

**PILLAR 3
ANNUAL
REPORT**

2021



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JSC Basisbank's Pillar 3 Annual Report is prepared in accordance with the requirements of the Decree No. 92/04 of May 22, 2017 of the National Bank of Georgia "On Commercial Banks Disclosure of Information within Pillar 3", and in compliance with the Pillar 3 Disclosure Requirements by Basel Committee for Banking Supervision and the standards established under the European Union Directive NO 575/2013.

Management's Statement

The Management Board confirms that the information provided in the Basisbank's Pillar 3 Annual Report for 2021 is accurate and free of any misstatement.

Unless otherwise stated, all data and information disclosed in the present report is presented according to the local reporting standards as required by the NBG. The present regulation does not require the audit of Pillar 3 disclosures. The report is prepared in full observation of the internal control processes as agreed with the Supervisory Board.

About Basisbank

Founded in capital of Georgia – "Tbilisi", the history of JSC Basisbank ("BB") dates back to early 90s, when a small group of persons decided to enter the newly emerged financial sector in Georgia and founded a bank with modest capital at hand and the business initiative, initially presumed to support the businesses of group of founders and related cycle of friends and partners, but laid the strong foundation for development of strong and solid financial institution.

Newly founded Bank was bound to face difficulties and challenges of transition period from planned economics to free market and harsh political and social environment inherent to emerging markets. Wading through numerous obstacles the founders of the Bank were able to navigate the bank through overruling crisis and managed to stay afloat, while a lot of effort was directed to advance the bank on the market with outlined development strategy, rational decision-making and consistent steps forward. The company had set its' goal of evolving into progressive bank which was brought to life through intensive communication and cooperation with customers, regulator and other stakeholders. Most of those connections and relations grew along with our Bank and share a single mindset and mutual interests up to this day. The Company laid foundation to growth-oriented, transparent platform relying solely on own resources which soon attracted foreign investors for further advancement on the market.

In 2008, EBRD acquired 15% of Basisbank's shares which kick-started organizational re-modelling processes targeting more agile and efficient structure. New vision and goal were also introduced: powerful image creation and adaptation of best international practices took place. Enormous efforts of the management and ordinary employees did not go in vain – soon the awareness about our organization increased and the company managed to take its' honourable position on the financial market.

In 2012 one of the largest investor of our country – Hualing Group – acquired 90% of Basis bank's shares. HG acquired BB in December 2012 and its injection in capital for US\$45 million in 2013 has provided solid capacity to the bank to sustain substantial growth.

BB's progress on the market since the entrance of Hualing Group was considerable - the main task was to ensure speedy growth, retain sound financials and pre-tax earnings history and achieve these targets with careful risk management practices to retain sustainability of the long term development path.

Financial support of powerful parent company opened new doors and opportunities to our organization and extraordinary results followed almost immediately – Basisbank upgraded its position in national commercial banks rankings, up from number 11th to the TOP-5 commercial banks operating in the country.

After the entrance of the new shareholder the bank had been recording accelerated growth on the market for several succeeding years (2012-2017 – 20X growth in assets).

New strategy forged - In 2017, the Bank founded two new subsidiaries, BB Insurance and BB Leasing, in tandem forming a new holding – BB Group.

Today Basisbank Group stands among leading financial institutions in the country broadening its outreach by offering Insurance and Leasing services as well.

With the new shareholder, Basisbank put forth hard work to upgrade its operation and to adapt it to the best international practices. The enormous work that had been done by the Bank's Management and dedicated staff brought Basisbank's recognition as an efficient, reliable bank with strong position among its competitors and had built a reputation that endures the present day.

With total assets well over GEL 2.9 billion by the end of Q1, 2022, our Group closes the TOP 4 Georgian Financial Institutions list on the market, delivering top-notch service to over 155,000 customers through over 800 professionals and 44 service centres across the country.

Latest Developments:

- Upon decision of the Group's Management Board, on February 28, 2022 the Bank announced the merger of loan and deposit portfolios from JSC VTB Bank Georgia's and finalized the process of migration of clients' balances to its ledgers in March 2022.
- This merger increased BB's assets by more than 35% positioning Basisbank as the top 4th largest Bank on the market by the end of quarter 1, 2022.
- As a result BB's retail and business customer franchise boosted significantly which is well in line with the Bank's growth strategy and ambitious transformation journey of becoming third largest bank in Georgia and gaining significant share and increase market penetration, increase our footprint and presence in regions, adding new business and individuals to our clients' base.
- Market share – share of assets has grown by +48% since 2021YE from 3.08% to 4.6%; Share of loan portfolio has grown by +57% from 2.9 to 4.6%
- More than 107,000 new retail clients
- 24 new locations, covering all major regional centers
- 350 new employees
- This transaction strengthens BB's position in the retail and corporate business and serve the Bank's mission to enhance its business and achieve its mid-term goals of gaining 10% of market share.

For over two decades on the market, BB has created one of the most valuable financial brands in Georgia. Basisbank is a universal financial institution, offering complex financial services to its retail and business clients across the country.

Basisbank is an establisher of a financial services group called “Basisbank Group” (or “the Group”) and is among top financial holdings operating on Georgian Market and currently is represented in Commercial Banking, Insurance and Leasing businesses.

The group provides services to Retail Consumers, Wealthy Individuals, Businesses and State Control Organizations.

There are three subsidiaries operating under the Basisbank Group umbrella: Hualing Insurance, BHL Leasing and Basis Asset Management Holding Company (BAMH).

Through coordinated functioning, all pillars of the group ensure the synergy and saving of resources and time, as well as greater accessibility to the products and services for the greater benefit of the clients. As a result, BB group is a universal financial platform, a one-stop financial solution provider with a wide value proposition basket of financial products and services spanning diverse business segments across the country.

BB subsidiaries deliver strong operational performance. The group companies remain focused on improving market share and attaining scale in respective businesses.

Note: For the details of Bank’s financial information as at December 2021 on consolidated and stand-alone basis please refer to Table 20_LI3 in Appendix PE1-BBS-QQ-20211231.

The Group’s fundamental aim is to be the best open financial services platform by acting responsibly and earning lasting loyalty of staff, customers, partners and shareholders. BB’s group targets inclusive development and accelerated growth satisfying the shareholders’ and other stakeholders’ best interests and expectations. The group concentrates on key lines of development with focuses on transformation and development of its strategic business lines, creating unified platform for financial services, connections to customers and businesses, introducing market-leading services by investing in digital technologies, staff and infrastructure directed to improve customer experiences.

The Group Structure

Joint Stock Company Basisbank was established on August 16, 1993, registered by the National Bank of Georgia on November 4, 1993, in accordance with the Law of Georgia on Entrepreneurs. In accordance with the current legislation, the bank holds a license issued by the National Bank of Georgia for banking activities (November 4, 1993, license No. 173. The bank’s legal address is: 1, Ketevan Tsamebuli Avenue 0103 Tbilisi, Georgia.

The bank is a universal banking institution with core in banking and financial services in accordance with the applicable law.

The Bank’s Shareholders

JSC Basisbank is a member of Chinese conglomerate “Hualing group” - a Chinese private enterprise group with broadly diversified businesses in China and extending overseas businesses. Xinjiang Hualing Industry and Trade Group Co. (“Hualing Group”) is in an ownership of BB since 2012.

Being a major shareholder of the bank, keeping controlling stakes of above 90%, Xinjiang Hualing Industry and Trade Group Co. is committed to develop strong financial institution under the umbrella of Basisbank group with emphasis on integrated growth of business franchise and strong advancement on the market.

Hualing group is presented on Georgian market since 2006. The areas of the Group’s interests are broad and comprehensive included processing and mining of wood and forestry industry, construction of infrastructure facilities, a large-scale modern commerce market, Hotel and tourism, etc. Total investment in Georgia since 2007 over USD 550 million.

Hualing Group's vision is to leverage the advantage of its presence in Eastern Europe and Asia, develop along with the "Silk Road" project initiative and reviving the historic role of Georgia as the trading hub between Europe and Asia, progressively making Hualing markets a bridge between the two regions.

The founder and owner of the Group, Mi Enhua, is a prominent Chinese business person, with extensive experience in business sector, awarded multiple times for his special contribution to China's economic development and charity work.

Shareholders	% of ownership interest held as at 31 December	
	2021	2020
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.305%	92.305%
Mr. Mi Zaiqi	6.969%	6.969%
Other minority shareholders	0.726%	0.726%

Other minority shareholders are individuals, including the members of the Management Board. The portion of their remuneration is converted into bank shares under share based scheme. The table above does not include 124 thousand (2020: 124 thousand) of granted and issued shares to management which are not yet vested. These shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties before the service conditions are met.

The Share ownership under local standards including not vested shares is given in Appendix PE1-BBS-QQ-20211231/ table 6

The Bank's Subsidiaries

As at end of 31 December 2021 three subsidiaries operated under the umbrella of Basisbank: JSC BB Insurance, JSC BB Leasing and Basis Asset Management Holding LLC (BAMH).

Thousand GEL		2021	2020
Name	Core activity	investment	investment
BAM holding LLC	Asset management	3,797	3,797
JSC BB Insurance	Insurance	6,000	6,000
JSC BB Leasing	Leasing	11,000	11,000
Total investment in capital		20,797	13,097



BB Insurance was established in 2017 as a member of the BB Group and is the group's main bancassurance partner. BB Insurance serves individual and legal entities and provides a broad range of insurance products covering motor, property, life, travel and corporate packages.

BB Insurance services are available in all cities and regions where Basisbank is present through its branches.

The governing body of the company

Chairman of the Supervisory Board – Zaiqi Mi
Members of the Supervisory Board - David Tsaava, Hui Li

The Management Board

General Director - Konstantine Sulamanidze
Deputy General Directors - Levan Pitiurishvili, Lia Aslanikashvili, Shota Svanadze

BB Insurance, is a rapidly growing company serving individual and legal entities and providing a broad range of insurance products covering motor, property, life, travel and corporate packages. BB Insurance focuses on digital sales, swift and easy claims settlement processes, highly reputable reinsurers, flexible and simple products, strong financial standing and solid professional staff. These advantages enable the company to maintain and increase flexibility and be accessible to clients across the country, with a simple governance structure and effective decision-making process. BB Insurance delivers services through BasisBank Group's branches in all cities and regions all-over the country.

Although the company is a relatively new on insurance market, BB insurance elaborated targeted growth ambition which is greatly challenged due to external factors, but still the Company manages to expand its share on the market, increase brand recognition and enhanced customers' confidence, and record substantial results as a results of carefully elaborated business strategy and risk management policy.

The Company ended the year 2021 with net profit of GEL 1.37 million (2020: GEL 1.36 million) and assets reaching to GEL 24 million recording +40% y-y growth, almost doubling the insurance contracts by increasing GWP with more than 80% y-y.



BB Leasing started operations with clients in February 2019. The company a member of the Basisbank Group and committed to complement the group's operations and services with products provided under leasing arrangements.



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BB Leasing, a new player in the leasing market and a member of the Basisbank Group, is focused on rapid development and aims to become a stable financial institution forming long-term partnership with its clientele and stakeholders to achieve its major goal - be a leader and innovator in the Georgian leasing market with sound financial standing and advance customer experiences. The company chooses the client as the central focus of its strategy. Identifying the needs of customers and creating new opportunities for them is the key focus and the business concept of the company.

