Pillar 3 – Annual Report

HALYK BANK GEORGIA

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Contents

Introduction

The Report prepared by JSC HALYK BANK meets Pillar 3 Disclosure Requirements of Basel Committee on Banking Supervision and the requirements of EU Directive N575/2013, the relevant provisions of which are elaborated and approved by Order N92/04 of the Governor of the National Bank of Georgia" Regulation on Disclosure Requirements for Commercial Banks within Pillar 3" dated June 2017.

Management Statement

The Bank's Board of Directors certifies the accuracy and fairness of all the data and information outlined in the given Pillar 3 Report. The Report is prepared in compliance with the internal control process agreed with the Supervisory Board. The present Report meets the requirements of Order N92/04 of the Governor of the National Bank of Georgia "Regulation on Disclosure Requirements for Commercial Banks within Pillar 3" dated June 2017 and other rules and norms established by the National Bank of Georgia.

Bank Brief History, Key Figures and Development Plans

JSC "Halyk Bank Georgia" (hereinafter referred to as the "Bank") is a subsidiary bank of Halyk Bank Kazakhstan operating in the Georgian market since 2008.

In 2009, the Bank was mainly focused on creating the necessary ecosystem for for bank products selling points, including building of the banking infrastructure, attracting qualified staff and forming an internal normative base for operational and credit activities.

Since 2010, the Bank has been implementing active operations, concluding transactions for the purchase of government securities and carrying out the interbank transactions in the money market. From the first quarter of 2010, the Bank began an active lending process, which successfully pursues to the present day.

The Bank operates through nine well-developed representative offices (branches/service point) as well as ATM’s and POS’s. Three out of nine branches are located in the regions of the country (Batumi, Kutaisi and Poti), and the other six branches are located in the capital city. The Bank focused on the continuation of successful activities in all market segments - retail business, small and medium business, as well as corporate business. To this end, the Bank offers its customers a wide range of services - a large variety of credit products, payroll projects, various options for current accounts and time deposits, card products, remote banking services and documentary operations. The Bank has made significant investments in the development of information technology and payment systems and continues to excel at innovative banking products of the market. The Bank has developed international correspondent relations that allow payment transactions worldwide. The Bank participates in the SWIFT system and the Real Time Gross Settlement (the RTGS) system operated by the National Bank of Georgia (the “NBG”).

The Bank, with a development-oriented approach, primarily serves SME and corporate segments, emphasizing long-term partnerships and high-quality financial products. It strives to become the preferred bank for retail clients, continually enhancing financial services and introducing innovative products. Notably, the Bank achieved a commendable 15% year-on-year growth in both SME and corporate loan portfolios. Looking ahead, the strategic focus remains on SMEs, with plans to increase the retail segment share. As of December 31, 2023, the Bank holds the 9th position in total assets, securing a market share of 1.13% in the Georgian banking sector, as reported by the NBG's consolidated report of commercial banks.

In December 2023, Fitch Ratings has affirmed JSC Halyk Bank Georgia's (HBG) Long-Term Issuer Default Ratings (IDRs) at 'BB+' with Stable Outlook. Rating of the Bank has not changed since the previous year.

The Bank constantly works on improvement of the quality of financial services and offering new, innovative products for customers. In particular, Bank will focus on developing new and improving existing retail products and their distribution channels. In addition, one of the components of quality improvement, along with the development of banking products, will be an increase in the availability of products - development of the Bank's branches and the development of remote service channels.

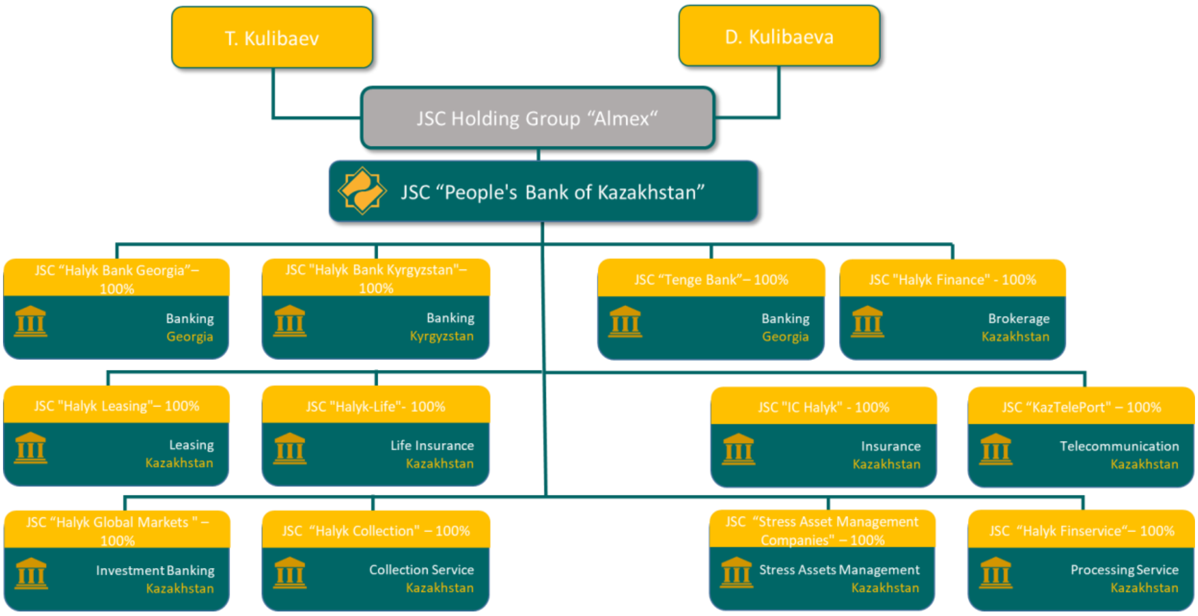
Ownership and Group Structure

As at December 31, 2023 and 2022 the following shareholders owned the issued shares of the Bank:

	December 31, 2023	December 31, 2022
First level shareholder:		
JSC Halyk Bank Kazakhstan	100%	100%
Total	**100%**	**100%**

Main shareholders of JSC Halyk Bank Kazakhstan are JSC Holding ALMEX 69.52% and The Bank of New York (nominal holder) 28.53%. JSC Halyk Bank Kazakhstan is ultimately controlled by Timur Kulibayev and Dinara Kulibayeva.

Information about the Bank owners and the group structure is presented in the chart below:



Management

Nikoloz Geguchadze

General Director

Education

- PhD in Business Administration
- 1998- Bachelor of Finances, Currency Circulation and Credit; Post - Graduate of Tbilisi State University
- 1991-1996-Bachelor of Economics Tbilisi State University

Job Experience

- 2008.01 – JSC Halyk Bank Georgia, General Director.
- 2007.03 Financial Assessor, evaluation of MONEYVAL ranked third in terms of Anti-Money Laundering Measures and the Financing of Terrorism in the “former Yugoslav Republic of Macedonia”. National Bank of Georgia
- 2003.07-2007.07 Head of the Financial Monitoring Service of Georgia.
- 2002-2016 Head of the Delegation of Georgia to the Committee of Selected Experts of the Council of Europe for the Evaluation of Anti-Money Laundering Measures (MONEYVAL)
- 2002.02 Deputy Head of the Banking Supervision and Regulation Department
- 2001.11 - Deputy Head of Non-Banking Depository Organizations' supervision and Regulation Department
- 2000.01 Head of the Banking Policy Department of the Banking Supervision and Regulation Department.
- 1999.03 Head of the Reporting Division of the Banking Supervision and Regulation Department
- 1998.03 Senior Economist of the Documentary Inspection Division of the Banking Supervision and Regulation Department
- 1996.03 Economist of the Documentary Inspection Division of the Banking Supervision and Regulation Department
- 1999 - 2001 Secretary of the Banking Committee of the Transcaucasian and Central Asian Regional Group of the Basel Committee on Banking Supervision, C/B B Bank of Georgia
- 1995.01 Senior Economist of Currency Division
- 1994.07 Lead Economist of the Monetary and Credit Department
- 1993.02 Accountant

Konstantine Gordeziani

Deputy General Director

Education

- 1995-2001 Bachelor of Laws Tbilisi State University
- 1989-1994 Bachelor of Economics Tbilisi State University

Job Experience

- 2008.01 – JSC Halyk Bank Georgia, Deputy General Director
- 2005-2007 - JSC "Cascade Bank Georgia, General Director
- 2003-2005 - JSC "United Georgian Bank" (VTB Bank), Deputy General Director
- 2002-2003 - National Bank of Georgia, Head of Currency Division.
- 2001-2002-National Bank of Georgia, Deputy Head of Banking Supervision and Regulation Department
- 2000-2001-National Bank of Georgia, Head of Documentary Inspection Division of the Banking Supervision and Regulation Department.
- 2000 - 2000 - USAID Banking Supervision, Program Consultant
- 1995 - 2000 - National Bank of Georgia, Senior Economist of Banking Supervision Department.
- 1994 - 1995 –C/B "Amirani", Senior Economist of Credit Department.

