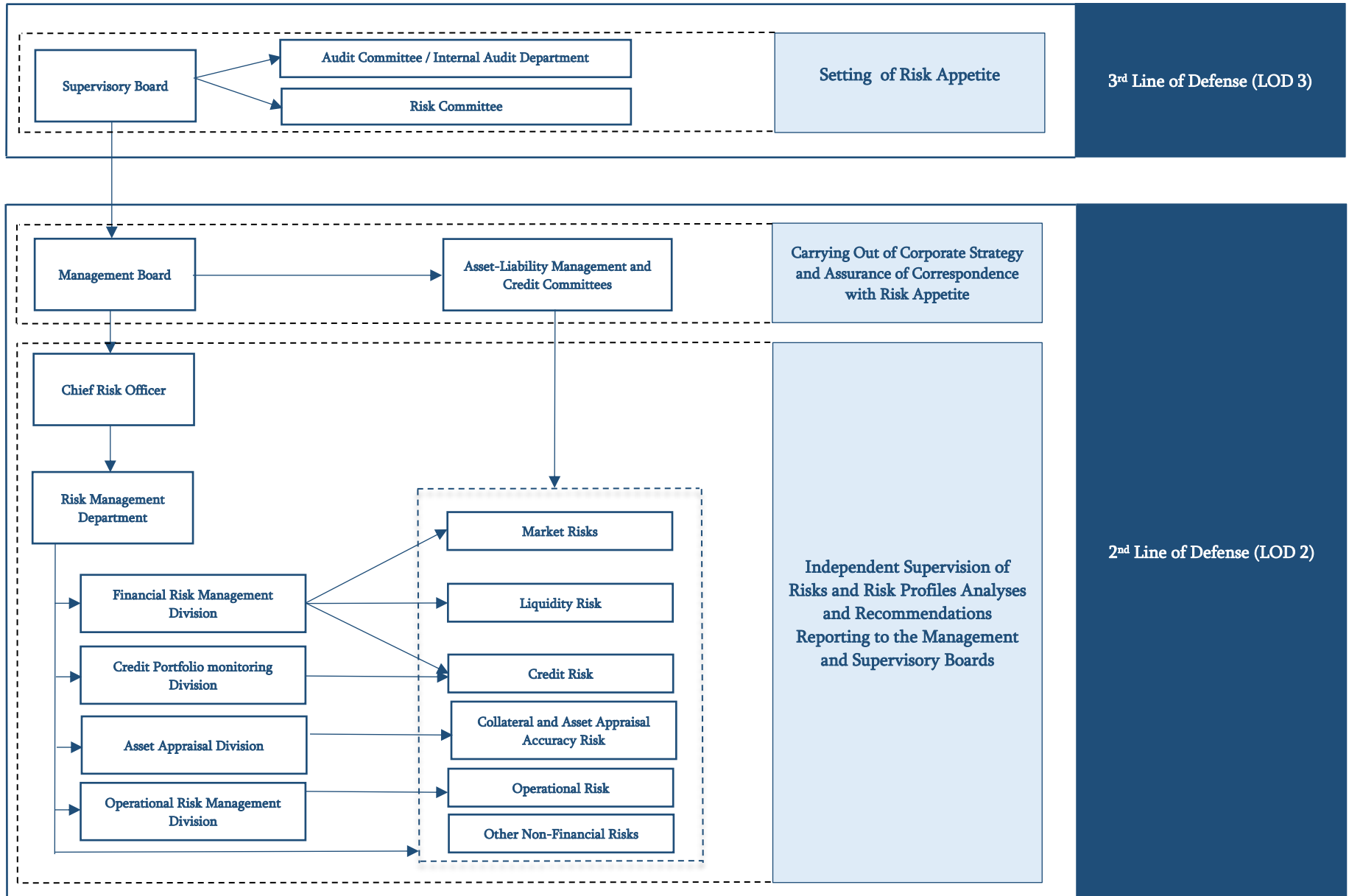
The Bank's risk management objectives are as follows:

- To determine a risk appetite that maximises risk/return whilst ensuring that the Bank maintains adequate capital at all times;
- To ensure that prudent levels of liquidity are in place to fulfill short-term liabilities of the Bank even under stressed conditions;
- To have an adequate and effective control mechanisms ;
- The complete compliance and adherence to the rules and regulations governing the bank's business.