The governing body of the company

Chairman of the Supervisory Board - Zaiqi Mi
Members of the Supervisory Board - David Tsaava, Hui Li

The Management Board

General Director - Konstantine Sulamanidze;
Deputy General Directors - Lia Aslanikashvili, Malkhaz Kharchilava

BB Leasing provides comprehensive leasing solutions and advisory services to individuals and businesses in sectors such as: agriculture, construction, manufacturing, mineral resources, trade, medical equipment, transportation and communication.

Beginning of 2021 was challenging for businesses and retailers, with more cautious spending, triggered by economic uncertainty around coronavirus pandemic impacting consumer confidence and flattening demand. Last year more than ever, networking at many different levels was critical for companies. BB leasing has individually worked with every client and helped them to generate alternative sources of income through help our leased assets, thus strengthening our customers and strengthening the solidness our portfolio.

As a result, in 2021 Assets exceeded GEL 15.6 million, portfolio grew by 79% y-o-y and net profit increased by 43% reaching up to GEL 1.2 million over 2020 results.

Basis Asset Management-Holding LLC was established in 2012, BAM Holding is a property management subsidiary of the Bank. Main activities of the subsidiary include: development, realization, leasing and rental of properties.

The Group will continue effectively using its assets to further strengthen its brand identity as one-stop-shop for financial services and become even more innovative in its service offerings.

During 2021 all three wings of BB Group continued providing services in close coordination which is based on the ability to offer one-stop-shop financial services to clients in a single space on both platforms (brick&mortal and digital). Simple, transparent and customer-centric approach remains a key factor in the success of our Group.

Bank Governance Bodies

Bank Governance Structure

Good Corporate Governance (CG) is crucial to the proper functioning of the company and well-governed company is the corner stone of any successful business, especially in an emerging market economy. We believe that implementation of good CG in the bank, as well as the industry as a whole, should adhere to basic principles, such as transparency, accountability, independence and fairness.

In order to establish good CG, Basisbank adheres to the Corporate Governance Code for Commercial Banks adopted by the National Bank of Georgia (NBG). Additionally, the Bank is guided by the principles on corporate governance for banks issued by the Basel Committee as well as various other standards and guidelines related to the implementation of good corporate governance.

In line with the principles of above mentioned regulations, the Bank established CG structure suitable with the size, complexity, structure, economic significance, risk profile and business model of the Bank and its Group.

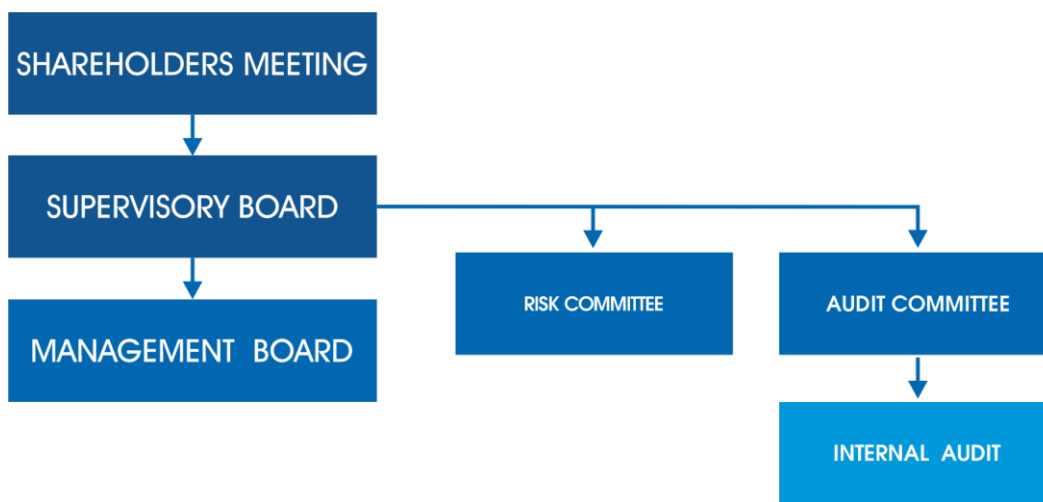
The governing bodies of the bank are:

- General Meeting of Shareholders
- Supervisory Board and Board Level Committee
- Management Board and management board level committees

The following documents regulate the corporate governance of JSC Basisbank.

- Bank Charter
- Regulation on the principles of corporate governance
- Regulation on Corporate Ethics
- Internal regulation
- Regulation of the Supervisory Board
- Regulation of the Management Board
- Regulation of of the Audit Committee
- Regulation of the Risk Committee

Bank Governance Structure



Shareholder exercises its rights and responsibilities through the General Meeting. The General Meeting of Shareholders is the supreme governing body of the bank, by participating in the Meeting, shareholders exercise their rights of bank membership in compliance with the legislation of Georgia and the Bank Charter. General meeting takes decisions on the most important issues - approves the bank's charter, makes decisions on issuance of shares, distribution and usage of earnings, on changes in the bank's capital and makes decision on appointment and / or dismissal of the Board members.

The General Meeting of Shareholders makes the following decisions:

- Amendments to the charter;
- Issuance of bank shares or other securities on the securities market;
- About the rules of sale of the bank shares and other own securities;
- Election of the Supervisory Board and the approval of the Board's budget (including the Board Committee(s));
- Approval of the Regulation of the Supervisory Board/amendments to it;
- Distribution and use of the bank's net profit;
- Increasing/decreasing the bank's capital.

At the General Meeting of Shareholders, one unit of ordinary share entitles its holder to one vote. Each scheduled meeting of the General Meeting of Shareholders is held once a year no later than two months after the preparation of the audited financial report for the previous year, which in turn shall be prepared four months after the end of the year. An unscheduled meeting of the General Meeting of Shareholders is convened at the request of the Chairman of the Supervisory Board, the Management Board or at least 5% of the shareholders.

Supervisory Board

The Supervisory Board (the Board or SB) is the body supervising the Group's activities, exercising its functions through the Board Meeting and Board-level Committees. The Board appoints Management Board members and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

The key functions of the Supervisory Board are supervision of the Basisbank Group's activities, Corporate Governance and Risk Management. Within the framework of these functions, the Board makes decisions on establishing the group's values, organizational structure and generally, ensuring that the group is governed in full compliance with the principles of fairness, competence, professionalism and ethics; establishes the group's strategy and oversees management's implementation of the bank's strategic objectives; ensures that the group is in compliance with all regulatory and supervisory requirements; establishes the risk appetite of the company along with Management Board and the CRO (Deputy General Director on risk management). The Board also oversees Management Board's activities and evaluates Management Board's decisions, ensuring independence and effectiveness of control functions, and conducts Management Board's performance evaluation in line with its long-term succession plan. The Board is responsible to oversee transactions with related parties and ensure existence of effective procedures and policies within the group in line with the requirements of law and regulatory framework. The Supervisory Board, in addition to financial risks, assesses non-financial risks, including the impact of the climate change risks on the banking activity. The Supervisory Board ensures that ESG risks are fully integrated into the Bank's risk management framework.

The SB adheres to and comply with requirements and principles of the Law of Georgia on Commercial Banks Activities, the Corporate Governance Code for Commercial Banks, the Code of Ethics and Standards of Professional Conduct, and internationally recognized standards in their work.

Board meetings are based on the principles of open dialogue, accountability and transparency, and members have the opportunity to be fully involved in the work process. Decisions are made in a transparent manner, with all members being equally involved in the dialog and decision-making process, except for the exclusion provided by the Bank's internal

regulation on the Management of Conflict of Interests. Board's decisions as well as related material are submitted to the National Bank of Georgia on an ongoing basis.

The Supervisory Board held 25 regular and ad-hoc meetings in 2021.

Powers of the Board

- Implement the basic defining principles of the Bank's strategic development, banking, risk management and supervise their implementation;
- Approve and periodically update documents such as the bank's internal regulations, and those regulating bank management and banking activities;
- Approve strategic development plan of the bank, review and approve the annual plan of the bank's activities presented by the directorate, and the annual budget, control their implementation, review the periodic financial reports submitted by the directorate;
- Approve the organizational structure of the bank;
- In case of consent of the General Meeting of Shareholders, appoint the General Director, other members of the Directorate, determine the issues related to the fixed and variable remuneration of the members of the Directorate;
- Ensure that Environmental, social, and governance (ESG) issues are properly reflected in the Bank's strategy and monitor their effective implementation;
- Approve the policy defining the principles of managing the conflicts of interest, control potentially risky transactions and, above the policy limits, review the deals planned with the persons related to the bank;
- Appoint an external auditor of the bank and request direct reporting from them;
- Convene the General Meeting of Shareholders;
- Perform the functions of the Remuneration, Corporate Governance and Nomination Committees;
- Implement internal control and risk management oversight through the functions delegated to Board-level committees;
- Execute other powers granted by the current legislation and the bank's charter.

Board Composition and Structure

The Board consists of five members, two of which are independent members of the Board. All members of the Supervisory Board are selected in accordance with the eligibility criteria set by the National Bank of Georgia. Board members are elected by the General Meeting of Shareholders.

The board's composition is an appropriate mix of knowledge, skills and experience that aligns with the Bank's strategy. The diversity of gender, age, nationality and functionality ensures different views in the process of discussion, evaluation from different perspectives and increases Board's performance. It is a properly balanced board that has the mission to ensure that the underlying issues are discussed from a variety of perspectives and that strategic decisions are made that are important for the bank's operations.

The Board is elected for a term of 4 years, however, the term of office shall continue after the expiration of this term, before the convening of the General Meeting of Shareholders. Repeated election of board members is unrestricted. A member of the Board may be removed from the Board before the end of the term by the General Meeting at any time.

The Supervisory Board is chaired by the Chairman of the Board, who is elected by the simple majority of votes from among its members for a term of 4 years. The Supervisory Board has two vice chairman, who are elected by the Board by a simple majority of votes from among its members for a term of 4 years.

Meetings of the Supervisory Board are held at least four times a year. The meeting of the Supervisory Board may be held in the personal presence of the members of the Board, or by electronic means of communication.

Composition of the Supervisory Board

The members of our Supervisory Board are: Mr. Zhang Jun – the Executive Chairman of the Board, Mr. Zhou Ning – Vice Chairman (an independent member), Mr. Mi Zaiqi - Vice Chairman, Mr. Zaza Robakidze – Member (an independent member), Ms. Mia Mi – The Board Member.

Zhang Jun - Chairman of the Supervisory Board

Zhang Jun holds an MBA. 2010 to present: Deputy General Manager in finance and foreign investments at Xinjiang Hualing Trade and Industry (Group) Co., Ltd. 1998 to 2010: worked as Sales Department General Manager, Assistant to the Chairman of the Board, HR Director in Urumqi City Commercial Bank. 1992 to 1997: Deputy Director in Chengxin Credit Union of Urumqi. Mr. Zhang held senior managerial positions at Urumqi Branch of the People's Bank of China, Urumqi City Commercial Bank and other financial institutions for many years. He has extensive practical experience in the operation and management of commercial banks, hence the profound and clear view of the strategic development of small and medium-sized commercial banks.