Shota Chkoidze

Deputy General Director

Education

1992-1997-Bachelor of International Economics Tbilisi State Institute of Economic Relations.

Job Experience

- 2010.03 - JSC Halyk Bank Georgia, Deputy General Director
- 2008 - 2010.03 - JSC Halyk Bank Georgia, Head of Risk Management Department
- 2008.05 - 2008.11 - JSC Halyk Bank Georgia, Head of Credit Analysis Department
- 2007.10 - 2008.05 – JSC TBC Bank, Head of Trade Financing
- 2006.12 - 2007.09 - JSC "Cascade Bank Georgia, Commercial Director
- 2006.01 - 2006.12 - Construction-Investment Company LIBO, Financial Director
- 2005.03 - 2005.12 - Distribution Company “Ponto Star”, Financial Director
- 1997.08 - 2005.03 - JSC "Emporiki Bank Georgia", Accounting Director
- 1997.04 - 1997.08 - "Audit and Financial Consulting" Ltd, Auditor
- 1995.08 - 1997.04 - JSC "Tbilcombank", Accountant Assistant

Marina Tankarova

Deputy General Director

Education

- 1988–1993 - Bachelor of Economics and Finance, Kazakhstan State Academy of Management.

Job Experience

- 2014.04 - JSC Halyk Bank Georgia, Deputy General Director
- 2010.10 - 2014.04 - JSC People's Bank of Kazakhstan (JSC "Halyk Bank of Kazakhstan"), Retail Sales and Services Department, Head of Retail and Card Products Division
- 2009.06 - 2010.10 - JSC People's Bank of Kazakhstan (JSC "Halyk Bank of Kazakhstan"), Department of Banking Products and Services - Head of Retail Division
- 2006.02 - 2009.06 - JSC People's Bank of Kazakhstan (JSC "Halyk Bank of Kazakhstan"), Department of Retail - Head of Service and Reporting Department, Head of Retail Division
- 1997.04 - 2006.02 - JSC People's Bank of Kazakhstan (JSC "Halyk Bank of Kazakhstan"), Retail Business Department - Chief Specialist, Manager, Senior Manager, Leading Manager
- 1996.05 - 1997.04 - JSC People's Bank of Kazakhstan (JSC "Halyk Bank of Kazakhstan"), Storage Controller, Lead Economist, Chief Economist, Head of Cash Flow Department.
- 1994.09 - 1996.05 - National Bank of the Republic of Kazakhstan, Almaty Main Territorial Division, Cash Flow Department, Economist
- 1993.06 - 1997.09 - Kazkombank "Kainar", Economist

Tamar Goderdzishvili

Deputy General Director

Education

- 2014/08 Master of Project Management , The George Washington University
- 2004/03 Europian School of Management - Strategic Management, Communication, Marketing
- 1993-1998- Bachelor of Commerce and Marketing in International Trade, Iv. Javakhishvili Tbilisi State University

Job Experience

- 2017/10 - JSC Halyk Bank Georgia, Deputy General Director.
- 2015/01 - 2017/10 - JSC Halyk Bank Georgia, Head of Credit Analysis Department
- 2013/01 - 2014/12 - JSC Halyk Bank Georgia, Head of Medium and Corporate Business Lending Department
- 2011/01 - 2012/12 JSC Halyk Bank Georgia, Acting Head of Medium and Corporate Business Lending Department
- 2010/07 - 2012/12 JSC Halyk Bank Georgia, Head of Small Business Lending Department
- 2008/02 - 2010/02 MFO "FINCA Georgia", Central Branch Manager/Deputy Tbilisi Regional Manager
- 2006/07 - 2007/01 MFO "FINCA Georgia", Isani Branch Manager
- 2004/08 - 2007/01 JSC ProCredit Bank, Senior Credit Methodologist
- 2002/03 - 2004/07 JSC TbilUniversalBank – Service+, Trainer
- 2001/03 - 2003/02 JSC TbilUniversalBank "- Loan Officer
- 2003/03 - 2004/07 JSC TbilUniversalBank "- Senior Loan Officer/Member of Credit Committee
- 1998/08 - 2001/02 JSC TbilComBank, Accounts Manager

Information on the Capital

On December 31, 2023, the bank's share capital consisted of 76,000 fully paid-up ordinary shares with a nominal value of GEL 1,000 each and 37,500 preference shares with a nominal value of GEL 1,600 each. Notably, all ordinary shares are fully paid, while half of the issued preference shares were paid in August 2023 and the remaining half in February 2024.
In Q1, 2023 CICR buffer was fully restored in accordance with the schedule of NBG. In September of 2023 bank also managed to restore conservation buffer and continues to operate in strong compliance with fully loaded capital buffers. The Bank is actively working to diversify the sources of financing. Overall, the bank has managed to implement all regulatory and internal requirements.
The Bank is well-positioned with strong capital, funding and liquidity resources and it aims to ensure that this remains the case. The Bank also continues to work with Government of Georgia and NBG to take appropriate actions to manage this process.

- CET 1 amounted to GEL 168,527 thousand versus the required GEL 134,256 thousand.
- Tier 1 capital amounted to GEL 198,527 thousand versus the required GEL 162,612 thousand.
- Total regulatory capital amounted to GEL 220,099 thousand versus the required GEL 200,150 thousand.

The Bank had to maintain minimum Capital Requirements in accordance with the Regulation on capital Adequacy Requirements for Commercial Banks, compatible with framework established by Basel committee of banking supervision.

Pillar 1 minimum requirements are as follows:

- CET 1 – 4.5%
- Tier 1 Capital – 6%
- Regulatory Capital adequacy ratio - 8%

Additional Pillar 1 buffers include:

- The Capital Conservation (“CC”) buffer;
- The Systemic Risk (“SR”) buffer applied to systematically important;
- The Countercyclical Capital (“CCC”) buffer.

Pillar 2 buffers include:

- The Currency Induced Credit Risk (“CICR”) buffer that is effective from December 31, 2017 for un-hedged FX loans denominated in foreign currencies;
- The Concentration Risk (“CR”) buffer that will be introduced for sectoral and single borrower exposure;
- The Net Stress (“NS”) buffer that will be introduced based on stress testing results provided by the Bank;
- Net General Risk-assessment Program (“GRAPE”) buffer defined by the NBG and applied based on the bank’s specific risks;
- Credit Risk Adjustment (“CRA”) buffer which was introduced from 2023 within regulatory transition to IFRS reporting standard. The CRA buffer was implemented as a Pillar 2 requirement and was fully set on CET 1 capital.

Halyk Bank Georgia’s capital adequacy ratios for the current and previous year are as follows:

Capital Adequacy Ratios according to Basel III Framework	31.12.2023		31.12.2022	
	Fact	**Requirment**	**Fact**	**Requirment**
Common Equity Tier 1 capital ratio	19.52%	15.53%	15.78%	10.33%
Tier 1 capital ratio	23.00%	18.80%	15.78%	12.59%
Regulatory capital ratio	25.50%	23.14%	18.66%	16.38%

Commencing from January 1, 2023, supervisory reporting transitioned to the International Financial Reporting Standards (IFRS). The Bank ensures compliance with supervisory regulations through IFRS-based numbers and approaches. As of December 31, 2023, and 2022, the Capital Adequacy Ratios, from the Bank's reports following the NBG accounting rules and the Capital Adequacy Framework, stand as follows:

	December 31, 2023	December 31, 2022
Share capital	**76,000**	**76,000**
Revaluation reserve	**1,840**	**1,864**
Retained earnings for capital adequacy	**97,969**	**48,904**
Deductions from Common Equity Tier 1 Capital	**(5,442)**	**(5,183)**
Common Equity Tier 1 Capital	**168,527**	**119,720**
Additional Tier 1 Capital	**30,000**	**0**
Tier 1 Capital	**198,527**	**119,720**
Convertible subordinated debts	**21,572**	**27,020**
General loan loss provisions (up to 1.25 % of risk–weighted assets)	**n/a**	**10,450**
Total regulatory capital	**220,099**	**157,191**
Risk weighted assets	**865,590**	**924,978**
Common Equity Tier 1 Capital Adequacy Ratio	**19.47%**	**12.94%**
Tier 1 Capital Adequacy Ratio	**22.94%**	**12.94%**
Total regulatory capital adequacy Ratio	**25.43%**	**16.99%**

As at December 31, 2023 in the computation of total regulatory capital for capital adequacy purposes, paid preferential shares are included as additional Tier 1.