The key principles that ensure an effective risk management strategy are:

- Existence of the robust 2nd Line of Defence in the bank;
- Correspondence of the overall principles set by the bank's corporate strategy and the level of risk the bank is able and willing to undertake (the bank's risk appetite);
- Ensuring that the risk issues associated with business development activities are being correctly identified, measured and properly reported;
- Obtaining appropriate assurance that there are sufficient controls in place for controlling risk.

Bank's risk management structure is given on the following chart:





### Risk Appetite

Supervisory board reviews and approves risk appetite, which facilitates the bank's long-term, sustainable growth and balances the need for long-term profitability with prudential risk management. The bank's risk appetite is defined by quantitative measures. The bank uses risk appetite to define the broad-based level of risk that the bank is able and willing to undertake in carrying out its business.

### Capital Planning

The supervisory board assesses the capital requirements as for supporting the business plan, so to withstand the stressful environment.

### Liquidity Planning

Management board critically assesses the liquidity the bank needs as for supporting the business plan, so to withstand the stressful environment. Each month bank's treasury and risk management departments prepare liquidity forecasts of up to 1 month, 1-3 months, 3-6 months and 6-12 buckets and submit to the management board.

### Enterprise Risk Management Model

The Bank uses the 3 Lines Of Defense ("3 LOD") model to manage its risk across the enterprise. The model is used as a means of communicating clear accountabilities to achieve and assure overall effective risk governance, which facilitates reinforcing the Bank's internal control framework.

The 3 LOD approach separates the ownership/management of risk from the functions that oversee risk and the functions that provides independent assurance:

- **1<sup>st</sup> Line of Defense (LOD 1)** - bank's structural units, which own and manage risks. This line comprises business and operational units. Heads of divisions and directors of departments, as owners of risks and controls, are ultimately responsible for all risks and controls that fall within their area of responsibility.
- **2<sup>nd</sup> Line of Defense (LOD 2)** - structural units, that identify and supervise risks. Risk management process, that exists for functioning a robust second line of defense is as follows:
  - Risk Control Assessment;
  - Scenario Analysis;
  - Active Credit Portfolio Quality Management;
  - Key Risk Indicators / Early Warning Signs;
  - Governing Bank's Different In-house Models
  - New Products and Services
  - Internal Control Assessment/Attestation
  - Ongoing Monitoring of the key risk management Policies and Procedures
  - Operational risk events reporting
  - Etc.
- **3<sup>rd</sup> Line of Defense (LOD 3)** - Units that:
  - Set Risk Appetite;
  - Conduct Independent Audit;
  - Independently Control Processes and Key Indicators;

### Risk measurement and monitoring systems

The main principles for effective risk measurement and monitoring are:

- Measure risk exposures by expected credit loss modelling, risk indicators and scenarios on enterprise level;
- Facilitate top management understanding of the severity of the risk;
- Reporting of risk profiles analyses to the supervisory Board and management board with risk indicators and mitigation means, in order the supervisory and management board to assess risk appetite and in case of necessity to adjust it;
- Proper record-keeping of accepted risks.

Quarterly risk profile reports submitted to the supervisory and management boards include:

- Credit risk profile analysis;
- Liquidity risk profile analysis;
- FX risk profile analysis;
- Interest Rate risk profile analysis;
- Operational risk profile analysis;

### Standardised Approach

To calculate risk exposures for the regulatory purposes the bank uses only the standardized approach according to the NBG regulation about “capital adequacy requirements of commercial banks” (which is in correspondence to the Basel Committee on Banking Supervision’s capital adequacy framework).

### Stress Tests

The bank conducts different stress tests and analyzes forecasted scenarios by changing different parameters. This ensures bank to assess/measure not only currently identified risks, but also the new potential risks arising in times of stressful development of events.

