JSC CARTU BANK

Pillar 3 Annual Report

(As of 31st December 2021)

2022 Year

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1. Overview

Pilar 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.

Pilar 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 Pilar 3 report. The report is prepaired 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 repective paragraphs.

3.1: Capital Adequacy Ratio

In 1,000 GEL	31.12.2021	31.12.2020
Common Equity Tier 1 Capital	189,240	171,026
Additional Tier 1 Capital	83,635	55,702
Tier 2 Capital	49,523	173,855
Total Regulatory Capital	**322,398**	**400,583**
Risk Weighted Assets (RWA)	**1,299,144**	**1,448,539**
Current Ratios		
Common Equity Tier 1 Ratio	**14.57%**	**11.81%**
Tier 1 Capital Ratio	**21.00%**	**15.65%**
Total Regulatory Capital Ratio	**24.82%**	**27.65%**

3.2: Liquidity Coverage Ratio (LCR)

In 1,000 GEL	31.12.2021	31.12.2020
Total HQLA	341,714	364,180
Net Cash Outflow	186,392	195,000
Liquidity Coverage Ratio (%)	**183%**	**187%**

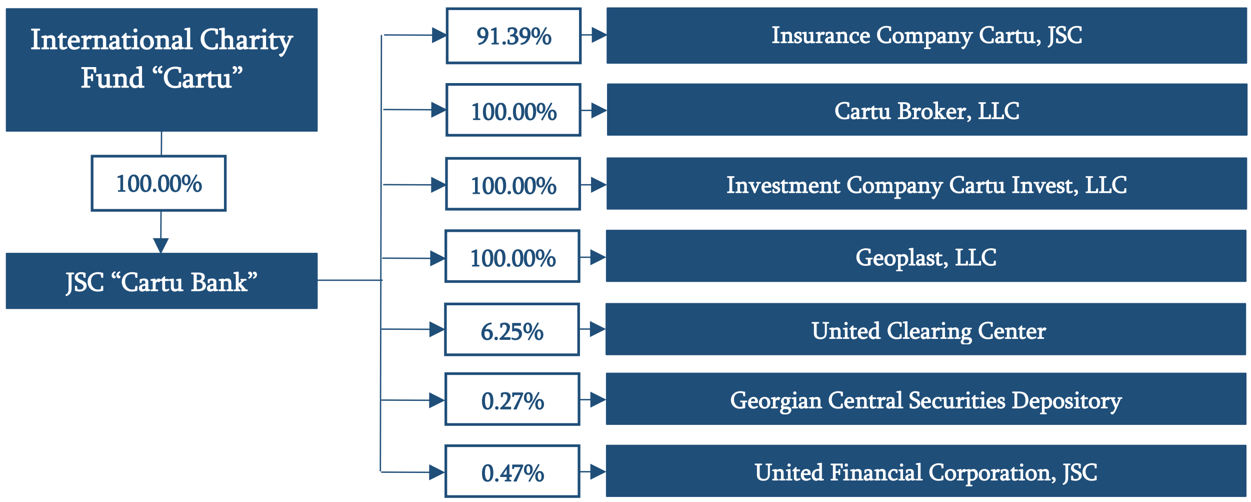
3.3: Net Stable Funding Ration (NSFR)

In 1,000 GEL	31.12.2021	31.12.2020
Available Stable Funding	899,894	1,034,490
Required Stable Funding	727,034	832,093
Net Stable Funding Ratio (%)	**124%**	**124%**

Other key financial ratios of the bank is given as an annex on the page “Key Ratios” of the 2021’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

Common Tier 1 Capital (in 1,000 GEL)	31.12.2021	31.12.2020
Common Stocks	114,430	114,430
Other Reserves *	7,438	6,838
Retained Earning (Loss)	71,408	57,389
Intangible Assets (including Goodwill)	(3,903)	(3,545)
Deferred Tax Assets	-	(4,086)
Common Tier 1 Capital	**189,373**	**171,026**
Additional Tier 1 Capital	**31.12.2021**	**31.12.2020**
Additional Tier 1 Capital Instruments	83,635	55,702
Additional Tier 1 Capital	**83,635**	**55,702**

Tier 2 Capital (in 1,000 GEL)	31.12.2021	31.12.2020
Convertible Debt (Subordinated Debt)	37,171	159,843
Reserves **	12,351	14,012
Total Tier 2 Capital	**49,523**	**173,855**
Total Regulatory Capital	**322,530**	**400,583**

* 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 Weghted Assets/position.