Zhou Ning - Vice Chairman of the Supervisory Board, Independent Member

Zhou Ning holds an MBA from Fuqua School of Business in USA, MS in Engineering from Virginia Polytechnic Institute, and BS in Engineering from the University of Science and Technology of China. 2005 to present: Managing Director in Tuhong International Co. Having implemented a number of financial advisory projects at Urumqi City Commercial Bank, Bank of Deyang, Yantai Bank, Hang Seng Bank, Wing Lung Bank, Xiamen Bank, Hong Kong Fubon Bank and Bank of Tianjin, Mr. Zhou has an in-depth understanding of strategy and business development of domestic and foreign small and medium banks.

Mi Zaiqi - Vice Chairman of the Supervisory Board

Holds a BA from University of California. 2011 to present: Deputy Director of GM Office in Xinjiang Hualing Trade and Industry Group Co., Ltd and Director of GM Office in Georgia Branch Office of Xinjiang Hualing Trade and Industry Group Co., Ltd. 2010-2011: worked as an assistant to GM in Xinjiang Hualing Real Estate Development Co., Ltd. 2005 to 2006: worked as an assistant to GM at Xinjiang Hualing Grand Hotel Co., Ltd.

Zaza Robakidze - Independent Member of the Supervisory Board

Zaza Robakidze, a proficient banking expert with over 25 years of sector experience, accepted the position of the Member of Supervisory Board in late 2018. He has also been serving as Chairman of Basisbank's Audit Committee since 2012. Zaza Robakidze spent several years working at the National Bank of Georgia on various positions, from Economist to Head of Supervision Department. Zaza Robakidze holds a Master's Degree in Economics.

Mia Mi - Member of the Supervisory Board

Holds a Bachelor's Degree in Business Administration from University of Southern California, Los Angeles. Director of International Development at Hualing Group International Special Economic Zone in Georgia. Extensive experience in assisting Chairman of JSC Hualing International Special Economic Zone in 2 crucial actions: acquisition of Basisbank in 2012 and each year (2011-2015) organizing international construction materials fair, connecting buyers and sellers from across Central Asia. 2015-2017, Mia Mi held various positions in key departments at Basisbank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders, organizing major corporate events and assisting HR in recruiting talents.

The Board delegates specific areas of responsibility to its committees: [the Audit Committee](#) and [the Risk Management Committee](#).

The functions of the committees are separated from each other, the issues are not discussed in duplicate. The committees report regularly to the Supervisory Board and facilitate informed decisions by the Board.

The Committees have unrestricted access to the Bank's internal information and documents related to any matter within the competence of the Committee.

The committees have full access to the Management Board and the risk management functions; however, they have the opportunity to meet independently, without the presence of the members of the Management Board, the employees of any unit of the bank as well as and external auditors, and to request and receive reports.

The committees have the right and opportunity to independently invite external consultants, and, if necessary, to receive consultations and services on legal, technical, accounting, financial, risk management, statistical and other issues.

[Audit Committee](#)

The Audit Committee is established by the Supervisory Board members and two of the three members are independent.

During the reporting period, the Audit Committee convened 7 times, and among others, was responsible for:

- Ensuring the adequacy and efficiency of the functions of the bank's internal and external auditors; within that, setting of the scale and scope of the internal audit;
- Oversight and monitoring the quality of the Bank's accounting and financial reporting;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, non-compliance with the legislation and other deficiencies;
- Ensuring the framework of the risk management and efficiency of internal controls;
- Review of the annual consolidated and separate financial and non-financial statements of the banks, discussion of the audited reports with the auditors, the pre-audit and post-audit processes and key issues and findings, and preparing of reports and recommendations for the Supervisory Board.
- Review of all internal documentations, the appropriateness of internal processes and control function, monitoring of the financial reporting process, data validation process, etc.

As of the end of 2021, the members of the committee were:

- Zaza Robakidze - Chairman of the Audit Committee/Independent Member of the Board
- Mi Zaiqi - Member of the Board
- Zhou Ning - The Vice Chairmen and an Independent Member of the Board .

[Risk Management Committee](#)

The Risk Management Committee is established by three members of the Supervisory Board, two of them are independent members.

During the reporting period, the Risk Management Committee convened 3 times, and among others, was responsible for:

- Oversight of the Bank's risk strategies and policies and their effective implementation
- Assessment and oversight of the Bank's risk profile and limits

- Oversight of the subsidiary's risk management function, risk management framework and the proper functioning of internal control systems.

Thus, through the Risk Committee, the Supervisory Board is actively involved in the risk management process, has the proactive information and recommendations on risk limits, monitoring and evaluation results, and observes the level at which the risk management strategies and policies are integrated in the daily activities of the bank management and other business units, and also whether they are acting in compliance with the laws and internal policies.

The members of the Risk Management Committee as of end-2021 were:

- Zhou Ning - Vice Chairman of the Supervisory Board, Independent Member,
- Mia Mi - Member of the Supervisory Board
- Zaza Robakidze - Independent Member of the Supervisory Board.

Annual evaluation of the Supervisory Board and Board level committees

As a part of the annual self-evaluation Based on the period from January 1, 2021 to December 31, 2021, the Supervisory Board reviewed the structure, size and composition of the Board, as well as the structure and coordination of the board-level committees. Other criteria for evaluation were inter alia: Functions and responsibilities, Professional Ethic, Session planning, agenda, submission of materials and reporting, Participation in Strategy Definition and Planning, Reporting and communication (board-level committees).

As a result of the evaluation, the work of both the Board and its committees was assessed as effective and in line with current legislation as well as the bank's internal standards. The Board and Committees consider all important matters that fall within their responsibility and make decisions based on the obtained information The Board and the Committees attach great importance to the compliance of the Bank's work and processes with the legislation regulating the banking activities, the legal acts of the National Bank of Georgia and the Financial Monitoring Service of Georgia and the instructions of the National Bank of Georgia. The staffing and qualification of the members of the Board and Committees is in accordance with the current legislation and underlying challenges.

Members of the Board and the Committees have the opportunity, to obtain any information and resources needed to make a decision, based on the complexity and importance of the issue to address, including the services of independent consultants. Appropriate resources are provided for this purpose in the Bank's budget.

Due to rapidly changing legislative requirements and global and local challenges, it was recommended to periodically increase the awareness of the Board and Committee members and/or seek the assistance of external experts in topical items such as: information and cyber security issues, a recovery plan based on hypothetical, systemic and idiosyncratic stress scenarios; managing non-financial (including: environmental, social and managerial) risks..

Next year the evaluation has to be conducted by an external auditor.

Management Board

The primary function of the Management is to effectively run the group's activity, ensure the uninterrupted growth and development of the bank and the group, ensuring sustainable positioning on the market in line with the objectives set by the Supervisory Board. The SB appoints the members, their functions, the structure and the role in governance and responsibilities in line with the applicable law and terms of reference. The remuneration is clearly defined by the SB. The accountability of the management, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the Supervisory Board.

The management recognizes the importance of good corporate governance and risk management culture as well as its role in these processes. The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives, in compliance with applicable laws/guidelines as well as internal regulations. The Management Board works closely together with the Supervisory Board and reports to the Supervisory Board on all issues with relevance for the Bank concerning strategy, the intended business policy, planning, business development, risk situation, risk management, staff development, reputation and compliance, on systematic basis but at least quarterly.

The management is responsible for delivering business objectives in line with the group's strategy, ensuring the Bank's capital and liquidity planning, and that management policies and procedures are communicated and implemented throughout the bank and are supported by sufficient authority and resources. The management is also responsible to ensure that the bank operates consistently with the processes and procedures set out in its internal and external regulations, allocations of resources, planning, managing, accounting and reporting of financial and risk position, properly executing the management and control functions.

Management Board consists of General Director, General Director Deputies and other Directors.

General Director

- Distributes responsibilities among board members in consultation with the Supervisory Board;
- Ensures the proper functioning of the Management Board, collective decision-making and compliance of decisions made with the company's strategy;
- Supervises and coordinates the decisions made by the Management Board;
- Represents the bank in relations with third parties

Management Board members

- Supervise their respective structural units, take care of their proper functioning and implement the policy defined in accordance with the Bank's strategy;
- Represent the bank in relations with third parties within the scope of their managerial authority.

Management Board of the Bank consists of 7 members:

- David Tsaava, General Director;
- Lia Aslanikashvili, Deputy General Director, Finance;
- Hui Li, Deputy General Director, Lending,
- David Kakabadze, Deputy General Director, Risk Management,
- Levan Gardapkhadze, Deputy General Director, Retail;
- George Gabunia, Chief Commercial Officer;
- Rati Dvaladze, Chief Operational Officer.

David Tsaava – General Director

General Director of Basisbank since 2011. 2015-2018: Member of Basisbank Supervisory Board. Since December 2017 David Tsaava has been serving as Supervisory Board member of BHL Leasing and Hualing Insurance, the subsidiaries of Basisbank Group.

David Tsaava has 17 years of experience in banking. He started his career at Basisbank as a loan officer in 2004. Later, till 2008, he headed the Corporate Loan Division. In 2008-2010 David Tsaava was appointed as Corporate Director. In 2010-2011 he was an acting General Director.

After obtaining a Bachelor's Degree in Banking and Finance from Tbilisi State University, David Tsaava got a Master's Degree at Sokhumi State University. Later, he obtained a PhD in Business Administration from Technical University of Georgia.

Lia Aslanikashvili – Deputy General Director, Finance

Basisbank's Deputy General Director, Finance since 2012. 2017-2018: General Director of BHL Leasing, the subsidiary of Basisbank Group. 2017-present: Deputy General Director, Finance at BHL Leasing and Hualing Insurance, the Basisbank Group member companies.

Lia Aslanikashvili has 22 years of experience in banking. In 1999-2002, she served as Manager at International Operations Department of Basisbank. In 2002-2005, she headed the same department. In 2005-2007, headed the Settlement Department. In 2007-2008, Lia Aslanikashvili led the Treasury Department. In 2008-2012, she was a CFO of Basisbank.

Lia Aslanikashvili holds a Master's degree in International Economic Relations from Tbilisi State University.

Li Hui - Deputy General Director, Lending

Basisbank's Deputy General Director, Lending since 2012. 2015-2018: Member of Basisbank's Supervisory Board. Supervisory Board member of BHL Leasing and Hualing Insurance, the Basisbank Group member companies, since 2017. Li Hui has been working in the financial sector since 1993. In 2005-2012 she was in charge of loan approval in Credit Management Department of Urumqi City Commercial Bank. At different times, she held the position of Deputy Manager of Credit Department and Deputy Director in Urumqi Chengxin Credit Cooperatives.

Li Hui holds a Bachelor's Degree in Accounting from Financial University of China.

David Kakabadze – Deputy General Director, Risk Management

Basisbank's Deputy General Director, Risk Management since 2019. 2017-2019: General Director of Hualing Insurance, the subsidiary of Basisbank Group. 2017-2018: Deputy General Director of BHL Leasing, the Basisbank Group member company.

David Kakabadze has 19 years of experience in banking. He has been with Basisbank since 2003, initially serving as an IT developer/ programmer. In 2005, he was appointed as Head of IT Programming Division. In 2008-2012 David Kakabadze became Director of IT and Risk Management. In 2012-2019 he served as Basisbank's Deputy General Director, Risk and IT Management.

