



**LIBERTY**

**JSC LIBERTY BANK**

**PILLAR 3 REPORT 2021**

**a bank for everyone, everywhere.**

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## **1 INTRODUCTION**

### **1.1 Disclosures According to Pillar 3 of the Basel 3 Capital Framework**

The purpose of this document is to provide Pillar 3 disclosures of JSC Liberty Bank (the “Bank”) as required by and in accordance with the National Bank of Georgia (the “NBG”) regulation No 92/04 on “Commercial Banks’ Pillar 3 Disclosure Requirements”. The disclosures provided in this document are in accordance with Pillar 3 disclosure requirements framework established by the Basel Committee on Banking Supervision and European Union regulation No 575/2013 on “Prudential Requirements for Credit Institutions and Investment Firms” (Capital Requirements Regulation, or “CRR”).

### **1.2 Verification**

The disclosures in this Pillar 3 Report have been verified and approved by the Management Board of the JSC Liberty Bank. This document is prepared in accordance with the Bank’s internal governance procedures approved by the Supervisory Board. This Pillar 3 Report is fully compliant with the NBG regulation No 92/04 on “Commercial Banks’ Pillar 3 Disclosure Requirements” adopted in June 2017 and other regulations set by the NBG. Per NBG regulation it is not required to have Pillar 3 disclosures audited by external auditor, therefore the information provided in this Pillar 3 Report is unaudited.

### **1.3 Basis of Preparation**

All numbers in this document are reported on a standalone basis and in accordance with the local accounting standards set by the NBG, unless otherwise noted. Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such disclosures is not regarded as material. Article 3.3 of the NBG regulation on commercial banks’ Pillar 3 disclosure requirements permits in exceptional cases to omit disclosure of the information, which if disclosed could have an adverse impact on the bank. For differences between accounting and regulatory scopes of consolidation, see Appendix Table 12. For methods of regulatory consolidation, see Appendix Table 13.

### **1.4 Frequency and Media**

In accordance with the NBG requirements, the Bank will continue to make available its Pillar 3 Report on an annual basis and selected quantitative charts on a quarterly basis. A copy of this document can be found on the Bank’s website (<https://libertybank.ge/en/chven-shesakheb/investorebistvis/pinansuri-inpormatsia/regulatory-financial-reporting-to-the-national-bank-of-georgia>) and on the NBG website (<https://www.nbg.gov.ge/index.php?m=673&lng=eng>).

## 1.5 Location of Pillar 3 Disclosures

The table below details how the Bank has complied with each article under the CRR as well as with the NBG regulation.

### *Main Disclosures in the Pillar 3 Report Mapped to CRR and NBG Regulation*

CRR Ref.	Pillar 3 Disclosure Topic	Article in NBG's Regulation	Location in Pillar 3 Report
431	Scope of disclosure requirements	Article 3.8	Section 1.1, 1.2
432	Non-material, proprietary or confidential information	Article 3.3	Section 1.3
433	Frequency of disclosure	Articles 3.1; 3.5	Section 1.4
434	Means of disclosures	Article 3.4	Section 1.4
435	Risk management objectives and policies	Article 6.2	Section 6
436	Scope of application	Article 6.1; Annex 2: Table 21	Section 1.3
437	Own funds	Annex 1: Table 9; 10	Section 7.2
438	Capital requirements	Annex 1: Table 5; 9.1; 11; 13	Section 7
439	Exposure to counterparty credit risk	Annex 1: Table 15	Annex: Table 10
440	Capital buffers	Annex 1: Table 9.1	Sections 7.1
441	Indicators of global systemic importance	N/A	N/A
442	Credit risk adjustments	Article 6.3; Annex 1: Tables 16-19	Sections 8.1, 8.2.5, 8.3 and 8.5
443	Unencumbered assets	N/A	N/A
444	Use of ECAIs	Article 6.3	Section 8.2.6
445	Exposure to market risk	Article 6.3 (g)	Section 9
446	Operational risk	Article 6.3 (g) Annex 2: Tables 22; 23	Section 10
447	Exposures in equities not included in the trading book	N/A	N/A
448	Exposure to interest rate risk on positions	N/A	Section 9.2
449	Exposure to securitisation positions	N/A	N/A
450	Remuneration policy	Article 7; Annex 2: Tables 24-27	Section 5
451	Leverage	N/A	Section 7.4
452	Use of the IRB Approach to credit risk	N/A	N/A
453	Use of credit risk mitigation techniques	Article 6.3 Annex 1: Table 12	Section 8.6
454	Use of the AMA to operational risk	N/A	N/A
455	Use of Internal Market Risk Models	N/A	N/A