The bank is exposed to certain risks in conducting its business. The bank’s principal risk categories are shown below:

- **Credit Risk** - the risk of default of an exposure that may arise from a counterparty failing to make required payments. The Credit Risk may arise from the Bank’s various dealings with its clients, such as credit issuance, treasury and investment activities, trade financing and etc. The detailed information about Credit Risk, its evaluation and methodology can be found in the Annual Audit Report 2021.
- **Market Risk** - the risk that may arise because of change of interest rates, foreign exchange rate, shares and/or tradable commodities on international exchanges will change the net asset value of the bank, which entails loss. For the regulatory purposes, the bank calculates market risk according to the overall open FX position, which as of December 31, 2021 is equal to 32.7 mln GEL. The detailed information about Market Risk can be found in the Annual Audit Report 2021.
- **Liquidity Risk** - the risk associated with the bank’s inability to meet its liabilities when they are due or meet them by disposing of assets with significant discount, which will reduce bank’s capital. The bank measures liquidity risk by liquidity coverage ratio (LCR) and average liquidity ratio.
- **Collateral and Repossessed Assets Appraisal Accuracy Risk** – The risk is connected to:
  - Inaccuracy of appraisal of the collateral, which means inaccurate risk assessment in case of the possible default. It can affect the decision about crediting.
  - Not accurate appraisal of the repossessed asset which affects the decision about sales of the asset;

In order to manage mentioned types of risks, the market price for the mentioned assets are calculated according to IVS by internal as well as external appraisers. As for the larger assets the following report is being prepared by the asset appraisal monitoring division, which ensures the compliance to IVS standards.

- **Operational Risk**- the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. For supervisory purposes, Bank calculates operational risk using Basic Indicator Approach.
- **Other Non-Financial Risks** - the bank while conducting its business may face other potential risks, such as reputational, legal, strategic, compliance and other risks. Because currently these risks are non-quantified and they are managed according to the corresponding policies, the bank currently does not assume necessity for additional capital buffers for such risks.

### 10.3: Credit Risk Management

The Credit Risk is the risk of default of an exposure that may arise from a counterparty failing to make required payments. The Credit Risk may arise from the bank's various dealings with its clients, such as credit issuance, treasury and investment activities, trade financing and etc.

The top-down management of the Credit Risk starts from the Supervisory Board of the Bank, who is responsible for the setting the Credit Risk Appetite as well as Credit Risk Management General Framework, the Board of Directors is responsible for fulfilling the set requirements. The Risks Committee, has own scope, which should include the following responsibilities:

- Assess the Bank's risk tolerance in terms of credit risk;
- Ensure the implementation of credit risk identification, measurement, monitoring and controlling fundamental principles in the bank;
- Establish bank's limits on credit positions and concentrations;
- Periodically review bank's credit portfolio and its riskiness;
- Periodically get the report from bank's management about credit risk management process;
- Provide risk-taking divisions, credit department and financial risk management division, with appropriate qualified human and technical resources.

The first element of credit risk policy is to determine the risk level that the bank can take. Credit risk tolerance has to be determined by considering the amount of capital and general risk appetite of the bank.

#### Credit Risk Assessment

The Bank uses in-house rating system and provision methodology for impairment loss of credit portfolio (for IFRS reporting purposes), in order to effectively manage credit risks.

#### Credit Risk Monitoring

Monitoring process of credit risk is mainly performed by credit portfolio monitoring division, which represents part of risk management department. The above mentioned division performs financial analysis of the borrowers and prepares monitoring reports with appropriate recommendations on a semi-annual basis (depends on the business specifics, amount of debt and financial strength of the borrower).

### Collateral

The bank actively uses pledged collateral for the purpose of mitigating the credit risk arising from corporate and retail borrowers default probability. Pledged collateral is not considered as a risk mitigant in credit risk weighted assets for the regulatory purposes. Collateral risk assessment process includes assessing collateral value, liquidity and execution risks. Collateral is also grouped according to correlation with the financed business. During the decision-making process of loan disbursement higher time haircuts are used for the collateral assets with high correlation with the business for LGD purposes. Information about the loans, in terms of collateral, is given in 2022 Audit report.

Bank has collateral valuation and management division, which performs the valuation/revaluation process of the assets put forward as a collateral by the borrowers. On several occasions, bank uses valuation services of outside firms/individuals specialized in asset valuation. The bank has the Asset Appraisal Monitoring Division in the Risks Management Department for monitoring the appraisal quality on the level of the whole process as well as the individual asset.