David Kakabadze holds a Master's Degree in Finance from Caucasus Business School.

Levan Gardapkhadze – Deputy General Director, Retail Business

Basisbank's Deputy General Director, Retail Business since 2012. 2017-2018: Deputy General Director of BHL Leasing and Hualing Insurance, the Basisbank Group member companies.

Levan Gardapkhadze has 19 years of experience in banking. He started his career at Basisbank as International Operations Department Manager. In 2005 he was appointed as Head of Plastic Cards Department. In 2007-2008 he

chaired the Development and Project Management Committee. In 2008-2012 Levan Gardapkhadze was a Retail Banking Director.

Levan Gardapkhadze holds a Master's Degree in Business Management from University of Georgia, a Master's Degree in law from Tbilisi University of Economics, Law and Information and a Bachelor's Degree in International Economics from Technical University of Georgia.

George Gabunia – Chief Commercial Officer (CCO)

Basisbank's CCO since 2019 has 17 years of experience in the sector. In 2012-2019 George Gabunia headed the bank's commercial department. In 2010-2012 he led the corporate department of an international Georgian bank. In 2008-2010 he headed the Corporate Regional Group, and in 2006-2008 George Gabunia was a corporate banker at the same financial institution. In earlier years, he worked in Basisbank's marketing and sales areas.

George Gabunia holds a Master's Degree in Banking from Tbilisi State University and a Bachelor's Degree in Finance and Banking from the same university.

Rati Dvaladze – Chief Operations Officer (COO)

Basisbank's Chief Operations Officer since 2019. In 2014-2019 he headed Basisbank's Project Management and Business Analysis Division. In 2008-2014 he worked in the areas of credit risk system and analysis. Rati Dvaladze also is an educator, delivering lectures.

Rati Dvaladze obtained a Master's Degree in Information Technology Management from Free University and a Master's Degree in Mathematics from Tbilisi State University. He also holds a Bachelor's Degree in Mathematics.

Risk Strategy

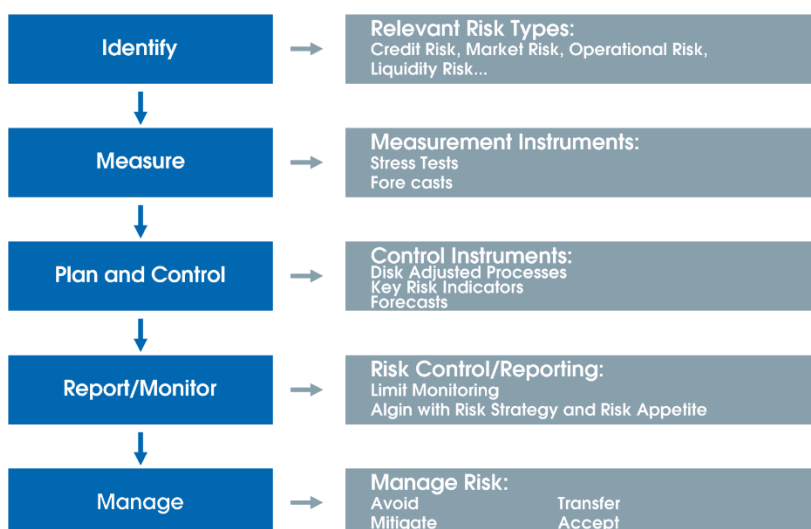
The risk strategy derives from the bank's business strategy. To determine and ensure an adequate level of bank capitalization at any time, the Bank formulates a risk appetite policy, sets risk limits based on the capital plan, its vision and goals for strategic development. Developing a risk strategy and capital adequacy planning is an integral part of the financial institution's governing framework and the strategic planning process in general.

The risk strategy is reviewed and approved by the Supervisory Board. It is necessary to review and amend it at any time, while updating the bank's business strategy, but at least once a year. The risk strategy should be available to the entire institution. Risks and capital are managed through a system of formalized principles outlined in the bank's policies and procedures, as well as through the structural units of the organization, the power and duties of which are clearly stated in the internal legal acts and regulatory documents. In addition, the bank has introduced the processes of evaluation and monitoring of departments and business units, which ensure adequate evaluation and management of the powers and activities performed by this unit. The system of governance thus ensures adequate daily management and control of all risks inherent in the activity by the bank. The management reporting system is arranged in such a way that it performs the function of an effective risk management tool, creating transparency and reducing risks.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organization. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- proper quantification of risks using adequate methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices in compliance with the international standards,
- maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest,
- taking into consideration risk perspective upon the launch of new activities, business lines or products

Risk management is segregated into five discrete processes: identify, assess, control, report and manage/challenge all material risk types, financial, as well as non-financial risks, including credit risk, market risk, operational risk, liquidity risk, regulatory risk and reputational risk, inherent in the Banking Business. Modelling and measurement approaches for quantifying risk and capital demand are implemented across all material risk types in the frame of Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.



Risk Management Structure

Given the volatility of financial markets, and uncertainty of macro-economic situation the function of Risk Management receives paramount importance. The Bank has developed a risk management framework with the aim to create an image of Basisbank as a stable and reliable bank. Core risk management responsibilities are embedded in the Management Board responsibilities and delegated to senior risk managers and senior risk management committees responsible for execution and oversight.

Implementation of robust and sound risk management system throughout the bank included amongst others formation of the independent Risk Management unit; creation of the risk-profile committees (Credit, Risk Management, Assets and Liabilities Committee-ALCO) which adhere to the risk management practices and ensure sound risk management practices and decision making; formation of an independent Internal Audit Department, which reports directly to the Supervisory Board, in order to give the Board unbiased information about adequacy of existing policies and procedures; initiation of risk management approach in analytical tools, practices, and decision making; developing a system of financial and managerial reporting to meet regulatory requirement and needs of Management Board; detection and classification of different types of risks which the Bank potentially faces; drafting policies, procedures and guidelines which govern management of risks in Basisbank. As a result, risk governance in Basisbank is organized across three lines of defense: at business unit level for operational day-to day management of risk, Risk Department level for internal controls and oversight of risk and Internal audit Level, for assurance to senior management and the board that the first and second lines’ efforts are consistent with expectations. Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer.

Effective Risk Management System



At a strategic level, risk management objectives supported by the risk governance structure are:

- To define the bank's strategy, which is based on the Group's Risk Appetite and the Strategic and Capital Plan
- To optimize risk/response decisions by taking them as closely as possible to the business;
- To ensure that business growth plans are properly supported by effective risk infrastructure;

- To manage risk profile so that financial soundness remains possible under a range of adverse business conditions.
- To monitor activities and correct deficiencies in internal control functions

Separate internal documents related to credit, operation and anti-money laundering policies allow the bank to internally assess /measure, combine risks, report key risks, and use this information for supervisory purposes.

In addition, the Bank's separate methodology and guidelines describe the processes that fully cover the credit granting and repayment cycle, the decision to approve a loan, the issuance, pricing and administration of a loan; It also provides information on loan portfolio management and capital adequacy assessments.

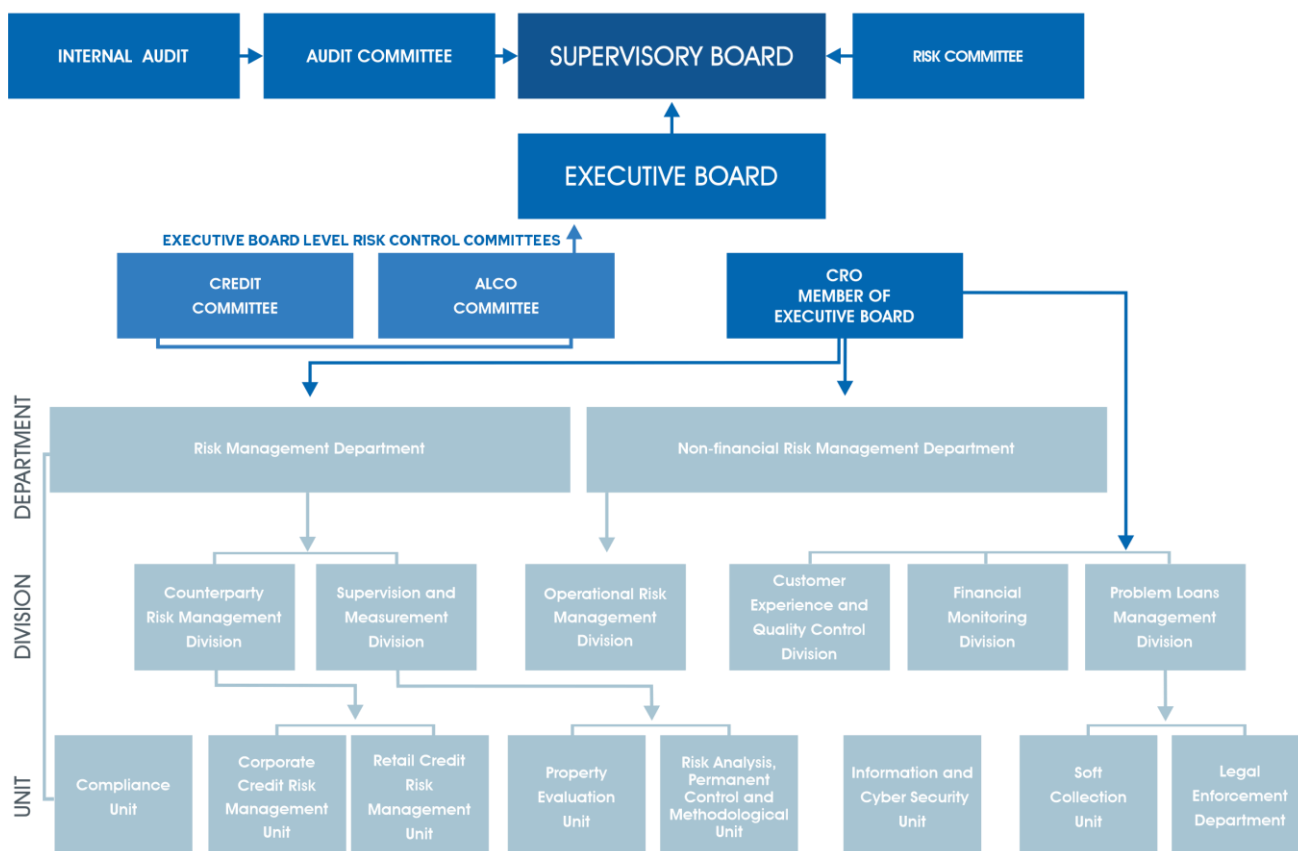
Risk Governance Continuity



The Bank maintains and adheres to the best Corporate Governance standards. Basisbank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009. Our operations are regulated and supervised within banking supervision framework by NBG which focuses on licensing, capital adequacy, liquidity requirement, risks' concentration, Corporate Governance Code as well as organizational and reporting requirements. Supervision framework also provides guidelines for the regulation of Risk management in Commercial banks, risk governance principles, internal control systems, etc.