6. Capital Adequacy

6.1: Risk Weighted Assets

In 1,000 GEL	31.12.2021	31.12.2020
Credit Risk Weighted Risk Assets	1,161,154	1,334,090
Market Risk Weighted Risk Assets	32,704	14,247
Operations Risk Weighted Risk Assets	105,286	100,203
Total	**1,299,144**	**1,448,539**

6.2: Credit Risk Weighted Risk Asset

Date: 31.12.2019	Balance Sheet Amounts	Risk Weighted Amounts	Risk Weights						Credit Risk Weighted Amounts		
In 1,000 GEL			0%	20%	50%	100%	150%	250%	Before Mitigation	Mitigation	After Mitigation
On-Balance Sheet Positions											
Due from Governments and Central Banks	236,444	236,576	34,334	-	-	202,243	-	-	202,243	-	202,243
Due from Commercial Banks	53,942	53,942	-	22,143	31,649	150	-	-	20,403	-	20,403
Due from Corporate Customers	714,327	725,846	-	-	-	725,846	-	-	725,846	29,232	696,615
Overdue Loans	105,426	105,428	-	-	-	105,428	-	-	105,428	25	105,403
Property And Equipment *	20,363	16,460	2,895	-	-	13,565	-	-	13,565	-	13,565
Cash and Cash Equivalents with Commercial Banks	26,986	26,986	26,986	-	-	-	-	-	-	-	-
Investments in FI's and Tax Assets	16,161	16,161	-	-	-	-	-	16,161	40,403	-	40,403
Other Investments in FI's	56	57	-	-	-	57	-	-	57	-	57
Other Assets **	50,185	50,569	-	-	-	50,569	-	-	50,569	1,165	49,404
Total On-Balance Sheet Amounts	1,223,891	1,232,026	64,215	22,143	31,649	1,097,857	-	16,161	1,158,513	30,421	1,128,092
Off-Balance Sheet Positions											
Guaranties	4,359	4,359	-	-	-	4,359	-	-	4,359	55	4,305
Non-credit criteria Guaranties	25,215	12,608	-	-	-	12,608	-	-	12,608	2,103	10,505
Credit Contingencies ***	35,322	17,661	-	-	-	17,661	-	-	17,661	9	17,652
Total Off-Balance Sheet Positions	64,897	34,628	-	-	-	34,628	-	-	34,628	2,167	32,461
Credit Risk Weighted Assets connected to counterparty											
Contracts with maturity less than 1 year ****	30,022	600	-	-	-	600	-	-	600	-	600
Total	**1,318,811**	**1,267,254**	**64,215**	**22,143**	**31,649**	**1,133,086**	**-**	**16,161**	**1,193,742**	**32,588**	**1,161,154**

* 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

**** Risk exposure is calculated by 2% of FX Forwards and Swaps

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	2021	2020	2019
Net Interest Income	48,959	40,963	55,244
Profit (Loss) from property realisation	13	6	59
Total Non-Interest Income	11,305	10,356	1,711
Total Income	60,251	51,312	56,895
Average Total Income for last 3 Years	56,153	53,441	68,922
Operational Risk Capital (15.00%)	8,423	8,016	10,338
Operational Risk Weighted Risk Exposure	105,286	100,203	129,231

7. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (According to NBG)			
31.12.2021 (in 1,000 GEL)	**GEL**	**FX**	**Total**
Total HQLA	85,571	256,144	341,714
Net Cash Outflow	32,808	153,584	186,392
Liquidity Coverage Ratio (%)	**260.8%**	**166.8%**	**183.3%**
Minimum Requirement	>75%	>100%	>100%

Other key financial ratios of the bank is given as an annex on the page "Key Ratios" of the 2021'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	73,981	204,052	278,032
Net Cash Outflow	10,731	19,835	27,041
Liquidity Coverage Ratio (%)	**689.4%**	**1028.8%**	**1028.2%**

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 five members:

1. Nikoloz Chkhetiani - The Chairperson
2. Temuri Kobakhidze – Deputy Chairperson; Independent Member
3. Besik Demetrashvili – Member
4. Thea Jokhadze – Member
5. 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.