Note: N/A stands for not applicable.

## 2 KEY FIGURES AND BUSINESS STRATEGY

### 2.1 Key Figures

Headquartered in Tbilisi, Georgia, JSC Liberty Bank (the “Bank”) is the third largest bank in Georgia, as measured by the total assets of GEL 3,111 million (per NBG) as of 31 December 2021. The Bank operates only in Georgia and has the largest retail network comprised of more than 459 branches and service outlets.

#### Ratings of JSC Liberty Bank

Fitch Ratings		Rating	Outlook	Date
Issuer Default Rating	Long-term	B+	Stable	31-Mar-21
	Short-term	B	-	
Support Rating		5	-	
Support Rating Floor		NF	-	

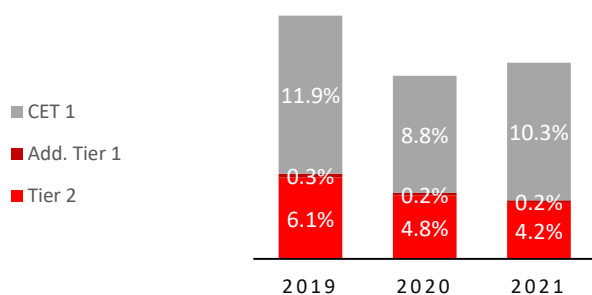
Moody's		Rating	Outlook	Date
Bank Deposits (Foreign)	Long-term	Ba3	Negative	3-May-22
Bank Deposits (Domestic)		Ba3		
Counterparty Risk Rating (Foreign)	Long-term	Ba2	-	
Counterparty Risk Rating (Domestic)		Ba2	-	

In May 2022, Moody’s updated the country’s outlook from stable to negative, which in turn reflected in the rating of systemic banks on the grounds that due to geopolitical risks, the country would have lower ability to support to support banks.

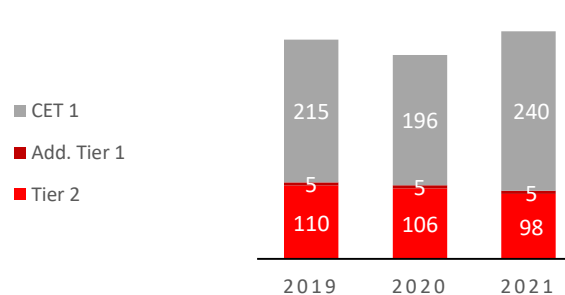
During 2021, the Bank maintained its capital base in line with lowered capital requirements by the NBG. Tier 2 Capital amounted to GEL 98 million, down 7.8% y-o-y, Common Equity Tier 1 Capital (“CET1”) amounted to GEL 240 million, increased 8.8% y-o-y, which is mainly caused by GEL 48 million increase in retained earnings, due to increased interest income.

Risk-weighted exposures (“RWE”) grew to GEL 2,320 million, driven by growth in total assets, Credit Risk-weighted exposures increased by GEL 85 million. Operational risks increased by GEL 13 million, while market risks decreased by GEL 5 million.