Risk Governance Structure in Basisbank ensures effective segregation of duties between all levels of personnel in the bank from senior management to front line personnel in order to achieve goals defined in Business strategy. Risk Oversight function is split between following risk management units: The Supervisory Board, the Management Board, Audit Committee, Risk Management committee, Assets and Liabilities Management Committee (“ALCO”), General Risk Management department, Non-financial Risk Management Department, Compliance Unit, Treasury department, and Credit Committees.

Chart 1: Risk Governance



The Supervisory Board and the Executive Board have a sound understanding of risk management and its importance to the sustainable and strategic development of the Bank.

Supervisory Board - is setting “the tone on the top” by establishing and fostering a high ethical and responsible culture in the bank. The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board approves and exercises control over the implementation of the Bank’s strategy and its budget, sets the general approach and principles for risk management by assessing the Bank’s risk profile, the adequacy and effectiveness of the Bank’s risk management framework, approves individual risk strategies, sets risk appetite and the risk control framework.

The Risk Management policies approved by the Supervisory Board of the Bank aim to identify, analyze and manage the risks faced by the Group. They assign responsibility to the management for specific risks, set appropriate risk limits, set the requirements for internal control frameworks, and continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, emerging best practices, products and services offered.

Audit Committee – is an independent control function which regularly reviews internal controls and processes; reviews bank’s internal control system, evaluates its objectivity and correctness; provides oversight of the bank’s internal and

external auditors' recommendations; approves and makes recommendations to the Supervisory Board on monitoring financial accounting process; provides oversight of the effectiveness of the risk management system, particularly of the internal control system and the internal audit system. The audit committee reports to the Supervisory Board on quarterly basis on key risk portfolios, on risk strategy and supports the Supervisory Board in monitoring the implementation of this strategy; monitors the Executive Board's activities that promote the company's compliance with legal requirements, regulations and internal policies.

The Risk Committee oversees the bank's risk profile; assesses the adequacy requirements for key risks, including risk assessment, monitoring, and limits; discusses and agrees on actions related to risk profile and risk strategy within the bank. The Committee reviews all policies and other documents to be approved by the Supervisory Board before submitting them to the Board; evaluates the effectiveness of the bank's internal control and risk management systems together with the Internal Audit Committee; checks the tests performed by the external audit to assess the risk management environment and develops appropriate recommendations; periodically checks available systems for risk limits.

The management Board is responsible for managing the Bank, so that the main goals and objectives, as well as performance targets of the Bank are achieved and the daily operations are performed in accordance with the regulatory requirements and the Bank's Terms of Reference. The Executive Board defines appropriate procedures for managing all inherent risks in each business line, structures business to reflect risk, ensures adequate segregation of duties and defines operational responsibilities of subordinate staff, ensures existence of adequate procedures in place. The Management Board is responsible for monitoring and implementation of risk mitigation measures and operation of the Group within the established risk parameters.

Management oversight and control culture for Basisbank involves inclusion of key items related to internal control into the regular tasks of the Executive Board. Daily activities of Executive Board in the scope of oversight and control function include:

- reviews of performance reports, which enables them to streamline the progress toward the Bank's goals and control the activity at division and departmental level;
- regular reviews of whether the bank's strategy and risk and capital limits are appropriate and if compliance with exposure and capital limits is maintained;
- follow-up on non-compliance to ensure that management at an appropriate level is aware of the transaction or situation;
- requiring approval and authorization for transactions above certain limits;
- review of evaluations of internal controls;
- ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.

The Executive Board establishes committees and functional units within the bank to ensure overall oversight and management of risk.

ALCO Committee reviews current and prospective liquidity positions and monitors alternative funding sources; reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing; develops parameters for the pricing and maturity distributions of deposits, loans and investments; develops alternative strategies which take into account changes in interest rate levels and trends, deposit and loan products and related market/banking regulations, etc.; performs an independent review of the validation and reasonableness of the inputs, assumptions, and output of the ALM model(s) and procedures; approves limit structure on counterparty risk.

Credit Committee acts in the best interest of the Bank and in compliance with internal policies and procedures; evaluates potential clients' financial standing and their ability to repay the loan; reviews loan applications and makes decisions within the authority delegated to the committee; reviews loan collection practices to improve loan underwriting and collection efforts.

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Deputy General Director - Risk Management (CRO) is a member of the Executive Board, is a top-level executive responsible for overall risk management in credit, market and operational risks, who provides overall leadership, vision, and direction for Enterprise Risk Management (ERM) and develops a framework of management policies, including setting the overall risk appetite of the Bank. Responsibilities of CRO include comprehensive control of risk and continuing development of methods for risk measurement; setting risk limits and creating risk maps; communicating a clear vision of the firm's risk profile to the board and to key stakeholders. CRO has unimpeded direct access to Supervisory board, regularly reports to SB about the Bank's risk profile, its adherence to defined risk appetite, significant internal and external developments which could have material effect on bank's risks.

General Risk Management Department evaluates credit and market risks related to various transactions or operations and draws up suggestions about modifications necessary in structure, procedures, makes assessment of expected credit losses (ECL); manages and evaluates credit and market risks; elaborates ICAAP (internal capital adequacy assessment process) by coordinating them with the risk owners; elaborates and introduces methods of risk mitigation, specifically related to credit risk management; evaluates bank's lending performance and compares it to the past periods; reviews all policies and procedures prior to submission for approval to the executive board.

Compliance Division main functions of the Compliance Division performed by Compliance independently or jointly with other structural units are following: managing the risk of compliance and maintaining it at an appropriate level in order to save the Bank from attendant damage; anticipating, detecting, assessment and control of significant/potential risks related to compliance; working on methods of mitigation of compliance risks and risk monitoring.

Non-financial risk management Department is an integrated part of the Bank's overall risk management activities and aims to establish sound and effective non-financial risk management practice across the Bank. Non-financial risk by definition includes operational risks as defined in the Basel III operational risk event types, but also other important risks such as cyber and information security and third party risk. The purpose of Non-Financial Risk management is to ensure enforcement of effective risk identification, assessment, monitoring and reporting tools and methodologies in order to minimize non-financial losses while supporting business development and growth; It ensures to minimize internal fraud incidents and establish environment, which aligns with the bank's business objectives.

Risk Appetite and Key Risk Types

Risk appetite is the amount of risk that an organization is prepared to accept, tolerate, or be exposed to at any point in time. As it is evident that risk inherent in the operations of the Bank cannot be reduced to zero, based on careful cost-benefit analysis, the Bank has to elaborate its risk tolerance framework.

Management of each material risk types is defined within the ICAAP framework of the Bank. Risk appetite of Basis Bank has been set as a limit system which enables the Bank continuously monitor the exposure to the relevant risk factors. The limits are defined by the Executive Board and have to be in line with strategic planning and external requirements (legal requirements on capital and liquidity; Group level / owner requirements). The Bank considers risk assessment in a systematic way, which is achieved via different stress tests and Internal Capital Adequacy Assessment Process (ICAAP). Capital adequacy ratio, Liquidity Position, market risk are assessed within the regularly performed benchmark analysis and under more severe stress tests conditions.

The risk map of the institution shows the complete picture of all risk types evaluated in Basisbank under the ICAAP. For each type of risk, it is determined which methodological approach should be used to reduce the risk.

If the risk is considered significant and it is quantifiable, the Bank has to define internal methodology to calculate the respective capital needed to cover the risk. Other relevant risk types that cannot be quantified are to be treated through appropriate internal processes. Internal processes shall aim to minimize potential losses arising from non-quantified risk types. If the risk is found irrelevant, no special treatment is available. However, the regular review of ICAAP ensures that

at least yearly all risk types are assessed, and risk types that are irrelevant and became relevant over time are addressed in an appropriate matter.

Key Risk Types: Identification and Assessment

Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and price risk), and **liquidity risk**. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. Credit risk is obviously the most important type of risk for banks and banks' supervisory authorities. The Bank's credit strategy is to create diversified and profitable loan portfolio while maintaining maximum quality.

Credit risk management. The estimation of credit risk for risk management purposes is complex and involves use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, associated loss ratios and default correlations between counterparties.

Management of Credit Risk in Basisbank includes different activities embedded in the daily activities.

Establishment of an appropriate credit risk management environment. In Basisbank this is achieved through written Credit Policy and Credit Manual related to target markets. In this formalized documents portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and management reporting issues are addressed and outlined.

The Group structures the levels of credit risk it undertakes by placing concentration limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a regular basis and are subject to a more frequent review.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees to facilitate efficient decision-making. A hierarchy of credit committees is established depending on the type and amount of the exposure. Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit.

- The senior credit committee reviews and approves limits above USD 600 thousand, Approvals are given by e-mail or the committee meets when necessary. It is also responsible for issuing guidance to lower-level credit committees;
- The junior credit committees review and approve credit limits between USD 300-600 thousand. Approvals are given by e-mail or the committee meets when necessary;
- Applications up to USD300 thousand are approved by credit risk management department. Exceptions are retail loans up to USD 100 thousand that are approved by retail lending group.

Sound credit-granting process. In Basis Bank this involves the consideration of a number of factors in credit granting. Depending on the type of credit exposure and the nature of the credit relationship, these could be the purpose of the credit and sources of repayment, the current risk profile of the borrower or counterparty and collateral and its sensitivity to economic and market developments, the borrower's repayment history and current capacity to repay, historical financial trends and future cash flow projections. During the credit analysis, consideration is given to the borrower's business expertise, the borrower's economic sector and its position within that sector. These elements are part of scoring models developed for both, Retail and Corporate business lines. Corporate and Retail Credit Risk Management Departments take part in credit risk assessment of the client. For Individual borrowers the bank has developed simplified scoring model, which enables the Bank to assess the credit repayment capacity of the borrower, based on the analysis

of financial standing of the borrowers and their past repayment history. The scoring for retail and corporate is used primarily in the credit approval process for pricing purposes: pricing of each loan is risk adjusted, based on the scoring of the client and riskiness of the product.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities, or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Central Governments, Interbank exposures, International Financial Institutions (IFIs) Securities and other financial assets, when applicable.

Risk Mitigation and Residual risk. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risk. The limits for collateral coverage are different depending on product type and borrower segment. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. The Group obtains collateral valuation at the time of granting loans and annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. During 2021 the Bank has re-evaluated representative sample of all collaterals that were left out of scope of mandatory yearly re-evaluations. This process has not revealed any significant deviations from the value according to the last valuation acts. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies if necessary based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values are defined for each customer types by the Credit Policy.

Maintenance of appropriate credit administration, measurement and monitoring processes involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty; compliance with existing covenants, collateral coverage and contractual payment delinquencies. Also it involves the monitoring of share of exposure in the total loan portfolio to specific types of borrowers to avoid risk concentration. Such concentrations occur when there are high levels of direct or indirect loans to a single counterparty, a group of interrelated borrowers, or a particular industry or economic sector.

Maintenance of appropriate portfolio quality reporting. Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management in its control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, exposures by sectors and HHI index, dynamics of PD, LGD figures, etc. In order to monitor exposure to credit risk, regular reports are produced by the dedicated staff of Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Risk Committee, the Management Board and Supervisory Board.