Subordinated debt is only eligible for payment in a liquidation scenario once the obligations of higher-priority creditors have been satisfied. This type of debt is categorized in the Bank's Tier 2 capital, adjusted for the relevant amortized amount.

The Bank conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, clear segregation of authorities and effective communications between different entities facilitate clarity regarding the Bank's strategic and risk objectives.

The Bank's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Supervisory Board has overall responsibility to set the tone at the top of the Board of Directors (the "Board") and monitor compliance with the established objectives, while the Board governs and directs the Bank's daily activities.

Risk weighted positions according to Basel III Framework total to GEL 863,205 thousand wherefrom the risks are distributed as follows:

Risk weighted positions	**31 December 2023**	**31 December 2022**
Risk weighted positions on credit risk	781,552,957	866,999,204
Risk weighted positions on market risk	4,632,050	8,537,855
Risk weighted positions on operation risk	77,020,183	66,052,864
Total Risk weighted positions	863,205,190	941,589,923

Additional ratios related to assets quality:

Additional ratios	**31 December 2023**	**31 December 2022**
Non-performaing loans (NPL) / total loans	9.6%	12.4%
ECL* / total loans	2.7%	2.75%

** Expected Credit losses according to IFRS standards*

Liquidity ratios

Liquidity ratios	**31 December 2023**	**31 December 2022**
Liquid assets / total assets	14.3%	28.5%
Term and call deposits / total assets	11.4%	22.3%

General Meeting of the Bank Shareholders

The General Meeting of the Shareholders is the highest body of the Bank. Decisions relating to the issues that fall within the competence of the General Meeting of the Shareholders according to the applicable legislation and the Bank's Charter shall be made ultimately by shareholder in writing.

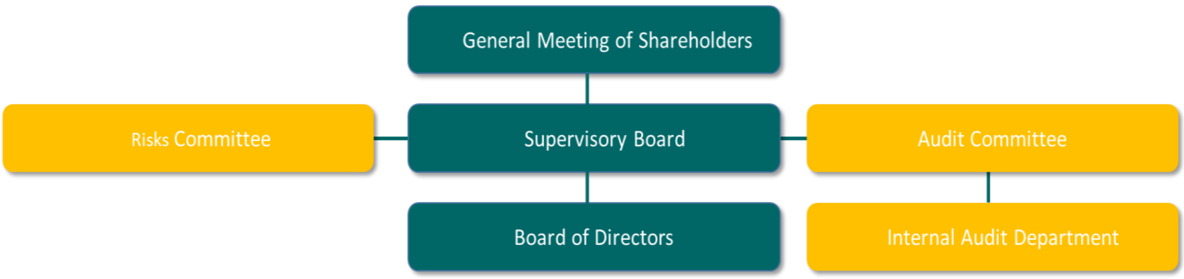
A regular General Meeting of Shareholders is held within a period of not more than two months after preparation of the annual balance sheet.

The Annual General Meeting of Shareholders of the Bank shall approve the annual balance sheet of the Bank, determine the rules for the distribution of net profits for the last fiscal year of the Bank, calculate the amount of dividends in one ordinary share of the Bank and other issues in accordance with the agenda of the General Meeting of Shareholders.

The General Meeting shall be entitled to:

1) Make changes to the Bank's Charter;
2) Make decisions on reorganization or liquidation of the Bank;
3) Cancel entirely or partially the shareholder's pre-emption right to acquire securities (through issuance of securities in case of capital increase);
4) Accept or refuse the use of the net profit on the proposal of the Supervisory Board or the Board of Directors, and if the above bodies do not receive a single proposal on distribution of net profit, make a decision on distribution of the total profit of the Bank;
5) Elect members of the Supervisory Board or dismiss them from the Supervisory Board in order to determine the term of election of a member of the Supervisory Board;
6) Approve the Report of the Board of Directors and the Supervisory Board;
7) Decide on the issue of remuneration of members of the Supervisory Board;
8) Appoint an auditor;
9) Make decisions about participation in the proceedings initiated against the Supervisory Board and the Board of Directors , including appointment of a representative for such proceeding;
10) Make decisions regarding the alienation and encumbrance in any other form whatsoever of the Bank's assets (or transactions related to each other) the value of which is more than half of the value of the Bank's assets, except for the transactions that are normally generated;
11) Other issues concerning decisions made by the Georgian legislation or the present Charter may be subject to the special competence of the Bank's General Meeting of Shareholders.

Organization structure of Joint-Stock Company "Halyk Bank Georgia":



Corporate Governance

The **Supervisory Board** of JSC "Halyk Bank Georgia" is the Bank's body supervising the Bank's activities.

The Supervisory Board consists of 5 (five) members:
Chairperson, Independent member - Arman Dunayev

Member - Alia Karpikova
Independent member - Chingiz Kanapyanov
Member – Viktor Skril
Independent member – Natia Svanadze

Making decisions on the following issues shall fall within the special competence of the **Supervisory Board**:

1) Determining the strategic goals of the Bank, establishing its policies, and control over execution thereof by the executive body of the Bank;
2) Approval of annual budget and business plan, taking long-term liabilities by the Bank;
3) Determining the procedures regulating the Bank’s internal policies and internal activities, including credit, investment, currency management policies and procedures, management of assets and liabilities, asset assessment, their classification and creation of adequate reserves for possible losses, economic activity, supervision of the Georgian legislation, including other issues related to the competence of the Supervisory Board, except for the documents that the Bank's Board of Directors takes for organizing the Bank's activities;
4) Determination of the composition of the Bank's Board of Directors, as well as early termination of their authority (at any time), determining the terms and conditions of remuneration, conclusion and termination of contracts therewith;
5) Determination of the scope of authorities of the Board of Directors;
6) Control over execution of the decisions of the General Meeting of the Shareholders of the Bank;
7) Approval of the Bank's Audit Committee and the Staff Composition of the Bank's Internal Audit Service, determining the terms and conditions of remuneration of employees of the Internal Audit Service Staff and Audit Committee members;
8) Approval of the Bank’s organizational structure;
9) Taking decision on creation of the Bank’s branches, representations and other similar subdivisions, and termination of their activities,
10) Review of results of audit conducted by the external auditor, internal audit service, audit committee and authorized body and taking the appropriate measures;
11) Determination of the rules for use of the Bank's reserve capital;
12) Acquisition and alienation of 50% of shares in enterprises according to the procedure provided by the legislation of Georgia
13) Taking decisions on transactions with persons having special relations with the Bank;
14) Control over operation of the risk management and internal control system in the Bank, including by approving the relevant documents defined by the legislation;
15) Establishment of a system for identification and settlement of corporate conflicts arising between the shareholders and the bodies, the bank officials and the shareholders in the Bank in accordance with the internal regulations of the Bank;
16) Holding a continuous dialogue with the Bank's shareholders;
17) Establishing other bodies and committees of the Supervisory Body and selecting their members, defining their number, personal composition and the scope of their powers;
18) Determination and approval of the minimum and maximum amount of interest rates that the Bank uses for credit resources and deposits;

Corporate Governance – Board of Directors and Committees

The **Audit Committee** of the Joint Stock Company" Halyk Bank Georgia" consists of 3 members of the Supervisory Board and its majority is independent members. Its main function is to facilitate the operation of the internal audit and external auditors of the Bank.

The Committee facilitates the Supervisory Board in the complete and accurate preparation of financial statements, the effectiveness and adequacy of internal control and risk management systems, and coordinates the work of the internal audit (participates in consideration of the Bank Internal Audit reports).