### External Credit Assessment Institutions (ECAIs)

Bank uses external ratings of the ECAIs for calculations of the credit risk weighted positions, capital adequacy ratios and the provisions for the possible credit default of non-credit financial instruments.

Bank considers Standard & Poor's, Moody's and Fitch credit ratings.

### 10.4: Interest Rate Risk Management

The top-down management of the Interest Rate Risk starts from the Supervisory Board of the Bank, who is responsible for the setting the Interest Rate Risk Appetite as well as Interest Rate Risk Management General Framework, the Board of Directors is responsible for fulfilling the set requirements. Regarding the interest rate risk management, the Risks Committee of the Bank has the responsibilities given below:

- Definition of the bank's risk tolerance towards the interest rate risks;
- Implementation of the guidelines of identification, measurement, monitoring and control of the interest rate risks;
- Periodical revision of the bank's investment and trade portfolio results and consideration of the interest rate risk strategy;
- Periodically request interest rate risk management report;
- Supply of the qualified staff and technical resources to the interest risk bearing and managing structural units.

Determination of the risk level that the bank can assume shall be the key element of the bank's market and interest rate risk policy. The market and interest rate risk tolerance and appetite shall be defined according to the capital of the bank and commonly, in consideration of its risk tolerance.

The risk arising from the interest rate change due to various terms of the interest earning assets and interest-bearing liabilities is a key aspect of the interest risk. In order to measure the above mentioned risk, the bank employs the "revaluation gap" method involving comparison of the same term assets and liabilities by their amounts. A potential loss arises when there is a gap (in terms of sums) between the same term interest-earning assets and the interest-bearing liabilities and the market interest rate changes.

The bank prepares the pricing model for each individual interest rate bearing asset, which considers every parameter participating in building the interest rate.

#### **10.5: FX Risk Management**

The FX risk is the risk of reducing net foreign currency denominated assets or the increase of net foreign currency denominated liabilities, caused by exchange rate fluctuations, which reduces bank's regulatory capital.

The top-down management of the FX Risk starts from the Supervisory Board of the Bank, who is responsible for the setting the FX Risk Appetite as well as FX Risk Management General Framework, the Board of Directors is responsible for fulfilling the set requirements. Regarding the FX risk management, the Risks Committee of the Bank has the responsibilities given below:

- Defining the bank risk tolerance level towards FX risks;
- Providing the establishment of main (fundamental) principles of detecting, measuring, monitoring and controlling of FX risks;
- Determining the Bank's limits for open foreign-currency position for various currencies;
- Periodically evaluating Bank's currency position in current cash assets as well as in long term credit investments;
- Periodically request FX risk management report;

For the purpose of FX risk management, the Bank determines the following limits: Common open foreign-currency positions limit for all foreign currencies, both according to on-balance sheet and off-balance sheet as well as the overall FX positions, shall not exceed 20% of the Bank's regulatory capital.

#### **10.6: Liquidity Risk Management**

The liquidity Risk is a risk associated with the Bank's ability to meet its liabilities when they are due without disposing of assets with significant discount. The top-down management of the Liquidity Risk starts from the Supervisory Board of the Bank, who is responsible for the setting the Liquidity Risk Appetite as well as Liquidity Risk Management General Framework, the Board of Directors is responsible for fulfilling the set requirements.

The liquidity management is mainly based on the monitoring of the standards set by the regulatory requirement of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The systematic forecast of the cash inflow and outflow is conducted internally, which is fully based on the statistical analysis of the liquid assets.

The Financial Risk Management Division together with the Asset-Liability Management Division analyze general economic and market conditions as well as possible effect on the bank's liquidity positions based on the information available about the funding sources.

#### **10.7: Operational Risk Management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The top-down management of the Operational Risk starts from the Supervisory Board of the Bank, who is responsible for the setting the Operational Risk Appetite as well as Operational Risk Management General Framework, the Board of Directors is responsible for fulfilling the set requirements.