Stress testing. The bank performs regular stress tests to monitor impact of adverse macroeconomic, as well as bank specific events on regulatory capital buffer and on bank's performance as a whole or at different levels of aggregation. Stress tests are used as an effective tool of risk assessment and management, in order to assess its capital adequacy and in case of need create additional capital buffer for adverse changes. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures.

In order to determine stressful scenarios, the Bank uses the National Bank's stress-test methodology manual. To assess possible impact of COVID-19 pandemic, in 2020 the Bank has performed the analysis of its portfolio in under stress scenarios defined by the national regulator (NBG), scenarios were provided for both retail and business portfolios. As a result of modifications GEL additional ECL provisions have been booked in 2020 either on individual borrower level or incorporated in the macroeconomic scenarios. During 2021 Bank closely monitored recovery of covid affected

borrowers and reversed provisions on specific clients after covid grace period has ended, according to the Loan Loss Provision recovery rules which have been recommended by the National Bank of Georgia for the whole banking sector. In parallel NBG has reviewed adequacy of specific provisions created after stress tests and in September'2021 the Bank was allowed to release "excess" general provision which remained unused for loans for which the granted grace period has ended, in total GEL 6,000 thousand provision has been reversed.

In 2021 Bank has also developed new tool for preventing /addressing severe stress situations, namely under recovery planning regulation (Introduced by NBG) banks were required to stress its resilience against more severe and wide-ranging adverse scenarios, than under normal stress testing process. Scenarios had to be developed in such way, that to be severe enough that is, if, in the absence of recovery options, the negative events would lead an institution to near-default. Bank developed one system wide and one idiosyncratic stress scenario with wide ranging stress events and tested adequacy of its recovery options. As result recovery options and recovery plan as a whole proved to be adequate under both high severe scenarios.

Market and liquidity risks are managed by the Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the General Risk Management department. The Treasury Department performs monitoring by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, interest rate exposures, and controls and manages foreign exchange risk exposure.

Market Risk. The most likely sources of market risk are interest rate risk and foreign exchange rate risk.

Interest rate risk is the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. From a credit institution's perspective, an interest rate risk may occur for both its trading book portfolio and banking book transactions (traditional credit/deposit and investment transactions).

Types of interest rate risks relevant for the Bank are:

- Re-pricing risk, i.e. risk deriving from the different maturity structure of receivables and payables and from pricing that is based on different interest rates or different periods. A re-pricing risk is generated when there is a mismatch between the maturity structure of assets and liabilities and if pricing takes place at different intervals or at differently based interest rates (e.g. receivables at a fixed interest rate and liabilities at a variable interest rate).
- Yield curve risk, i.e. risk originating in changes of the shape and steepness of the yield curve.

Foreign exchange risk rises from an open or imperfectly hedged positions in a particular currency as a result of unexpected movements in the level of exchange rates (that may lead to losses in the local or reporting currency of the market participant).

Oversight and control of market risk is set out to ensure that the bank's policies and procedures for managing interest rate risk and FX risk on both, long-term and day-to-day basis are adequate and that clear lines of authority and responsibility for managing and controlling market risk are maintained. The Bank maintains a comprehensive interest rate risk reporting and review process, as well as effective internal controls, sets appropriate limits on risk taking, establishes adequate systems and standards for measuring risk and performance, valuing position, reprising maturity gap.

Liquidity Risk. Liquidity risk is defined as the risk of inability of the bank to honor its financial obligations under normal or stressed conditions. Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

The bank relies on Basel 3 liquidity management methodologies and on other internal assessment models developed in line with best international practice and manages liquidity risk according to the internal policies of Anti-Money Laundering (AML) and Liquidity Management, with detailed definition of processes and limit systems connected to liquidity management (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)).

Liquidity management process includes establishment and regular re-assessment of liquidity requirements based on the bank's asset and liability structure and general market conditions; development and control of corresponding liquidity risk limits; addressing funding structure and mismatch volume, fund raising capacity, etc.; developing and monitoring liquidity and fund management principles; liquidity forecasting under normal business conditions and for stressed scenarios; developing contingency plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

Operational Risk. Operational risk is defined as the risk of financial loss occurring from inadequate internal policies, system and control failures, human errors, fraud or management failure and natural disasters. The operational risk management exists on three levels in the Bank: business units/departments level, Operational Risk Management level and Internal Audit level. In order to effectively measure and manage operational risk, appropriate operational risk management environment is developed through internal reporting of operational risk as a distinct risk category related to the bank's safety and soundness on one hand, and by effective and comprehensive internal audit function, carried out by operationally independent, appropriately trained and competent staff, on the other hand.

The Bank's Operational Risk policy provides a comprehensive framework for operational risk identification, measurement and management. The policy defines the principles for how operational risk is to be identified, assessed, monitored, and controlled or mitigated. A system of checks to identify strengths and weaknesses of the operational risk environment is defined and contingency and business continuity plans are in place to ensure the ability to operate as going concern and minimize losses in the event of severe business disruption.

During the unprecedented spread of covid-19, Basisbank developed a business continuity plan to ensure proper response to health issues and operational risks. The Bank has taken precautionary measures to protect the health and safety of both employees and customers, to ensure the continuity of necessary services, and to reduce all operational and financial risks. All business continuity measures are coordinated with GoG and the NBS and are based on their guidelines and instructions. Bank offices and branches operate in compliance with additional safety standards, including strict hygiene standards. The bank will continue to follow the instructions of local and international health organizations and make informed decisions.

Although the Bank calculates capital requirement for operational risk using the Basic Indicators Approach (BIA approach), some qualitative elements of more advanced risk quantification are used, which serve as a basis of more comprehensive operational risk management.

"FCA" announced that LIBOR group banks could maintain LIBOR benchmarking until 2021 and they should simultaneously move to another benchmarks other than "LIBOR". The reform implementation and transition process creates operational risk that could lead to uncertainty of income generation and customer complaints.

Information security/Cybersecurity Risk. Information security/Cybersecurity Risk is an effect of uncertainty on information security objectives. Information security risk is associated with the potential that threats will exploit vulnerabilities of an information asset or group of information assets and thereby cause harm to the bank. It is the the risk resulting from unauthorized utilization of personal data or other sensitive information, cyber-attacks, phishing and other forms of data breach. Preserving the confidentiality, integrity, and availability of our clients' & partners' data and the bank's information assets is essential for upholding the trust placed in BasisBank by our clients, employees and stakeholder.

The threat posed by cyber-attacks has increased in recent years and it continues to grow. The risk of potential cyber-attacks, which have become more sophisticated and complex, may lead to significant security breaches. Such risks

change rapidly and require continued focus and implementation of best practices. No major cyber-attack attempt has targeted to BasisBank in recent years. However, the banks growing dependency on complex IT systems increases its vulnerability and exposure to cyberattacks.

Information Security framework is established to ensure that security policies and standards mirror evolving business requirements, regulatory guidance, and emerging cyber threats. Information security/cybersecurity corresponding policies support the bank in complying with these parameters and build the foundation for actively managing and governing information security-related implementation processes. International standards and best practices are used to structure the bank's comprehensive information security policy landscape.

At least once a year, a full information security and cyber security audit as well as cyber security framework analysis is performed by an external consultant to assess the efficiency of the bank's capabilities against industry best practices and real world cyber-attack scenarios, taking into consideration the relevant regional and sector specific perspectives. The audit gives the bank a broad review as well as a detailed insight, which helps to further enhance the information and cyber security systems. In addition, penetration test exercises are performed on a regular basis.

Information Security/CyberSecurity function works with every business division/unit and all employees of the bank to ensure the bank's systems are protected as well as used safely and securely to achieve the banks business objectives. Bank employees play a crucial role in information security. As a result, regular training sessions are conducted for employees, which are comprised of remote learning courses on security issues, fraud and phishing simulations as well as informative emails to further assist our employees with information security matters. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

As a result of the COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats.

Within the scope of ICAAP framework, the Bank assess other risks to which the bank can be exposed, some of these risks are described below:

Business Risk means current or prospective risk of earnings and capital decrease arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

Regulatory Risk. Banking sector is highly regulated and moreover the environment continues to evolve in an unpredictable way, therefore the bank is exposed to regulatory risk, i.e. of non-compliance with regulatory requirements. In addition to mandatory capital adequacy ratios, the regulator (National Bank of Georgia) sets lending limits and other economic ratios, including, lending, liquidity and investment ratios. The Bank is required to comply with minimum reserve requirements and provide regular periodic reports.

The bank is also regulated by respective tax code and number of other laws in Georgia, which are relevant for the Bank through its everyday business activities. Additional regulatory requirements arise among others through: the Anti-Money Laundering (AML) and Counter-Terrorist Financing Policy; the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy, the Whistleblowing Policy, the Law of Georgia on Personal Data Protection (PDP).

In line with the Bank's integrated control framework, the bank carefully evaluates the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes and has established systems and processes to ensure full regulatory compliance, with the Compliance as well as legal functions in charge of these processes.

Operational Risk Department identifies potential breaches of PDP law via analyzing customer complaints, the operational risk event databases and introduces changes in operational practices to improve personal data protection and avoid leakage of personal information in the environment of rapidly increasing automation.

AML Department on the other hand enhances compliance to regulatory requirements via creating operational framework for regulations imposed by the Financial Monitoring Service of Georgia (FMS), with the main objective of preventing money laundering and terrorism financing.

The **management of the environmental, social and governance (ESG) risks** includes, on the one hand, efficient consumption of natural resources and responsible waste management in the daily business activities of the bank, and integration of responsible financing principles in the bank's lending activity on the other.

The Bank's business loan strategy gives due consideration to environmental and social factors. Funding for projects related to activities that are prohibited by international conventions, national law, and/or the Bank's environmental and social risk management policies is limited. Prohibitions include activities that could cause significant environmental and social problems. In order to effectively implement responsible financing principles, on 2018 Basisbank made significant changes in its environmental and social risk management policy by developing the Due Diligence and E&S Risk Assessment procedures. The bank also introduced the exclusion list. It specifies the types of the activities that the bank does not finance. The activities on the exclusion list can be, in some way, linked to production/trade of weapons and military materials, forced and child labor, illegal pharmaceuticals, production/trade of certain pesticides and herbicides, gambling and casinos, etc. These documents are based on the active Georgian legislative framework, best practice and recommendations of the international financial institutions.

As part of the environmental and social risk assessment process, all business loans are subject to standard procedure of verifying the project in the exclusion list. At a later stage, based on the data and documents provided by the client, assessments after the onsite visit, and information received from independent sources, the responsibility of the potential client is assessed, along with the client's degree of environmental and social risk management. The bank refers to the IFC's Environmental and Social Performance Standards for its assessments. The bank is also empowered to set covenants for the client for the purpose of enhancing the client's environmental and social responsibility (e.g. improvement of the fire safety system and upgrade of working conditions).

The part of the Corporate Governance is covered in the respective unit of this document. Regarding the HR management: the Bank ensures that all necessary HR policies and procedures (incl. the standards of the corporate ethics) are in place and available to employees. The Company has the internal grievance mechanism (including anonymously). As a responsible employee, the Bank is committed to the highest standards of corporate behavior and strictly adheres to the labor law and international labor standards.

Country Risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country's government but not by the credit grantor/investor. The Bank implemented limit system by introducing Country Risk Management Policy in order to measure its exposure to country risk based on the external rating of the countries.