The Deputy Chairperson of the Supervisory Board and the Independent Member, Temuri Kobakhidze has graduated from the Georgian Technical University, Faculty of Business Engineering. Currently he holds a position of the member of the Supervisory Board at "Caucasus Online", simultaneously, starting from 2013, he is a deputy director of the mentioned company. From 2014, till now, Temuri is the head of the audit committee of the Cartu Bank, JSC. He used to work as a consultant of the director of the "Caucasus Online". In 2011-2012 he was an auditor of the IT group at Cartu Bank, JSC. In 2010-2011 he used to take the position of the specialist of the treasury operations at the Mobitel, LTD.

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 supervisoty 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 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 Strcturing 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 is planning to conduct an assessment of the Supervisory Board's activities as of 2022 by an external consultants.

For self-evaluation the Supervisory Board considers the following components:

- Frequency, quality, and attendance results of the board meetings;
- Board culture, working environment, core values and ethics;
- Duties of the Board, functions, and the quality of their fulfillment;
- The Supervisory Boards role and participation in the day-to-day activities of the Bank, as well as in monitoring of the implementation of the set strategy;
- Effectiveness of the Board committees work and taken decisions;
- The quality of the relationship between the Supervisory Board and the Board of Directors;
- The quality of relations between the Board and the key shareholders;
- Board recruitment rules, compliance of the competence and capabilities of its members with the current legislation, as well as the needs of the bank;

According to the above-mentioned components, the board members, individually conduct the assessment of both on the level of the board as well as on the individual basis. Based on the results obtained a self-assessment document for the activities of the Supervisory Board, Board committees and individual members in being generated, which is discussed and considered by the Board.

The activities of 2021 were evaluated mostly positively by the Supervisory Board however, the Board identified the main directions to which significantly more working time will be devoted during 2022. These issues are mainly related to the improvement of the environmental, social and governance risk management policy, as well as to the wider involvement and support of consultants invited to the work of the Supervisory Board.

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, 2021 the Management Board consisted of following members:

1. Nato Khaindrava - Chief Executive Officer
2. Givi Lebanidze – Deputy CEO, Chief Financial Officer
3. Beka Kvaratskhelia - Deputy CEO, Chief Risk officer
4. Zurab Gogua - Deputy CEO, Chief Commercial Officer
5. David Galuashvili - Deputy CEO, Chief Operating Officer

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 was 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.

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.

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 2021, 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.

Were approved the updated versions of the following policies: Know your Client (KYC), Know Your Clients Ultimate Beneficial Owner (KYCUB) and the Clients Risk Assessment policy.

The board of directors assigned a team for adopting the internal reporting standards in regards to providing parallel reporting according to the local regulatory reporting and international financial reporting standards (IFRS) from 2022. Board has reviewed the results and supported the successful installment of the international reporting standards within the bank.

Considering the effective management of the impacts cause by the Covid 19 virus, bank has adopted the updated policy of the labor safety, methodology of the risk assessment and management, plan of the labor safety and labor security safety and security technics for the employees.

During the financial year, bank was still using the hybrid working model, which considered the large amount of the employees working with the remoted regime.

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CARTU BANK

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

Chief Executive Officer (CEO)
- Safety Department
- Administration Department
- Quality Management Division
- Compliance Division

Chief Financial Officer (CFO)
- Financial Department
- Treasury Department
- Economical Analysis Department
- Reporting Department
- International Relations Department
- Investors Relations Division

Chief Risk Officer (CRO)
- Risks Management Department
- AML and CTF Department
- Non-core and Problem Assets Department
- Legal Department

Chief Commercial Officer (CCO)
- Business Development Department
- Credit Department
- Business Network Management Department
- Construction and Engineering Division

Chief Operating Officer (COO)
- Plastic Card Service and Processing Department
- IT Department
- Centralized Administrations Department
- Collateral Appraisal and Management Division
- Compliance and Methodology Division

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 2021, 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 2021.