Operational risk arises due to the bank's day to day operations and is relevant to every aspect of the business. Bank formally identifies, assesses and manages its operational risks through the following processes and tools:

- **Operational Risk Event Reporting** – this is the process of reporting losses arising from operational risks, process failure and other non-monetary events. These events are captured and logged centrally and are analysed to pro-actively manage risk through root cause analysis.
- **Scenario Analysis** – this process seeks to identify the high impact, low likelihood but plausible events that could impact the bank and also estimate the respective severities and probabilities used across main risk categories to ensure that the bank can adequately understand and quantify not only risks as they currently exist, but also those in extreme circumstances. The analysis focuses on high impact, low probability events.
- **Risk and Control Self Assessment (RCA)** – this process is used to assess the Banks' existing key or expected risks. It assesses the inherent risks, control effectiveness and resultant residual risks of the key risks that the Bank is exposed to and which could negatively impact the achievement of strategic objectives. In this way the Bank ensures that appropriate controls and/or remediation plans are in place to mitigate risk and loss impact.
- **Risk Acceptance** – the first line and department heads are expected to identify risks, risk issues or control failings that need to be mitigated. In certain circumstances, risk mitigation may not be possible or may require a longer period for remediation. In those situations, the risk must be accepted. This process supports this need and describes the approach for raising, accepting, monitoring and reporting a Risk Acceptance.
- **New Risk Assessment** – this process enables the operational risk assessment before adopting any change, which supports the risk profile control against the Risk Appetite.

The output from the above processes are analysed in order to give a view of the operational risks that the Bank is exposed to versus its risk appetite, and therefore mitigated or risk acceptance (as required) and act as a further input into the business activities and strategy of the Bank.

Because of the technological updates, the framework of the operational risk management constantly expands.

## 11. ESG Risk Management

The bank puts a huge emphasis on sustainable financing and its role in the economic development, growth, eliminating poverty and funding availability. Identification and management of the Environmental, Social and Governance risks on the level of the bank as well as on the level of the credit assets is the outstanding part of the sustainable financing.

The bank, for identification and management of the ESG risks, has developed the internal procedures, methods and approaches which are fully complied with the international best practices.

The bank has very specific procedures for identification, valuation and management of the ESG risks.

While developing the business strategy and development plan, the bank is considering the environmental, social and governance related issues, as far as the non-effective management of interconnected risks may become the reason for financial, legal and reputational problems.

The management of the ESG risks is based on two pillars, which include general principles of the risk management on the bank level and on the level of the possible impact analysis of the credit assets. On the level of the own ESG risks management, bank considers the following issues but not only:

- Decreasing the level of CO emission – In this regards bank prioritises the eco-friendly systems while choosing heating and cooling infrastructure for the local offices;
- Choosing the transport means – The bank chooses hybrid engine vehicles and/or electrocars;
- Counterparty Consideration - The bank while cooperating with the counterparties, takes their attitudes towards ESG issues into consideration and gives preference to ones with the less possible negative environmental impacts;
- Policy/Procedures – The bank is planning to introduce the waste management, reducing, reusing, recycling and composting policies, at the same time ensuring collection of waste paper and deliver to the recycling entities;
- Reducing the Waste – By using the modern information technology tools, bank is striving to reduce the material documents usage internally;
- Social Activities – Bank is being proactively involved in the environmental activities and supports social companies with the mean of restoration of the green ecosystem;

In terms of measuring the possible impact on the environment, bank annually calculates the overall CO emission, which includes the following three categories – Scope 1, Scope 2 and Scope 3 as defined by the GHG protocol.

- Scope 1 - Direct emissions from banking group owned and controlled vehicles as well as all fuels used with different means;
- Scope 2 – Usage of different types of the energy resources with different means by the banking group;
- Scope 3 – Costs of the used resources, including the resources used during business trips (Local as well as international) and other office materials;

Information about the overall CO emission by the bank can be found in the annual ESG Reporting and Disclosure Report of year 2022.

Within the Social Risks Management framework, the management of the bank guarantees the fair approach, equal opportunities and nondiscriminating attitude towards all the employees. The management board puts a huge effort in creating safe and healthy working environment in the bank. The supervisory board as well as the board of directors are encouraging the employee involvement in trainings, seminars and education activities, which is well believed to be the key for long-term sustainable relations with the staff.