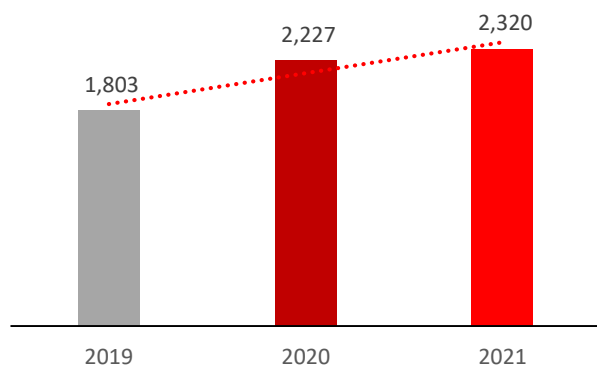
#### Regulatory Capital Ratios



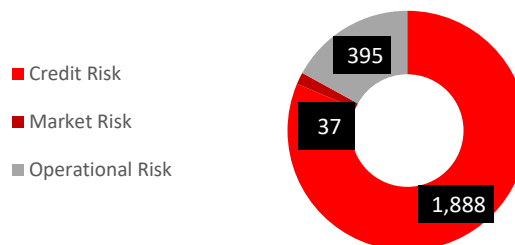
#### Regulatory Capital, GEL mln



*RWE, GEL mln*

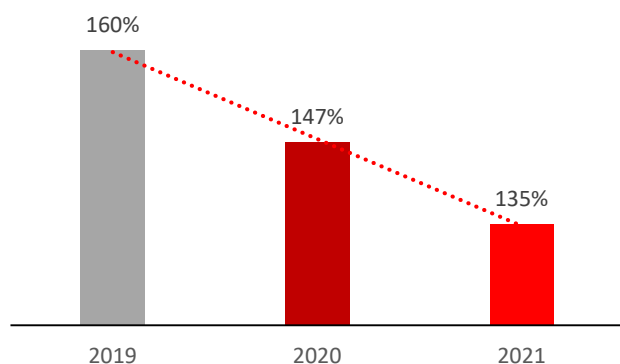


*Distribution of RWE by risk type, GEL mln*



In 2021, the bank continued to use its liquid assets more effectively and use its liquid funds to finance business lending, as a result, liquidity position decreased during the year. As of YE 2021, total Liquidity Coverage Ratio (per NBG) stood at 135%.

*Liquidity Coverage Ratio*



The Bank reported net income (per NBG) of GEL 44.9 million in 2021, increased 395.5% y-o-y. The increase is mainly due to increased interest income. As of 31 December 2021, the Bank's total assets stood at GEL 3,111 million, up 4.3% y-o-y, and total shareholders' equity amounted to GEL 339.7 million, up 19% y-o-y.

## 2.2 Key Indicators and Financial Statements of the Bank

**Table 2.2.1 Key Metrics**

Regulatory capital (amounts, GEL)	31/12/2021	31/12/2020	31/12/2019
Common Equity Tier 1 (CET1)	239,971,505	196,387,103	215,359,099
Tier 1	244,536,889	200,952,487	219,924,483
Total regulatory Capital	342,241,352	306,902,021	330,141,000
Risk-weighted assets (RWA)	2,319,960,141	2,227,009,638	1,802,789,012

Capital ratios as a percentage of RWA	31/12/2021	31/12/2020	31/12/2019
Common equity Tier 1 ratio	10.34%	8.82%	11.95%
Tier 1 ratio	10.54%	9.02%	12.20%
Total regulatory capital ratio	14.75%	13.78%	18.31%

Income	31/12/2021	31/12/2020	31/12/2019
Total Interest Income/Average Annual Assets	12.64%	11.44%	13.43%
Total Interest Expense/Average Annual Assets	5.09%	5.30%	5.25%
Earnings from Operations/Average Annual Assets	2.92%	0.96%	2.83%
Net Interest Margin	7.56%	6.14%	8.19%
Return on Average Assets (ROAA)	1.57%	-0.60%	1.35%
Return on Average Equity (ROAE)	14.26%	-5.26%	9.34%

Asset Quality	31/12/2021	31/12/2020	31/12/2019
Non-Performed Loans/Total Loans	7.31%	6.19%	5.04%
LLR/Total Loans	7.11%	7.03%	6.63%
FX Loans/Total Loans	21.38%	23.23%	24.59%
FX Assets/Total Assets	28.43%	33.75%	31.23%
Loan Growth-YTD	18.05%	34.83%	19.13%