Chairperson - Natia Svanadze (Independent Member of the Supervisory Board)
Member - Arman Dunayev (Independent Member of the Supervisory Board)
Member – Alia Karpikova (Member of the Supervisory Board)
5 meetings of the committee were held during 2023.

Fees and expenditures to audit firms

The remuneration of the bank's auditor firm and other auditors, which encompasses professional service fees, for the years ending December 31, 2023, and 2022, comprises the following:

Fees and expenditures to audit firms	**2023**	**2022**
Expenditure related to the bank's external auditor	236,876	174,640
Expenditure related to other audit firms	210,018	261,211
Total amount	**446,894**	**435,851**

A **Risk Committee** has been set up under the Bank's Supervisory Board to review risk strategies for both aggregate and individual risk, to provide relevant recommendations to the Supervisory Board, to prepare and to submit to the same Board a report on the risk culture in the Bank; to review the Bank's risk policies; to monitor adherence to appropriate procedures by the Board of Directors and compliance with risk policies; to provide recommendations concerning effectiveness of risk strategies and policies -to the Supervisory Board, including the maintenance and distribution of sufficient capital for identified risks; to monitor capital and liquidity management strategies, as well as all types of risks, such as credit, liquidity, market, operating, and reputation risks, to ensure that their risk is consistent with the appetite.

The Committee is composed of 3 members of the Supervisory Board and its majority is independent members.

Chairman - Chingiz Kanapyanov (Independent Member of the Supervisory Board)
Member - Viktor Skril (Member of the Supervisory Board)
Member - Natia Svanadze (Independent Member of the Supervisory Board)
7 committee meetings were held during 2023.

The **Board of Directors** is a collegiate executive body of the Bank which carries out the current management and representation of the Bank.
Chairman of the Board of Directors - Nikoloz Geguchadze, General Director;
Member of the Board of Directors - Konstantine Gordeziani, Deputy General Director;
Member of the Board of Directors - Shota Chkoidze, Deputy General Director;
Member of the Board of Directors - Marina Tankarova, Deputy General Director;
Member of the Board of Directors - Tamar Goderdzishvili, Deputy General Director.

The **Board of Directors** ensures execution of decisions of the Bank's General Meeting of Shareholders, Supervisory Board and is authorized to make decisions on all issues except the issues that fall within the exclusive competence of the Bank's General Meeting of Shareholders and the Supervisory Board. In order to determine independent members, the Bank is governed by the Georgian legislation and the Bank's Corporate Governance Code. 231 meetings were held within a period of 2023.

The member of the **Bank's Supervisory Board** fully meets the criteria for bank administrators - qualification, professional experience, competence and bonafide in the work.

The members of the Bank's Supervisory Board have relevant higher education in Economics, Finance and International Business Management.

Members of the Bank's Supervisory Board have relevant qualifications and professional experience. The combination of their experience and skills corresponds to the extent and complexity of the Bank's activities. Their competence involves and is not limited to issues such as financial analysis, financial stability problems, financial statements, information technologies, strategic planning, risk management, corporate governance, etc.

The Supervisory Board has the ability to reasonably perceive local, regional and global economic impacts and ensure education/experience of the Board members in order to reduce the dominant entity's risk.

The Bank's Supervisory Board shall define and approve:

- Long-term (three-year) strategic business plans and monitor their performance by the Bank's Board of Directors on annual basis.
- Short-term annual budget and ensure adjustment thereof, if necessary.

The budget adjustment is based on the results of the first half of the year and/or in case of the significant change of external conditions and strategic changes in the Group.

The Bank has the appropriate system of control and monitoring of the relevant the scope and complexity of transactions carried out with the related parties. The Supervisory Board shall review annually the reports of the transactions performed with the parties and submit it to the National Bank.

- The meetings of the Supervisory Board are held every month at least once.
- The meetings of the Audit Committee are held at least twice a year upon completion of the scheduled audit report.
- The majority of the members shall attend the Supervisory Board meetings. During 2023, 19 absentees and 1 attending Board meetings were held.
  The issues discussed at the Board Meeting shall cover discussion of daily activities of the Bank, approval of large transaction and consideration of risky transactions, risk appetite, risk profile and strategy development, approval of various policies, etc.

The Annual General Meeting of Shareholders shall evaluate the Supervisory Board's performance.

The Supervisory Board should undertake a formal and rigorous annual evaluation of its own performance, including individual assessments of its subordinate committees and collegial bodies. According to the Corporate Governance Code, the Chairman of the Supervisory Board analyzes the results of the activities of the Board, and identify its strengths and weaknesses.

In turn, the Supervisory Board evaluates the work of the Board of Directors according to the approved the so-called KPI monitoring.

In addition to the rights conferred by the legislation and charter of Georgia, the Supervisory Board has given full delegation to the Board of Directors and Credit Committees to independently decide on the review and approval of corporate, small and medium business loan applications whose terms do not comply with the Supervisory Board.

The Supervisory Board empowers the Board of Directors to individually review credit applications submitted in all areas of business lending (retail, small, medium and corporate) and independently reduce the base rates by up to 2%.

Furthermore, the Supervisory Board authorized the Board of Directors to make changes and additions to retail lending procedures related to the issuance of secured / unsecured loans, as well as credit cards and overdrafts.

Assessment of activities of the Supervisory Board

In 2023, alongside the internal assessment conducted by the Supervisory Board itself, an independent evaluation of the Supervisory Board's performance was also carried out. The assessment was made by completing a detailed questionnaire, covering some different assessment directions:

1. Supervisory Board membership and structure;
2. Supervisory Board’s work planning, organization and performance;
3. Supervisory Board’s activities’ functional field;
4. Self-assessment of the Supervisory Board members;

Results of the assessment showed that it was aimed to improve the efficiency of Supervisory Board, Committees and individual members and was unanimously declared as one of the most important tools to reach this goal.

Some more points were outlined, such as:

Supervisory Board membership and structure (in terms of its members’ education and experience) is optimal and balanced to fulfill its commitments, including the monitoring of Bank’s development strategy performance. The Board’s working specifics and psychological environment is supportive to each members’ efficient and constructive working process.

Supervisory Board members’ skills and experience fully provide a high efficiency of the Boards’ activities. It’s equipped with competences in business activities, corporate management, strategic management, finance, financial accounting, internal control and risk management fields.

The Chairman of the Board has quite a vast working experience as in private sector as well as in Governmental structures, occupying such positions as a Deputy Minister of the Ministry of Finance and Ministry of Economics. It’s not less important for the Bank his working experience through various years as a Chairman of the Supervising Agency of Financial Markets and Institutions of Republic of Kazakhstan. And a Chairman and a Deputy Chairman of the Board of the Foundation “Samruk Kazina”. In recent years he holds the position of the Chairman and an independent Board member of”Halyk Group” subsidiaries.

Other Board members are also qualified specialists and their education and diverse working experience include all fields and directions of banking activities. Including ESG, the new technology development sector- development of so called digitalization field in terms of digital service implementation.

Intense cooperation between the Supervisory Board and Directorate provides the Bank's successful activity according to the share- holder's interests.

The system of the Supervisory Board's Committees provides the adequate support of the Board's functioning in profile sectors – Audit, Risk Management, etc.

Apart from holding the sessions, the Board members are always open to discuss any questions within their competence. They are familiar with the Bank's goals, fragilities, needs and restrictions. Also they have a comprehensive knowledge of the whole Halyk Group structure and are aware of the essential risks and problems which can affect the Group and affiliate organizations.

The Board members can benefit the services of independent consultants in complex and important decision making cases.

The assessment results have outlined once more:

Compliance with the Bank's charter, policies and procedures;

Satisfaction in terms of information obtaining and sharing needed to successfully perform the duties assigned to this position;

The number of sessions, duration, agenda and discussed materials are fully in line with the standards and requirements needed to fulfill the Bank's strategy.

General Director and Deputies are always available in the intervals between the sessions and they are always ready to provide timely and relevant information.

The Supervisory Board is successfully carrying out the function of management control, defining and approving KPI indicators. The members are distinguished for their effective skills in interest conflict regulation and are helpful to find out the efficient ways of their resolution.

The tasks' performance corresponding monitoring process is efficiently implemented in the Bank and the Board members are duly informed (through protocols and reports) about decisions made.