Reputation Risk may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances or customer expectations, inappropriate business conduct or unfavorable authority opinion and actions.

The Bank wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. Therefore, the Bank is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.

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Regulatory Requirements under Basel 3



In 2013 the NBG Regulation on Capital Adequacy Requirements for Commercial Banks became effective. The principles of the regulation are based on the requirements of the capital adequacy framework document, i.e. Basel 3, of the Basel Committee on Banking Supervision, and directives and regulations of European Union N 575/2013 approved on 26 June 2013 and Directives 2013/36 / EU.

The purpose of Basel 3 is strengthening of capitalization, liquidity, market and other risk-related requirements and ensuring of transparency. It sets:

- Capital adequacy requirements;
- Liquidity requirements;
- Requirements related to risk concentration;
- Requirements for leverage ratio;
- Requirements related to relevance of administrators and corporate governance;
- Requirements related to transparency and audit.

Under Basel 3, Capital Adequacy Requirements for Commercial Banks are based on three pillars: Pillar 1 sets minimum requirements for regulatory capital; Pillar 2 covers supervisory review and capital assessment process and Regulation on Additional Capital Buffers; Pillar 3 is about information disclosure by commercial banks.

The regulatory framework of **Pillar 1** defines the value of the risk-weighted assets and sets minimum capital requirements for credit, market and operational risk exposures.

Pillar 2 includes a supervisory reviewing and assessment process, in which the National Bank examines the relevant risks management policies implemented by commercial banks, strategies, processes and mechanisms and their compliance with the Bank's risk positions; In addition to fulfilling minimum capital requirements, the Commercial Bank is obliged to comply with the requirements of the additional capital buffer for the risks that are not included in the Pillar 1 (including market risks that are not included in the Pillar 1 (For example, the concentration risks, interest, liquidity, strategic and reputation risks and more).

Pillar 3 - Commercial Banks are obliged to provide a high level of transparency aimed at raising confidence towards the financial sector and protection of consumer and investor rights. This is regulated by the requirements of Pillar 3 and implies publishing quantitative and qualitative information by the Bank - disclosure of information on capital adequacy, corporate governance, risk concentrations and management standards, as well as disclosure of internal processes and other important information.

Regulatory Capital Requirements

Within Pillar 1, the minimum capital requirements are defined as follows:

o Common Equity Tier 1 (CET 1) ratio of	4.50%
o Tier 1 Capital ratio of	6.00%
o Regulatory Capital ratio of	8.00%

Common Equity Tier 1 (CET1) minimum capital requirement applicable is 4.5 %. It represents the primary source of the capital, i.e. the equity that includes common stock and additional reserves (additional funds originated as a result of issuing the common tier 1 capital instruments; as well as accumulated reserves /retained earnings) less supervisory adjustments.

Additional Tier 1 capital (AT1) is unsecured, perpetual capital instruments that have no step-ups, are subordinated to depositors, unsecured creditors and subordinated debt of the commercial bank; and are not subject to legal or economic conditions that put the claim in the senior position vis-à-vis bank creditors, while the bank retains the discretion on

suspension/payment of dividend/coupon. At least 6 per cent of risk-weighted assets are required to be covered by Such Tier 1 capital (CET1 plus AT1), considering regulatory adjustments.

Supervisory Capital - Commercial Bank's capital adequacy is determined by its supervisory capital, composed of basic and additional premium capital elements and secondary, liquidation capital.

Tier 2 capital (liquidation) comprises certain subordinated instruments, unsecured securities, long-term liabilities, with the original term of more than 5 years, with no step-ups. These do not have the conditions that could promote the investor's right to accelerate the future payments (coupon or principal), except for bankruptcy and liquidation cases.

Minimum Supervisory Requirements and Additional Buffers

In addition to the minimum capital requirements under Pillar 1, NBG sets capital buffer requirements within pillar 1 and pillar 2 framework.

Under pillar 1 commercial banks are required to meet a combination of capital buffer requirements comprising three components:

- The capital conservation buffer is a standard buffer, defined as 2.5% of total risk-weighted risk exposures, and is designed to provide for risks originated as a result of stress events. The requirement is eliminated temporarily owing to the COVID-19 impacts.
- The countercyclical buffer represents one of the main macro-prudential policy instruments, with the goal to limit excessive credit growth that leads to the build-up of systemic risks. In determining the countercyclical capital buffer, an analysis of a number of factors is taken into account, including the credit-to-GDP ratio and indicators describing its deviation from the long-run trend; trends in lending, along with other indicators and characteristics of the country's macro-financial environment.
- Systemic buffers are set additionally by the NBG for systemically important commercial banks.

56% of required capital should be complied through the elements of common equity Tier 1 capital and 75% - through tier 1 capital on granular bases. Consequently, buffers for concentration risk and net GRAPE buffer are set on 100% of supervisory capital, 40% of tier 1 capital and 30% of common equity tier 1 capital.

In 2020 the regulatory capital requirement was reduced by the NBG in response to the pressure put by the COVID-19 pandemic on banks RWA and capital.

The following capital buffers were released:

- The capital conservation buffer (2.5% of the risk-weighted assets);
- 2/3 of the currency induced credit risk buffer);

According to the Financial Stability Committee's decision (2021 June 16) , the recovery of capital buffer requirements released in the beginning of the crisis will begin on January 1, 2022 and will last for 2 years. Banks will be required to restore currency induced credit risk (CICR) buffer by January 1, 2023 and capital conservation buffer requirement by January 1, 2024.

The banks are required to gradually refill the released buffers scheduled up to the end of 2023.

Allowing the buffers reduction option however prevents the banks from distributing any capital in any from (including dividend payments and capital investments) until the buffers are fully recovered to the initial level.

Supervisory Requirements for JSC Basisbank

The Supervisory Requirements of BasisBank include minimum supervisory requirements set within the framework of Pillar 1, plus capital conservation buffer and counterparty buffer, which is currently defined by the National Bank at 0%.

As for system buffers, Basisbank is not considered by the National Bank as a system-maker, so the systemic capital buffer rate for Basisbank is set at 0%.

As at 31 December 2021, the requirements introduced for BB under Pillar 2 define the following buffers:

- Unhedged currency induced credit risk buffer;
- Credit portfolio concentration risk buffer, consisting of the name and sectorial concentration buffers;
- Net stress test buffer, set in accordance with supervisory stress tests;
- Net GRAPE buffer is set as part of the review of the risk categories and the bank's internal capital adequacy within the NBG's General Risk Assessment Program.

Capital buffers defined by Pillar 2 are individual for all banks and depend on the Bank's risk positions concentration.

According to NBG's capital requirements, the banks are obliged to maintain a ratio of regulatory capital to risk-weighted assets (capital ratio) at the minimum required limit.

As at 31 December 2021, the distribution of the concentration (name and sectorial) buffer and the net GRAPE buffer requirement for capital elements was carried out in the following percentage ratio:

○ Common Equity Tier 1 (CET 1) ratio of	30%
○ Tier 1 Capital ratio of	40%
○ Regulatory Capital ratio of	100%

As at 31 December 2021 the BB's capital ratio stood at 17.96% (2020: 17.47%). No dividends or payment in investments were made during 2021 to impact the capital ratios. Partial recovery of provision charges out of GEL 24 million created in 2020 against COVID_19 restructured loans have supported to refill the capital buffers while recorded revenues from operations have significantly contributed to build up the regulatory capital and CAR at pre-pandemic level.

In October 2021 BB applied to the NBG and refused the use of released buffers¹ based on Bank's robust financial performance, quality of assets and sound capitalization, at the same time lifting all regulatory restrictions on capital distribution implied as per provisions of "Regulation on Capital Adequacy Requirements for Commercial Banks".

Backed by the robust performance coupled with the positive macro-economic outlook the capital requirements were officially restored to the pre-pandemic level, to ensure smooth development and progress of the bank as well as confidence of stakeholders and our partners.

¹ On capital requirements NBG Postponed the phasing in of additional capital buffer from CAR to CET1 requirements planned in March 2020, decreased regulatory demand for conservation buffer of 2.5pp on CET1 to 0, released 2/3 of additional Currency induced credit risk (CICR) buffer under pillar 2 covering FX risks

Risk Weighted Exposure

Risk weighted exposure is the sum of weighted values of credit, market and operational risk exposures.

Credit Risk Analysis

In accordance with the current regulation, the bank uses a standardized approach to calculate the credit risk weighted exposure. Credit risk exposure consists of three components: balance elements, off-balance elements and counterparty-related credit risk weighted exposures.

The cost of the risk exposure for balance elements is interest, penalty, accounts receivable, and other claims against the party, reduced by special reserve and capital adjustment and added to the principal.

In the calculation of the credit risk exposure, JSC Basisbank uses the following permissible methods:

- Loans secured by residential real estate are weighted at the 35% risk weight;
- Credit risk mitigation;
- Use of ratings established by external credit rating agencies;

Using credit mitigation – The Bank stated that it would mitigate the risk exposure in case of the “funded collateral of the loan”, i.e. reduce it in consideration of the value of collateral/guarantee and credit evaluation weight. In case the debtor is at default, the bank has the right to sell and/or repossess the collateralized assets in a timely manner. For these purposes, it is permitted to subtract risk position only with the funds available on the client’s deposit account. Accordingly, the risk position, is considered as funded collateral when it is secured with deposit. The deposit can be owned as by the borrower client as well by the third party. Deposit taken as collateral (or its part used as collateral) must be free of other liabilities.

As of December 2021 the credit mitigation is equal to GEL 43,720 thousand.

Note: See Appendix PE1-BBS-QQ-20211231, Table 12_CRM.

Evaluation by Credit Rating Agencies - With the recommendation of National Bank of Georgia, the assessments of the following agencies - Moody’s, Fitch, Standard&Poors, can be regarded as credit assessments by external credit rating agencies. Evaluations of the specified agencies comply with the six-step scale, summarized in the table below:

	Fitch	Moody’s	S&P
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and lower	Caa1 and lower	CCC+ and lower

The assessments for the short-term evaluation will be made in accordance with the following table:

	Fitch	Moody’s	S&P
1	F1+, F1	P-1	A-1+, A-1
2	F2	P-2	A-2
3	F3	P-3	A-3
4	Lower than F3	NP	B-1, B-2, B-3, C

Note: starting from July, 2018, the NBG introduced the Regulation on Defining the Unhedged Borrowers. The borrower risk exposure can be attributed to the hedged category, if the repayment of their claims is considered by:

1. The versatile banks and those financial institutions, against whom the risk exposures are weighted at 0%.
2. Production of the standardized merchandise/proceeds from trade and products are traded (pricing) in the same currency as the loan.
3. Proceeds from export, sales price for the product is in the same currency as the loan.
4. Proceeds from the hotels; majority (>50%) of the hotel visitors are from foreign countries.
5. Proceeds from electric energy production sector; 50% of the risk exposure;
6. Borrowers that meet the below criteria:
 1. Debt / EBITDA ≤ 1.5
 2. EBIT / Interest Expenses ≥ 5.0
 3. Equity / Assets $\geq 75\%$

It is also important that the Regulation on Asset Classification and the Creation and Use of Loan Loss Reserves by Commercial Banks sets the minimum requirements for "Loan Services" (PTI) and Loan Security (LTV) ratios for the loans classified as standard and issued to individuals. The amendments double the risk weight for those unsecured consumer loans, which do not meet the requirements related to the loan service and security ratios. If the commercial banks breach the limits set under the revised regulation, they face the sharply increased regulatory burden in terms of capital adequacy requirements.