In terms of the Governance Risks Management, the transparency is the most crucial for the bank. ESG risks management issues are equally discussed and considered by the supervisory board as well as the board of directors. The supervisory board of the bank is responsible for adoption of the internal ESG risk management policy. The bank has an assigned ESG responsible officer, who is responsible for monitoring of the credit portfolio with the responsible member of the board of directors.

The bank annually discloses information connected to ESG issues under Pillar 3 disclosure principles. Additionally, the information will be uploaded on the official web-page of the bank. At the same time, the bank is ensuring the ESG information delivery to the clients. The bank will try to maintain the growing number of green assets in the portfolio as well as encouraging clients for better internal procedures and policies, which will increase the familiarity and information level within clients.

The bank values the initial claim of the client as well as the current credit portfolio is being monitored semi-annually. The bank has the exclusion list.

Besides all other issues, ESG risk valuation is being considered for every single credit asset. Valuation of the ESG risks is the part of the credit surveillance process, the results are delivered to the credit committee. Discussing and considering the ESG risks are having the identical importance while the decision-making procedure as all other issues.

While evaluating the ESG risks, the bank is using the internally developed model which is based on the international best practices and experience. Through the valuation process, firstly bank is considering the following important components of the asset:

- Type of Loan
- Maturity of Loan
- Business Industry
- Business Category
- Business Subcategory;

Based on the criterion mentioned, bank assigns the ESG risk quality in terms of the business industry and overall, general risk quality.

In case of Low Risk profile, bank check the compatibility with the local legislature only, whilst for Average and High Risk Profile assets, the following additional parametres for monitoring are being used:

- Organisational capacity and competences
- Commitment of the company and management to the ESG risks management
- Track record and transparency quality or ESG reporting



The bank has planted the Sustainable Finance Taxonomy for Georgia provided by the National Bank of Georgia while evaluating the green loans in terms of environmental issues. The mentioned update will provide much more transparency and comparability towards other market players.

Through supporting the sustainable development, the bank is striving for the positive changes in decreasing the possible influence on the environment, effectively utilizing resources, cutting the costs, providing with the innovative services and products by which the negative effect on the environment can be decreased drastically. The future priority set for the bank is to work on the sustainable development issues in cooperation with the development financial institutions.

## 12. Important Updates

In accordance to the Order No. 131/04 of the President of the National Bank of Georgia dated June 29, 2020 “Rule on Developing and Assessment of Recovery Plan of a Commercial Bank”, the bank has developed the Recovery Plan and presented to the supervisory board for the further consideration and approval. The bank has set the detailed indicators for the recovery plan, has executed the strategic analysis of the plan as well as the recovery measures. Additionally, several stress scenario analysis have been conducted and results were shared to the National Bank of Georgia.

In regards to providing parallel reporting according to the local regulatory reporting and international financial reporting standards (IFRS) from 2022, the bank has refined the internal procedures, reporting standards and the information technology infrastructure.

Bank has launched a new product for the holders of bank’s VISA plastic cards. Apple Pay is a payment service, which enables the users to activate cards in their virtual wallets and pay on any POS terminals.

From 2022 all clients of the bank are eligible to get the improved rate and experience while trading FX through the internet or mobile banks.

### 13. Information About Remuneration

All members of the Supervisory Board get the remuneration. Information about 2022 year remuneration is given in Pillar 3 annual report, Appendix 24.Rem1.

Supervisory board determines the remuneration of members of management board. Information about 2022 year remuneration is given in Pillar 3 annual report, Appendix 24.Rem1.

For identifying other Material Risk Takers bank has Policy/Instruction for identification of the Material Risk Takers on place, which itself is based on the Corporate Governance Code for Commercial Banks, Guideline for Identifying the Material Risk Takers provided by the National Bank of Georgia and the European Bank Authority Guideline. Information about other MRTs identified by the bank as well as the remuneration for the year 2022 can be found in Pillar 3 annual report, Appendix 24.Rem1

Stock related instruments are not involved in the bank's remuneration system. None of the employees total remuneration has exceeded 1 million GEL during the reporting year.