The scope of the Board is:

- Fulfillment of long term strategic development plan of environmental, social and governing issues;
- Organizing the Board's activities assessment process by independent consulting companies;

As a conclusion to the assessment results, we can say that the Group has achieved a high level of fairness, transparency and loyalty, through constant elaboration of corporate governance. It's stated that high level corporate governance is a necessary condition for the bank's successful activity on a free competitive market. On it's part, the parent company "Halyk Bank Kazakhstan" is among listed companies on London stock exchange since 2006 and complies with the requirements of legislation of Kazakhstan as well as Great Britain's Corporate Governance Code

Bank Committees

Credit Committees:

Expanded Credit Committee

Chairman of the Committee - Nikoloz Geguchadze, General Director
Deputy Chairman of the Committee - Konstantine Gordeziani, Deputy Director General
Committee Member - Shota Chkoidze, Deputy General Director
Committee Member - Marina Tankarova, Deputy General Director
Committee Member - Tamar Goderdzishvili, Deputy General Director
Committee Member - Head of Legal Division

Small Credit Committee

Chairman of the Committee - Tamar Goderdzishvili, Deputy General Director
Committee Member - Head of Credit Risk Division
Committee Member - Head of Small and Medium Business Lending Division
Committee Member - Head of Legal Division

Retail Credit Committee

- I level delegation

Committee Member – Chief manager of Risk Division

- II level delegation

Committee Member - Head of Credit Risk Division

Committee Member – Chief Manager of Credit Risk Division

- III level delegation

Committee Member - Konstantine Gordeziani, Deputy General Director

Committee Member - Shota Chkoidze, Deputy General Director

Other Committees

Asset Liability Committee (ALCO)

Chairman of the Committee - Nikoloz Geguchadze, General Director
Deputy Chairman of the Committee - Shota Chkoidze, Deputy General Director
Committee Member - Konstantine Gordeziani, Deputy General Director
Committee Member - Marina Tankarova, Deputy General Director
Committee Member - Tamar Goderdzishvili, Deputy General Director
Committee Member - Head of the Treasury
Committee Member - Head of the Treasury of JSC "People's Bank of Kazakhstan"
Committee Member - Head of Financial Risk and Portfolio Analysis Division

Risk Management Committee

Chairman of the Committee - Chingiz Kanapyanov, Independent Member of the Supervisory Board
Member of the Committee – Viktor Skril, Member of the Supervisory Board
Member of the Committee - Nana Ghvaladze, Independent Member of the Supervisory Board

Tariff Committee
Chairman of the Committee - Tamar Goderdzishvili, Deputy General Director
Deputy Chairman - Shota Chkoidze, Deputy General Director
Committee Member - Marina Tankarova, Deputy General Director
Committee Member - Head of Operations Division
Committee Member - Head of Marketing and Public Relations Division

Information Security Working Group
Chairman of the Working Group - Nikoloz Geguchadze, General Director
Working Group Member - Shota Chkoidze, Deputy General Director
Working Group Member - Head of Security Division
Working Group Member - Head of IT Infrastructure Division
Working Group Member - Chief Manager of IT Information Security Division
Working Group Member - Head of Operational Risk Division
Working Group Member - Head of Product Development Division
Working Group Member - Head of Program Development Division
Working Group Member - Head of HR Division

The Supervisory Board has developed a policy for selecting members to the Board of Directors. During the first stage the Board examines the internal resources of the bank and before appointment of such person it determines, whether the applicant complies with the Georgian legislation and the compatibility criteria of the administrators determined by the Bank's Charter.

Prior to the appointment, the Board shall collect the documents required by the Regulation and provide a detailed examination of the veracity and accuracy of the information contained therein.

The Board of Directors and their supervisory responsibilities:
Chairman - Nikoloz Geguchadze, General Director
Legal Division, Marketing and Public Relations Division, Pledged Assets Management Division, Security Division, Financial Monitoring and Compliance Division, HR Division

Member of the Board of Directors - Konstantine Gordeziani, Deputy General Director
Credit Risk Division, Financial Risk and Portfolio Analysis Division, Operational Risk Division.

Member of the Board of Directors - Shota Chkoidze, Deputy Director General
Retail Sales Division, Product Development Division, Software Division, Information Technology Infrastructure Division, Bank Cards Division, Contact Center

Member of the Board of Directors - Marina Tankarova, Deputy General Director
Accounting and Reporting Division, Financial Division, Operations Division, Administration, Chancellery, Centrilized Back Office.

Member of the Board of Directors - Tamar Goderdzishvili, Deputy General Director
Corporate Sales Division, Small and Medium Business Lending Division, Credit Analysis Division, Treasury

Risk Management

The Bank has a Risk Management Policy that defines the main concepts and types of risks arising from the bank's activities, as well as the basic principles, methods and means of risk management in the bank, defines the bodies and units responsible for their implementation. The Policy aims at the following:

- Formulation and description of the general approach of the bank to risk management and distribution of the duties between the bank's services;
- Obtaining the maximum income of the bank at the risk management level;
- Building the integrated system of risk management.

The risk management process consists of the following interrelated stages: 1) risk identification; 2) risk measurement or assessment; 3) risk control and monitoring; 4) corrective measures.

Risk identification: Risk identification occurs at the level of independent structural subdivisions of the Risk Management Service and Bank Business Operations. The existing business processes of the Bank and their risks characteristics are described and regulated by relevant Internal Regulations that define risks and their management rules. In the case of introduction of a new, previously non-existent business process, the relevant initiatives will pass risk assessment and analysis procedure together with risk management service.

Risk measurement or assesssment: The key objective of risk assessment is to determine the adequacy of the Bank's business capital for coverage of potential losses incurred by the various types of risk typical to the Bank's activity, comparison of the risks with the possible yields, provision of the information about the potential losses to the Bank's management to take as far as possible well-founded business decisions.

The Bank uses the following quantitative and qualitative methods of risk measurement:

– Credit risk – determining the required amount of provisions, defaults, as well as statistics on overdue and restructuring for more than 30 and 90 days, weighting assets by credit risk, determining the internal rating of borrowers (if necessary), analysts' expert findings, stress-tests, etc.

– Market risk - ES(Expected Shortfall) and stop-loss limits on exchange rate risk, interest rate risk limits, exchange rate volatility, early warning indicators, simulation, asset weighting according to market risk quality, stress-tests, etc.

– Operational risk – statistics of losses generated after its realization, expert conclusions of the divisions involved in the internal processes / products coordination process, etc.

–Liquidity risk – Liquidity GAP analysis and limits on it, liquidity ratios, early warning indicators, stress-tests, etc.

–Legal risk, collateral risk, reputation risk, compliance risk - Expert conclusions of the bank's subdivisions / bodies.

Risk Control and Monitoring is carried out as follows:

- Monitoring of various limits, indicators and prudential norms;
- Regulation of operations, development of operations and business operations procedures in order to ensure regular control and monitoring of risk
- Risk documenting
- Regular reporting

Making corrective business decisions based on risk analysis:

- Insurance, hedging (a method of preventing possible losses by making a balanced deal).
- Reserving (formation of sufficient levels of provisions to cover losses).

- Risk coverage (risk distribution between the parties to a transaction through a guarantee, collateral, bilateral penalty sanctions system).
- Diversification (placing more financial assets into more than one type of property which prices or income are poorly correlated).
- Risks limiting (determining the maximum acceptable, marginal mark for risk bank).

Integrated risk management processes in the Bank include - control and monitoring of limits performance; quantitative measurement of potential risks; determining the amount of capital that will cover all types of potential bank risks. Quantitative determination of potential risks allows each transaction to be able to choose the best possible efficiency between income and risk at the level of various segments of portfolios throughout the entire portfolio.

Risk management services carry out the calculation of limits, which is approved by the collegial bodies of the bank (Asset – Liability Committee (ALCO), credit committees, Board of Directors, etc.) within the scope of their competence.

The risk management organization includes the functions of independent services and collegial bodies in risk assessment, control and monitoring, as well as the redistribution of powers and responsibilities between them.

In terms of risk management, the Risk Committee provides significant assistance to the Supervisory Board. The functions of the Risk Committee include: reviewing risk management policies, as well as reviewing the Bank's risk risk appetite reports, and developing recommendations for the Supervisory Board on on Bank's risk culture, also on maintaining and distributing sufficient capital for identified risks. It also monitors the activities of the Board of Directors for compliance with risk policies / procedures. The Risk Committee monitors all types of risks to ensure compliance with their risk appetite;

The Bank operates **three** levels of risk management and control:

Level I: includes the relevant business units that are carrying out banking operations, and are responsible for the risk management control policy, as well as the knowledge and use of relevant internal documents regulating the risk management process, risk control and management within their competence.