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 me 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
- 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-colateralized 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.

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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
- 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 October 2021, 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.

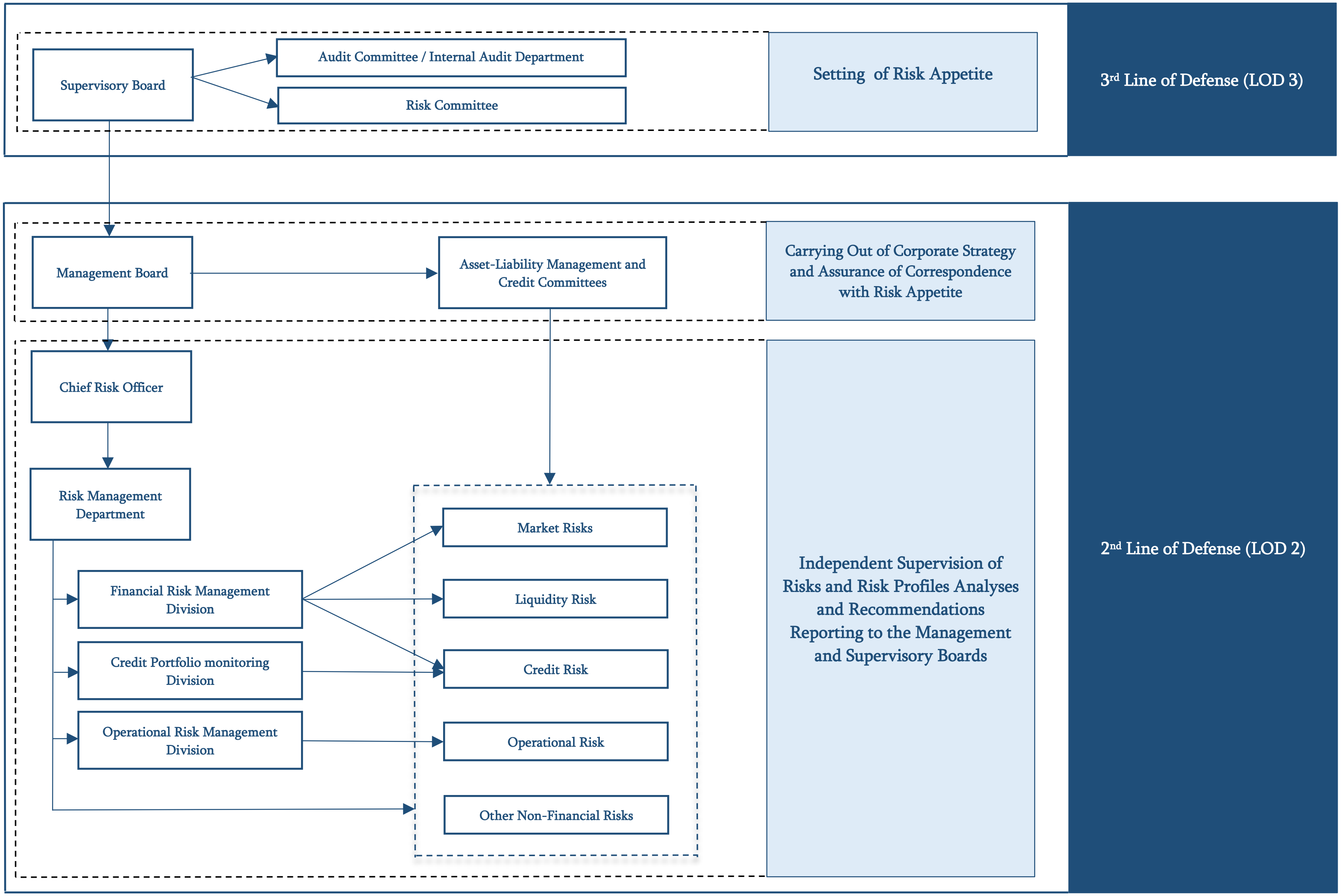
The Bank's risk management objectives are as follows:

- 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:


Supervisory Board
Audit Committee / Internal Audit Department
Risk Committee
Setting of Risk Appetite
3rd Line of Defense (LOD 3)
Management Board
Asset-Liability Management and Credit Committees
Carrying Out of Corporate Strategy and Assurance of Correspondence with Risk Appetite
Chief Risk Officer
Risk Management Department
Financial Risk Management Division
Credit Portfolio monitoring Division
Operational Risk Management Division
Market Risks
Liquidity Risk
Credit Risk
Operational Risk
Other Non-Financial Risks
Independent Supervision of Risks and Risk Profiles Analyses and Recommendations Reporting to the Management and Supervisory Boards
2nd Line of Defense (LOD 2)

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:

- **1st 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.
- **2nd 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.
- **3rd 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.
- **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.
- **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.

- 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 Top Management of the Bank, namely the Risk Management Committee, the scope of 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;
- Prediodically review bank's credit portfolio and its riskiness;
- Periodically report to bank's management and supervisory boards 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 montiring reports with appropriate recommendations on a quarterly or montly 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 retails 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 2021 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.

External Credit Assessment Institutions (ECAIs)

Bank uses external ratings of the ECAIs for only capital adequacy ratios calculation purposes.

Bank considers Fitch, Moody's and Standard & Poor's credit ratings for only risk weighting bank's credit exposures to other commercial banks.

10.4: Interest Rate Risk Management

The top-down management of the market and interest rate risks starts on the Top Management level of the Bank. Regarding the market and interest rate risk management, the Risk Management 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;
- Determination of the bank limits for various transactions;
- Periodical revision of the bank's investment and trade portfolio results and consideration of the interest rate risk strategy;
- Periodical submission of the interest rate risk management report to the Supervisory Board of the Bank;
- 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.

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.

Managing FX risks starts from the top management of the bank. Risk management committee of the bank has the following responsibilities for managing FX risk:

- 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 submitting FX risk management report to the Supervisory Board of the Bank;

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: Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

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 (RCA) – 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 (RCSA) – 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.

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.

The framework of the operational risk management constantly expands and updates.

10.7: 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 first element of the liquidity risk policy is to define the level of risk, which the bank can assume. The liquidity risk tolerance and appetite must be defined according to the capital amount and general risk tolerance of the

Bank. In developing the liquidity risk strategy, the Risk Management Department's Financial Risk Management Division and Asset and Liability Management Division of the Treasury Department should take into consideration the general economic and market situations and their possible impact upon the Bank's liquidity.

Management process of liquidity risk in JSC "Bank Cartu" is performed according to the limits set by the regulatory institution. Cash flow forecasts are performed systematically based on statistical analysis of factors influencing liabilities and liquid assets.

11. ESG Risk Management

The bank puth 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, at the same time the valuation method for the whole credit portfolio.

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 envitonmental 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 2021.

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 semi-annual 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 valuates 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 evey 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, the compatibility of the business continuity plan was evaluated. 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.

In terms of developing the open banking system, the bank has successfully implemented the first part of the project, which meant the information sharing between financial institutions about the client accounts and balances.

For additional security of clients the following systems were renewed and redeveloped – Strong Customer Authentication (SCA) procedure in internet and mobile banks; 3Ds security protocol of electronic commerce.

The bank was proactively working on developing the infrastructure for easening the accessibility of the treasury instruments for clients. From 2022 some of the treasury products will be already available directly in internet and mobile banks.

13. Information About Remuneration

All five members of the Supervisory Board get the remuneration. Information about 2021 year remuneration is given in Pillar 3 annual report, Appendix 24.Rem1.

Supervisory board determines the remuneration of members of management board. Remuneration consists of the fixed salary and insurance costs. Information about 2021 year remuneration is given in Pillar 3 annual report, Appendix 24.Rem1.

According to the EBA guideline, none of the bank employees, except members of the supervisory and management boars, take any material risks.

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.

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