Liquidity	31/12/2021	31/12/2020	31/12/2019
Liquid Assets/Total Assets	29.00%	33.96%	26.47%
FX Liabilities/Total Liabilities	36.23%	40.77%	34.31%
Current & Demand Deposits/Total Assets	41.51%	44.29%	41.36%

Liquidity Coverage Ratio*	31/12/2021	31/12/2020	31/12/2019
Total HQLA	857,932,874	1,034,394,124	724,438,720
Net Cash outflow	604,862,125	638,901,245	442,132,789
LCR ratio (%)	141.84%	161.9%	163.85%

\* LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. See the table 11 in appendix; Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustrative purposes.

**Table 2.2.2 Balance Sheet\***

	31/12/2021	31/12/2020	31/12/2019
<b>Assets</b>			
Cash	269,082,422	250,115,311	215,830,754
Due from NBG	114,713,313	209,677,630	141,792,380
Due from Banks	330,994,892	370,483,891	175,902,915
Dealing Securities	0	0	-
Investment Securities	233,393,540	265,217,811	142,840,525
Loans	1,975,000,866	1,672,980,140	1,240,836,088
Less: Loan Loss Reserves	-140,334,062	-117,613,975	-82,260,658
<b>Net Loans</b>	<b>1,834,666,804</b>	<b>1,555,366,166</b>	<b>1,158,575,430</b>
Accrued Interest and Dividends Receivable	34,113,919	35,827,582	15,915,316
Other Real Estate Owned & Repossessed Assets	116,954	103,192	47,775
Equity Investments	106,733	106,733	106,733
Fixed Assets and Intangible Assets	239,803,221	238,389,425	207,676,100
Other Assets	54,356,277	56,678,621	85,504,784
<b>Total Assets</b>	<b>3,111,348,075</b>	<b>2,981,966,362</b>	<b>2,144,192,712</b>
<b>Liabilities</b>			
Due to Banks	5,012,984	17,003,331	36,050,082
Current (Accounts) Deposits	1,020,542,249	1,024,440,328	597,191,171
Demand Deposits	271,101,336	296,363,212	289,571,292
Time Deposits	931,068,043	841,715,592	671,046,820
Own Debt Securities	0	0	-
Borrowings	344,496,233	305,113,360	60,000,000
Accrued Interest and Dividends Payable	12,513,371	12,372,734	7,107,124
Other Liabilities	74,937,413	86,361,831	80,019,839
Subordinated Debentures	112,015,236	113,132,914	99,640,227
<b>Total Liabilities</b>	<b>2,771,686,865</b>	<b>2,696,503,303</b>	<b>1,840,626,554</b>
<b>Equity Capital</b>			
Common Stock	54,628,743	54,628,743	54,628,743
Preferred Stock	61,391	61,391	61,391
Less: Repurchased Shares	-10,154,020	-10,154,020	-10,154,020
Share Premium	39,651,986	39,651,986	39,651,986
General Reserves	1,694,028	1,694,028	1,694,028
Retained Earnings	218,500,586	170,506,984	189,508,428
Asset Revaluation Reserves	35,278,498	29,073,949	28,175,602
<b>Total Equity Capital</b>	<b>339,661,210</b>	<b>285,463,060</b>	<b>303,566,158</b>
<b>Total Liabilities and Equity Capital</b>	<b>3,111,348,075</b>	<b>2,981,966,362</b>	<b>2,144,192,712</b>

\*See table 1 in appendix for detailed information about off-balance sheet items.