The body responsible for realization of all types of banking risk management policies is the Board of Directors, which determines the basic principles of risk management and ensures control over their implementation, through co-operation with business units and the relevant committees of the Bank.

All policies of risk management must be accepted by the Bank's Supervisory Board, which, in turn, checks their compliance with the organization's goals and strategies.

Level II: Risk management divisions that are responsible for organizing the risk management system and ensure the identification, evaluation and control of all risks in the bank, which may arise before the bank and the banking group participants.

Furthermore, committees are established in the Bank, which will be granted the different types of rights to take decisions within the scope of the risk control and risk management policy, including credit committees (head office/branches); the Assets and Liabilities Committee (ALCO); audit committee, information security working group, tariff committee.

In order to prevent illegal revenue and terrorism financing, the Bank is set up with the Financial Monitoring and Compliance Service, which is an independent service and is subordinate to the Director General.

The committees act on the basis of the relevant provisions and are accountable to the Bank's Board of Directors or the Supervisory Board in accordance with the Bank's internal documents.

Level III: Internal Audit Department - an independent structure aimed at checking the bank's operations and expressing independent opinions and recommendations to the bank's Board of Directors regarding the adequacy and effectiveness of risk control measures.

Risk Management Devisions and Internal Audit Department are acting on the basis of relevant regulations. Risk Management Devisions are subordinated to the Deputy General Director of the Bank in the risk management area, while the Internal Audit Department is subordinated to the Bank Supervisory Board.

More specifically, the management of individual risks is carried out in the Bank as follows:

Credit Risk:
Credit risk is considered the Bank's risk of loss as a result of credit activity, due to the inability of the borrower to timely pay back their obligation.

The main purpose of credit risk management for the Bank is to maintain the minimum level of losses derived from credit activities (including economic downturn) for which the Bank:

- initiates credit relations only with the counterparty, in case of sufficient persuasion of return of credit funds at the agreed time, and taking into consideration the provided collateral;
- performs periodic monitoring of the credit portfolio in order to identify the quality deterioration in the early stages and maximize return of credit funds;
- does not allow excess risk concentration of the borrowers at the level of the sector, by the geographical setting;

For the effective management of credit risk, the Bank has implemented a number of measures, both in the organizational structure and in the management of business processes, which in turn is defined as risk management policies and credit services provisions. All credit products in the Bank are in compliance with the above norms.

The Bank has a Credit Risk Department, which takes responsibility to identify and mitigate risks in timely manner. The functions of Department also include determination of the risk policy at the Bank and ensuring its full compliance, permanent monitoring the quality of the loan portfolio, monitoring the bank's prudential ratios and sector limits.

The bank-lending direction divided into corporate, SME and retail business departments. The criterion for separation is volume of the credit limits, the volume of customer and source of income. Credit decision-making is delegated by the Board of Directors to credit committees within the frameworks defined by certain lending policies, thereby establishing the basic terms of lending. Credit applications that go beyond the standard terms are approved by the superior authority (Board of Directors and/or Supervisory Board).

The Bank also has a credit rating system for business loans, which guarantees the counterparty's default rate. The credit portfolio is regularly monitored by Financial Risk and Portfolio Analysis Division, which submits monthly loan portfolio analysis results to ALCO. The analysis includes the following information:

- Composition of the credit portfolio according to currencies, terms and segments;
- An analysis of the concentration of credit portfolio, in the context of the 20 largest borrowers group;
- Quality analysis of credit portfolios according to segments, overdue days, volume of reserves, products;
- Detailed analysis of negative classified loans;
- Detailed analysis of the restructured portfolio;
- Detailed information on the utilization/compliance of the limits set for business financing targeted sectors, according to directions;

The Financial Risk and Portfolio Analysis Division submits monthly to the ALCO reports and quarterly to the Board of Directors and Risk Committee the quarterly results on the composition and quality of the credit portfolio, according to the segments, including compared to market. The Board of Directors is informed about the normative changes and their impact, as well as the novelties introduced in the Bank in context of a specific risk management.

Financial Institutions and Country Credit Risk:

The Bank performs operations with the financial institutions within the set limits on specific operations (deposits-nostros, commercial, off-balance, conversion) approved by ALCO. The limits are based on the need / requirement of Operations Division or the Treasury Department and detailed analysis of the counterparty conducted by Financial Risk and Portfolio Analysis Division that is accompanied by a positive assessment of AML Department. Similarly, in which country the counterparty operates, assessing the country and approving the limits on the country takes place. The daily control of financial institutions and country limits is performed by the Operations Division and the additional monitoring – by the Financial Risk and Portfolio Analysis Division, which submits results monthly to ALCO.

Liquidity Risk:

For the effective control of liquidity, the Bank divides the liquidity management into the following parts: current / short-term and medium-term / long-term.

In order to manage liquidity risk, the Bank:

– Establishes the risk level - through the authorized collective body - sets the risk apetiteas well as limits on liquidity ratios and early warning indicators;

– Periodically conducts monitoring of the established limits and indicators;

– In case of increasing the level of risks, takes decisions regarding its mitigation in timely manner.

A more detailed description of the liquidity risk assessment, limitation, monitoring and reporting methodology is determined in the policies and methods dedicated to this risk measurement and control. In particular, the Bank has a GAP reporting methodology for liquidity risk management and has internal limits. Based on these, the Financial Risk and Portfolio Analysis Division analyzes the risk of liquidity and monitors the established limits and submits the results to ALCO. Besides, the regulatory requirements are monitored and analyzed continuously.

In addition to risk control, the Financial Risk and Portfolio Analysis Division makes independent recommendations to ALCO regarding current / short-term liquidity management, measures to be taken, and increase or decrease of the minimal "liquidity buffer" in case of providing the proposals by Treasury, as well as in situations when the prudential regulations or the liquidity of the internal rate of liquidity reaches a limit.

Setting restrictions on the minimum value of current / short-term liquidity is the competence of the Asset Liability Management Committee. Operating management of the current / short-term liquidity of the Bank is delegated to the Treasury.

The decision on restricting, limiting and management of medium/long-term liquidity falls only within the competence of ALCO. In addition, it has the following functions of risk management:

- Study and analysis of the relevant Proposals of initiating unit and recommendations of the Risk Management Divisions related to the Liquidity Risk Measures and Restrictions (Limits);
- Establishment of liquidity GAP limits, review of transactions bearing liquidity risks of the bank and making decisions about them;
- Regular reporting of liquidity risks and control of the bank's respective departments in terms of adequate risk of liquidity, monitoring regulatory requirements and corrective measures if necessary

Market Risk:

The decision-making on the market risks in the bank falls within the special competence of the Asset-Liability Management Committee (ALCO). In particular, it is responsible for the following functions:

–Study and analysis of relevant recommendations of Risk Management Divisions and proposals of the initiating units for market risk approval;

–Acceptance of decisions on the approval / absence of transactions/operations containing market risk; approvals of market-based operations, position limits;

–Review regular accounts with market risks, control over the respective subdivisions of the bank with adequacy of market risks and corrective measures if required.

The Bank has a Market Risk Management Policy that ensures that the maximum loss caused by changes in exchange rates and interest rates is within the pre-set limits, which it implements through a variety of methods, including setting limits, using stress tests and monitoring regulatiory requirements.. The Financial Risk and Portfolio Analysis Division regularly monitors and analyzes market risks and delivers the results to the ALCO. In addition, it is responsible for minimizing risks by presenting recommendations on individual operations / liabilities / market positions with market risks.

Operational Risk:

Operational Risk Management is an integral part of the bank's daily activities. The purpose of operational risk management is to maintain operational risk at the level determined by the bank. The priority is to ensure the maximum security of assets and capital by reducing (eliminating) possible losses. Operational Risk Division daily monitors operational risks and contributes to their prevention or hedging/mitigation by recommendations. For this purpose, operational risks, specific to products and processes, are assessed and analyzed. Besides, the recommendations are developed and submitted to the bank's management too. As for the Matrixs of the software access rights, they are evaluated and approved by the Information Security Working Group. Besides, the following tools are used in the bank to obtain information needed for risk assessment, determining control effectiveness and identifying potential problems:

- Operational risk losses database;
- Operational risks identification in new products/services;
- Risk Self-Assessment Procedure;
- Key risk indicators monitoring;
- Scenario analysis;
- Testing a business continuity plan

Based on the bank's risk management culture, all bank employees participate in the operational risk management process. The Head of each structural unit / risk coordinator is responsible for the activities of his structural unit and the effective management of operational risks. Also, any employee of the bank is obliged to take care of reduction of operational risks. In order to raise the awareness of operational risks, the bank's employees are trained annually and the level of acquired knowledge is checked through testing.