The cost of the risk exposure for off-balance elements is their value, reduced by special reserves, multiplied by the credit conversion factor. The effect of the credit conversion factor the credit risk conversion factor of the off-balance elements related to the credit risk weighting as of December 2021, is GEL 105,644 thousand GEL.

Note: Please refer to PE1-BBS-QQ-20211231, Table 8_LI2 .

Counterparty-related credit risk weighted risk exposures - The counterparty-related credit risk is the risk of counterparty's default before completion of the transaction. For these purposes, only the risks associated with the counterparty that are included in the interest rate and exchange rate derivative instruments (futures, forwards, swaps, options and other off-balance liabilities from similar agreements) are considered. If the term of the agreements on the interest rate and the exchange rate derivative instruments does not exceed 14 calendar days, it does not take into consideration for the risk weighting purposes.

As of December 31, 2021, the bank had no counterparty-related risk position.

Note: Please refer to Appendix PE1-BBS-QQ-20211231, table 15_CCR .

Market Risk Weighted Risk Exposures - Within Pillar-1, only currency risk is considered as part of market risk. Market risk weighted risk exposure equals to the overall open currency position defined under the Regulation on Limit defining, calculation and following of overall open currency position for Commercial Banks".

The currency risk arises at open and improperly hedged positions as a result of unexpected movements in certain currency (this causes the possible losses of market participant related to internal or settlement currency).

Currency positions are managed in compliance with Bank Management's foreign exchange policy. Foreign exchange management policy comprises limits for everyday positions and limit of overall open currency positions, which is 5% of supervisory capital, which is quite strict, compared with limits allowed by NBG (limit of 20% for the open net position).

Operational Risk Analysis - Within the framework of Pillar 1, the capital requirement is calculated using the Basic Indicator Approach (BIA). The operational capital requirement, according to BIA, should amount to 15% of the NBG-set indicator. It is defined as the average of the sum of net interest and net non-interest revenues for the last three years.

As of December, 2021, the operational risk-weighted risk exposure amounts to GEL 123,197 thousand.

Note: Please refer to Appendix PE1-BBS-QQ-20211231, table 23-OR2.

During the evaluation and management of operational risks, the bank also uses other qualitative and quantitative criteria, that provides a more comprehensive and effective management of operational risks. Operational risk activity is governed by Regulation on Operational risk management methodology.

The following instruments are used:

- **Data accumulation on losses and damages:** obtaining of fixed losses with participation of business-units (collection of decentralized data);
- **Self-assessment:** evaluation of possible losses with participation of business-units; (assessment of frequency and severity of incurred losses)
- **Definition of appropriate measures for risk mitigation** - based on incurred losses and analysis obtained as a result of self-assessment.

Operational risk at JSC BasisBank is managed at three levels (Business-unit/department level, operational risk management level, audit level), that provides constant control of operational risks.

Operational risks department assesses required capital defined using the BIA on an annual basis as well as the projected level of loss coverage resulting from an internal evaluation. If operational risk management considers that BIA has not sufficiently covered the potential losses, the additional capital is allocated based on the request of the operational risk management.

Note: Information on the volume of operational losses is given in appendix PE1-BBS-QQ-20211231/table 22_OR1.

JSC Basisbank Tier 1 and Regulatory Capital Positions

Capital adequacy Thousand GEL	2021	2020
Common shares that comply with the criteria for Common Equity Tier 1	16,181	16,181
Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	76,413	76,413
Other reserves	159,580	147,973
Retained earnings (loss)	43,753	5,972
Before adjustments	295,927	246,539
Adjustments	-20,925	-14,424
Common equity Tier 1 capital	275,002	232,115
Tier 2 capital	31,537	33,368
Regulatory capital	306,539	265,484
Total risk weighted risk exposure	1,706,474	1,519,304
Tier 1 capital	16,12%	15,28%
Regulatory capital	17,96%	17,47%
Tier 1 Requirement	11,30%	7,24%
Regulatory capital Requirement	15,87%	12,27%

Based on the data of 2021, supervisory components are adjusted by the following elements:

- with asset revaluation reserves
- with intangible assets

The Bank has invested in three companies, which are accounted for by full consolidation.

1. Insurance Company BB Insurance. This significant investment in equity is subject to limited recognition. The value of the investment does not exceed the 10% significant investment threshold, so there is no reduction in capital by this element.
2. Asset Management Company Basis Asset Management Holding is recorded in equity as the component adjusting the common tier 1 capital.

3. BB Leasing. This investment in equity is subject to limited recognition. The value of the investment does not exceed the 10% significant investment threshold, so there is no reduction in capital by this element.

Note: As of 2021, for supervisory purposes, the bank's subsidiaries will not be consolidated in the bank's financial statements, but will be weighed at 250% risk weight in the risk-weighted assets. For information on enterprise consolidation, see Appendix PE1-BBS-QQ-20211231/ Table 5_ RWA .

Risk-weighted Risk Exposures

Thousand GEL	2021	2020
Risk Weighted Assets for Credit Risk	1,551,535	1,385,049
Balance sheet items	1,419,210	1,319,753
Including: amounts below the thresholds for deduction (subject to 250% risk weight)	42,500	42,500
Off-balance sheet items	132,324	65,272
Counterparty credit risk		24
Risk Weighted Assets for Market Risk	31,742	17,068
Risk Weighted Assets for Operational Risk	123,197	117,186
Total Risk Weighted Assets	1,706,474	1,519,304

Additional Basel 3 Requirements

The leverage ratio was introduced by the NBG in 2018 based on the recommendations by the Basel Committee of Banking Supervision, which is the capital risk based additional requirement.

To calculate the leverage ratio, the primary capital is divided to the total risk exposure and expressed as percentage. The total risk exposure is the sum of: balance risk exposure, derivatives, security-funded transactions and off-balance sheet elements.

On September 26, 2019, based on the Decree of the Governor of the National Bank of Georgia No. 214/04, the bank leverage should always exceed 5%. As of December 31, 2021, the Basisbank indicator is 13.64% (2020: 11.55%).

Note: refer to Appendix PE1-BBS-QQ-20211231 table 15.1_LR.

Liquidity Risk. In parallel with the capital standards based on Basel 3 framework, the NBG introduced LCR – Liquidity Coverage Ratio. The aim of the ratio is for the commercial banks to hold liquid assets sufficient for covering total net outflows in financial stress situations. For this purpose, the bank needs to maintain adequate level of liquidity, to allow it to cope with the expected difference between the inflow and outflow of liquid funds within a 30-day stress environment. Except for the LCR, the liquidity of commercial banks is regulated through the average liquidity ratio, which is the ratio of average liquid assets of the reporting month to the same month's average liabilities.

The minimal requirements of LCR ratio of 100% on foreign currency and 75% of local currency preserves high quality liquid assets to ensure stability in stressful environment.

The table below shows the LCR as of December 31.

Liquidity Coverage Ratio (in thousand GEL)	2021	2020
High quality liquid assets	437,436	624,865
Net cash outflow	316,315	375,097
LCR (%)	138%	167%

In 2020 the National Bank introduced a long-term liquidity ratio – Net Stable Funding Ratio (NSFR). This ratio restricts dependence from short-term financing and stabilizes the risk of funding. The NSFR is defined as the ratio of available

stable funding to the need of stable funding. The compulsory requirement is the minimum of 100%. After the implementation of the requirement, starting from 2020, the average liquidity requirement was abolished.

The table below shows the NSFR as at December 31:

Available stable funding (in thousand GEL)	2021	2020
Available stable funding	1,167,939	1,080,484
Need for stable funding	958,574	833,086
Net stable funding ratio %	122%	130%

Key Performance Indicators of the bank are presented in appendix PE1-BBS-QQ-20211231 table 1.

Management Remuneration Policy

The report includes information on the policy and compensation system for the remuneration for JSC Basisbank's top management. The Supervisory Board and the Board of Directors are the top management of the Bank.

The Supervisory Board establishes the terms of employment and remuneration of the members of the Board of Directors, while the general meeting of shareholders determines the issues of compensation of members of the supervisory board.

Detailed information about the remuneration generated by management in 2020 is given in Table 24_Rem1 /27_REM 4 in appendix PE1-BBS-QQ-20211231.

The remuneration system for the directorate members includes both fixed and variable parts.

The compensation system and structure are reflected in the individual contracts of the Directorate Members. The fixed individual salaries of the directorate members are reviewed by way of consultations between the Director and the Supervisory Board. The variable portion of the remuneration is regulated by a contract with the members of the directorate, which is common to all members; the amount of annual compensation depends on the Bank's financial results.

Calculation of Variable Remuneration. Variable payment is issued in the form of bonuses. A bonus is an additional reimbursement payable to the Director for the fulfilment of the contractual liabilities. In July 2013, the Bank's Supervisory Board approved the top management bonus system, which includes both cash and share based payments.

The total bonus determination is based on the financial results of the previous reporting year, which is confirmed by external audit opinion (one of the world's four largest international audit companies), the goal of the team is, first of all, determined by the profitability and growth indicators set by the Supervisory Board. At the same time, the normative ratios must be observed along with the agreements stipulated in the contracts concluded with international financial institutions.

All expenses related to the top management's bonus scheme are recognized in the reporting period. Please refer to table 24_Rem1 /27_REM 4, appendix PE1-BBS-QQ-20211231.

Share Based Payments

At least 50% (fifty percent) of the compensated amount shall be used to purchase the bank's shares in pre-determined conditions. The total amount of shares to be transferred depends on the value of the share; the results are evaluated based on the audited financial consolidated statement of the previous reporting year prepared in accordance with the IFRS standard.

Management shares are subject to limitation within two years from the date of purchase ("blocking period"). Following the expiry of such period, half of the shares held by the directors are relieved of the block. All the shares owned by the Directors may be fully transferred to the new holders only after the expiry of contractual obligations.

Shares will be issued by setting the terms of service, which will be valid until the rights and obligations of the scheme participant are expired. Before these terms expire, the shares only carry the right to receive dividends. They are not entitled to voting right and are not subject to alienation or transfer to third parties. These terms imply continuous employment; during this period the transfer of the full rights on the shares to the scheme participants is not completed.

The holders were granted rights on 2015 shares in July, 2016. By the decision of the Bank's Supervisory Board, all post-transfer restrictions were lifted for the shares issued before 2016 (116,630 shares).

In 2020 due to the imposed constrain by the regulatory the accruals to the SB provisions were temporarily halted and not provided in year 2020 charges.

In 2021, the restriction imposed by the regulator was lifted and accruals on SB provisions were resumed. Table 24_Rem1 shows the remuneration of the directors based on shares (see Appendix PE1-BBS-QQ-20211231) of Pillar 3 Annual Report. The reviewed pay scheme is based on local accounting standards.



1, Ketevan Tsamebuli Ave., Tbilisi, Georgia

Tel.: +995 322 922 922

www.basisbank.ge