The Bank has established a business continuity management process, which is an integral part of operational risk management and includes policies and procedures aimed at ensuring the continuity and timely recovery of critical business processes in case of incidents. The main goal of business continuity management is to minimize operational, financial, legal, reputational and other negative consequences caused by incidents, as well as to create a well-analysed and defined system. Every year, the Bank tests its business continuity plans. Reports on the conducted testing are submitted to the bank's directorate.

In the process of operational risk management, the Operational Risk Devision carries out mandatory systematic reporting for the management of the Bank.

Reputational Risk

Reputational risks that accompanies clients, products, bank processes are the responsibilities of the relevant structural subdivisions which are in charge of their management. In addition, the Bank's Independent Services (e.g. Internal Audit Department, Risk Management Divisions, SecurityDivision, etc.) are also responsible for initiating the issue in case of detecting reputational risk facts and submitting to the authorized bodies for consideration. Issues related to the bank's name and reputation protection by risk levels are considered and decided at the meetings of the Supervisory Board and the Board of Directors.

Strategic Risk

The Board of Directors and the Supervisory Board of the Bank are responsible for strategic risk management.

The Board of Directors of the Bank and the Supervisory Board perform strategic risk management through developing the bank's strategy and business plan. The Bank's strategy, business plan is developed by the Board of Directors and approved by the Supervisory Board in accordance with the Bank's internal normatives.

Strategy is drawn up for a period of not less than 3 years and, if necessary, is adjusted by considering the actual results and changes in market conditions.

Legal and Compliance Risks

The main principle of legal risk management is the compliance of the Bank's activities with the legislation of Georgia, in relation to non-residents - compliance with the laws of other states and the bank's internal documents.

The legal departments of the Bank and its branches are responsible for the reduction of legal risk in the bank's activities. In order to reduce the legal risks in the Bank's activities, the Bank's units shall carry out their activities in compliance with the Georgian legislation, Internal Regulations and documents of the Bank.

The Risk Management Divisions, as well as the Bank's Financial Monitoring and Compliance Service are responsible for reducing the compliance risk in the bank's activities. The main task of the Financial Monitoring and Compliance Division is to ensure compliance with measures aimed at preventing money laundering and financing of terrorism by the bank. The functions of the division are: participation in the development of the bank's internal documents that regulate the activities of the division, as well as in the development of procedures aimed at preventing the occurrence of compliance risks; Legal assurance of the bank's policy in relation to AML, CFT issues; formation of a total database of persons associated with the bank, according to the criteria determined by the National Bank of Georgia; coordination of interaction between the participants of the compliance process, with the chief executive officer (CEO), the Internal Audit Department; Within the competence of the division, advising bank employees on the issues of reducing compliance risk in bank management; Legal support of the bank's policy on FATCA issues.

ICAAP, ILAAP, Stress-Tests and Recovery Plan

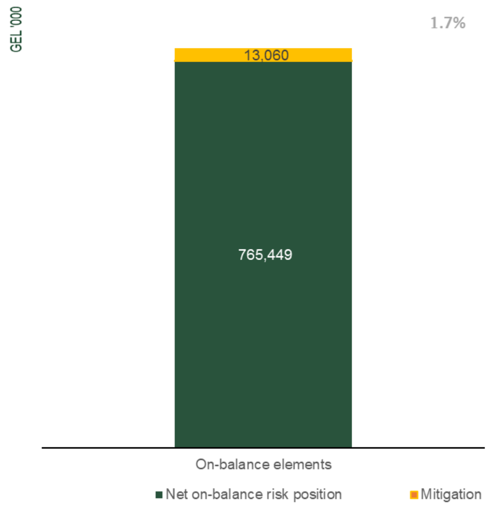
The ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) reports are prepared annually, which describe the processes of risk assessment and management in the Bank, including policies and procedures. Besides, using various risk assessment models are measured capital buffers,that are required to cover material risks. Stress tests are also also conducted regularly on the Bank's loan portfolio and financial risks, including by supervisory macro scenarios to show the vulnerability of the Bank to the different risks and the required level of capital and liquidity buffers. It should be taken into account that Bank annually renews Recovery Plan, that includes idiosyncratic, systemic and combined stress scenarious of development and based on which are compiled recovery measures to improve liquidity, capital, portfolio quality and profitability.

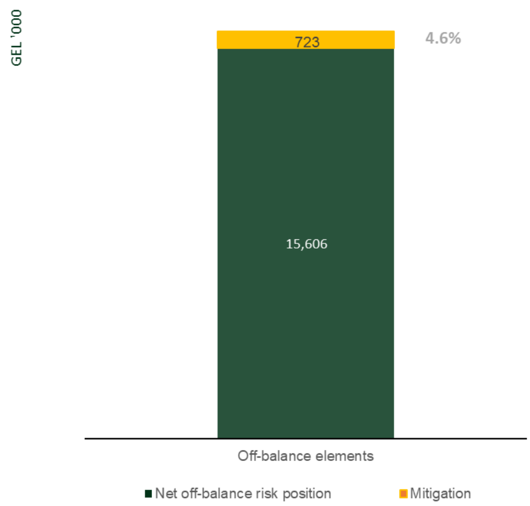
Risk Appetites

In order to manage risks, risk appetite indicators were identified for all major material risks (credit, liquidity, market, operating, reputation, efficiency, weighted assets as a whole), which are determined annually by the Supervisory Board, no later than the 1st of October, based on report of the Board of Directors and recommendations of the Risk Committee. The risk appetites are monitored by the Financial Risk and Portfolio Analysis Division, which submits quarterly reports to the Board of Directors. In its turn, the Board of Directors is accountable to the Risk Committee, which develops further recommendations for the Supervisory Board.

Credit Risk Mitigation

The well-developed Collateral Assessment System plays an important role in terms of credit risk mitigations, in particular, assessment ensures that in accordance with the requirements of the International Valuation Standards (IVS), determination of the pledge value using the marginalized coefficient presented at the Regulation based on the market value which changes according to the type of property. The pledged immovable and movable property are evaluated by professional internal assessors, regardless of the market value of the assessment property, so the employees involved in the assessment of customer satisfaction / credit assessment do not participate in the real estate assessment process. If the borrower is the General Director of the Bank or the employee of the Assessment Department, the assessment is carried out by external evaluators. Also, the external assessor avaluates property owned by the Bank. The immovable / movable property inspection is carried out by a certified appraiser and the property condition and other price factors are fixed. Real estate re-evaluation is carried out no less than 12 months, the time revision is carried out if the loan is restructured or the change of physical condition of the property is present. Furthermore, the credit risk mitigation tool is the cash deposits placed on the deposit account. At December 31, the total market value of mitigation instruments amounted to GEL 13,783 thousand. By using this instrument, the Bank carries out a 1.7% mitigation of its total risk weighted position.





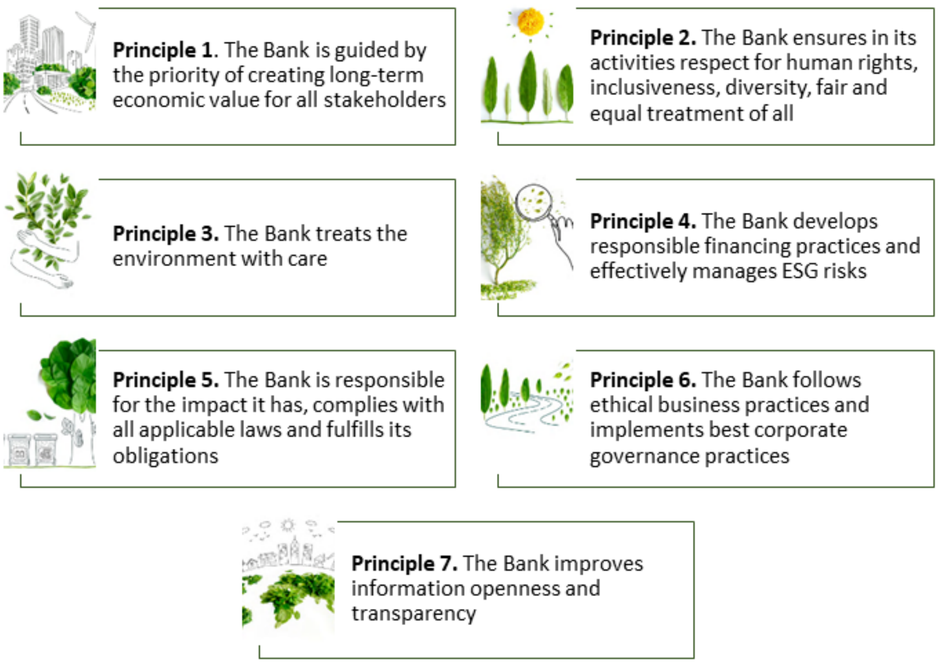
External Credit Ratings

For assessment of credit risks of financial institutes and sovereign countries, the Bank uses credit ratings published by International financial rating agencies: FITCH, S&P and Moody's. Out of which the most conservative and lattest assessment is chosen for further analysis. International credit Ratings are used to calculate risk-weighted assets for capital adequacy purposes and to form provisions for treasury operations and securities in accordance with IFRS9 standards too. Credit ratings of Georgian agency "Creditinfo Georgia" are also used to analyze retail loans.

ESG Strategy and Goals

Realizing the social responsibility of the business, the bank undertakes to participate not only in the life of its employees, but also in the life of society as a whole. Creating diversity in the workplace, ensuring health and safety in the bank's offices and branches, participating in various social programs, internal policies of the bank are part of the bank's daily activities and the way of having a positive impact on society.

Based on the Strategy of the "Halyk" Group, the Code of Corporate Governance of Georgia, guided by standards in the field of sustainable development and international principles in the field of responsible financing, the Bank is guided by seven principles in its activities in the direction of ESG and sustainable development:



The Bank realizes that the long-term sustainable development of the business depends on the solution of global problems in the social, ecological and economic spheres and the transition to a new, more sustainable model of the economy, which is possible on the basis of ESG-transformation.

The Bank understands its role in the economy of Georgia and takes into account the unique opportunities and responsibilities associated with it, striving to realize its potential in the best way possible and use opportunities for ESG-transformation of the business and the country.

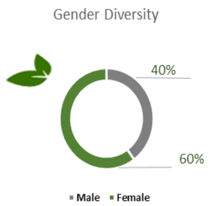
The Bank shares its commitment to international and national goals, standards and principles in the field of ESG and sustainable development, including the UN Sustainable Development Goals, Principles of the UN Global Compact, Responsible Banking Principles (Principles for Responsible Banking UNEP FI) and other global initiatives.

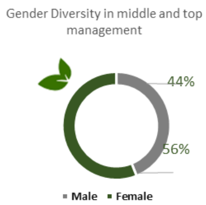
The main goal of the Bank's activities in the field of ESG and sustainable development is: to become a participant in systemic changes in the field of ESG at the national level to create a prosperous economy that is effective for society and the environment, based on the interest, cooperation and development of our employees, customers, shareholders, investors, partners and the state.

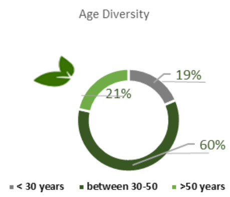
Diversity

In an effort to maintain a stable team of highly-skilled professionals, the Bank provides equal employment opportunities for workers and candidates to join its workforce.

The Bank consistently builds a team of professionals based solely on the professional expertise, personal qualities, experience and motivation of candidates, without allowing any discrimination based on origin, social, official or property status, gender, race, nationality, language, religion, beliefs, place of residence or any other factor.







Governance

In order to effectively achieve the goals of sustainable development, the bank has developed the following policies:

- Sustainable development policy
- Environmental policy
- Code of ethics
- Code of Corporate Governance
- Anti-corruption/ Anti-bribery policy
- Anti-money laundering policy
- Business Continuity Policy

In 2022, the Bank approved an action plan for the implementation of the principles and goals of sustainable development. The plan consists of 9 actions that serve to the management of the bank's own impact on the environment, introduction to the principles of sustainable development and disclosure of relevant information, including the preparation of a sustainability report.

During 2023, the bank's representatives participated in seminars and workshops conducted by the supervisory authorities of commercial banks of the Republic of Kazakhstan,the National Bank of Georgia and Georgian Banking Associationwhich were dedicated to ESG and received relevant certificates.

Oversight of ESG issues is the mandate of the Supervisory Board, while implementation of sustainable development principles and goals at the executive level and relevant reporting is the responsibility of top management.

Remuneration Policy

The Supervisory Board holds the responsibility for determining the remuneration of the Directorate. This process involves collaboration with the bank's personnel department and the capital management department of the group, where the proposed compensation amount is agreed upon before the final decision is made. The Personnel Department, drawing from market research, then presents recommendations to the Supervisory Board within the framework of the approved remuneration scheme. The bank's remuneration system serves as a cornerstone of personnel management, tailored to the bank's activities, corporate values, goals, and strategy. It aims to achieve several key objectives, including attracting and retaining qualified personnel without compromising capital accumulation, recognizing professional achievements, establishing consistent corporate standards for remuneration, and fostering a sense of stability, security, and care among employees. Additionally, the bank has identified positions of material risk takers within its structure.

The staff remuneration system consists of three components - labor remuneration, performance based bonuse scheme for front employees, quarterly bonuses and compensation/benefits. Labour remuneration consists of

1) Guaranteed remuneration;
2) Bonus generated by annual performance;

3) Monthly bonus scheme.

Quarterly motivation bonuses - which constitutes 11% of the fixed monthly salary to be paid once a quarter and depends on the performance of the staff activity in the structural units during the reporting period. This system applies to all employees of the Bank except for supervisory management (Supervisory Board and the Board of Directors), SME and Retail sales department and technical or support staff.
In determining employees' labour remuneration, the Bank is guided by the following key factors:
1) Labor Market Analysis, which gives an opportunity to assess the salaries of the bank. To this end, the Bank participates in market payroll surveys organized by independent outside companies. According to changes in the labor market, the bank adjusts the range of labor remuneration.
2) Ranking positions that allow you to determine the value of a particular position (valuation) for the bank.

Salary Determination Procedure:
The Bank's Board of Directors independently approves the maximum and minimum wages of the head office and branch offices, the so called schemes. The amount of specific salary is determined within the framework of the approved scheme and depends on the difficulty of the occupational position, the qualification and the performance of the work.
In order to encourage employees to work efficiently, the Bank will issue premium on the results (performance factor) of the year. The main condition of this is the performance of the Bank's planned financial results and business plan parameters not less than 90%. Key performance indicators (financial performance and business plan parameters) are approved annually in the form of KPIs and are listed as the instrument of higher management and overall banking.
Corporate lending, card acquiring and treasury departments belong to the front-office and the amount of bonuses of their structural units exceeds the amount of bonuses of the employees of other back-office structures.
Employee’s bonus is calculated individually on the basis of a bonus scheme, based on the position and subdivision and will be calculated in proportion to the worked period, according to the changes in the wage, position and subdivision.

Approval of bonuses for employees (except the Board of Directors, Audit Committee and Internal Audit) shall be provided by the Board of Directors of the Bank and the amount of bonuses for employees of the Board of Directors, Audit Committee and the Internal Audit Department shall be approved by the Supervisory Board.
By the end of 2019, according to the provisions of the Corporate Governance Code, changes have been made in the bank's payroll and other risk-taking policy: material change has affected the principles of deferment and restraint.

- **Principle of restraints** - non-refundable part of the variable remuneration, which is issued in the form of a deposit certificate, is subject to a period of at least 1 year of restraint.
- **Deferral principle** - Payment of at least 40% of the variable part of the annual salary will be deferred for a period of up to 3 years.
- **Payment forms** - A maximum of 50% of both the deferred and non-deferred portion of the variable payment will be issued in cash and the rest to be paid as a deposit certificate.

Information on the remuneration granted to the Bank's Board of Directors, Supervisory Board and other material risk takers during 2023 is given in Annex - Table N24.

Information on deferred payments for 2023 is given in Annex - Table N26.