**Table 2.2.3 Income Statement**

In GEL	31/12/2021	31/12/2020	31/12/2019
Interest Income from Bank's "Nostro" and Deposit Accounts	5,782,615	6,999,897	12,848,204
Interest Income from Loans	322,996,709	256,017,563	230,688,130
from the Interbank Loans	-	-	373,448
from the Retail or Service Sector Loans	31,155,886	25,371,615	15,397,774
from the Energy Sector Loans	3,371,092	1,754,647	555,148
from the Agriculture and Forestry Sector Loans	1,581,055	343,484	179,952
from the Construction Sector Loans	4,576,087	1,667,752	2,651,006
from the Mining and Mineral Processing Sector Loans	186,206	101,477	300,806
from the Transportation or Communications Sector Loans	151,950	64,404	6,866
from Individuals Loans	274,303,890	222,178,657	206,991,092
from Other Sectors Loans	7,670,544	4,535,528	4,232,039
Fees/penalties income from loans to customers	9,451,617	6,819,296	9,470,967
Interest and Discount Income from Securities	22,701,341	17,291,015	13,177,569
Other Interest Income	1,766,589	292,994	224,874
<b>Total Interest Income</b>	<b>362,698,870</b>	<b>287,420,765</b>	<b>266,409,744</b>
Interest Paid on Demand Deposits	47,128,007	47,136,422	41,158,193
Interest Paid on Time Deposits	70,025,061	68,586,590	52,471,809
Interest Paid on Banks Deposits	206,632	346,933	331,663
Interest Paid on Own Debt Securities	10,438,588	9,672,240	7,453,977
Interest Paid on Other Borrowings	16,133,837	5,114,745	341,426
Other Interest Expenses	1,987,977	2,315,461	2,267,590
<b>Total Interest Expense</b>	<b>145,920,102</b>	<b>133,172,390</b>	<b>104,024,658</b>
<b>Net Interest Income</b>	<b>216,778,769</b>	<b>154,248,375</b>	<b>162,385,086</b>
Net Fee and Commission Income	21,528,529	19,316,410	22,226,083
Fee and Commission Income	37,786,732	32,424,120	34,495,046
Fee and Commission Expense	16,258,203	13,107,711	12,268,963
Dividend Income	-	-	644,108
Gain (Loss) from Dealing Securities	-	-	-
Gain (Loss) from Investment Securities	116,064	68,318	220,661
Gain (Loss) from Foreign Exchange Trading	3,823,329	(3,124,311)	15,178,278
Gain (Loss) from Foreign Exchange Translation	(5,230,363)	11,070,847	-4,957,200
Gain (Loss) on Sales of Fixed Assets	(681,259)	122,214	315,197
Non-Interest Income from other Banking Operations	71,051	130,767	49,385
Other Non-Interest Income	7,113,236	8,217,035	2,504,360
<b>Total Non-Interest Income</b>	<b>26,740,588</b>	<b>35,801,278</b>	<b>36,180,872</b>
Non-Interest Expenses from other Banking Operations	3,570,515	3,181,223	2,859,905
Bank Development, Consultation and Marketing Expenses	12,268,066	8,324,850	8,588,191
Personnel Expenses	76,798,904	80,178,838	77,350,895
Operating Costs of Fixed Assets	1,775,903	1,647,854	1,674,918
Depreciation Expense	34,317,136	32,806,890	29,839,840
Other Non-Interest Expenses	36,853,316	28,492,189	26,647,847
<b>Total Non-Interest Expenses</b>	<b>165,583,840</b>	<b>154,631,842</b>	<b>146,961,596</b>
<b>Net Non-Interest Income</b>	<b>(138,843,252)</b>	<b>(118,830,564)</b>	<b>-110,780,724</b>
Net Income before Provisions	77,935,517	35,417,811	51,604,362
Loan Loss Reserve	32,616,542	50,138,154	23,259,771
Provision for Possible Losses on Investments and Securities	-	(104,000)	104,000
Provision for Possible Losses on Other Assets	417,306	556,888	648,098
<b>Total Provisions for Possible Losses</b>	<b>33,033,847</b>	<b>50,591,042</b>	<b>24,011,869</b>
Net Income before Taxes and Extraordinary Items	44,901,669	(15,173,231)	27,592,493
Taxation	-	-	760,376
Net Income after Taxation	44,901,669	(15,173,231)	26,832,117
Extraordinary Items	-	-	-
<b>Net Income</b>	<b>44,901,669</b>	<b>(15,173,231)</b>	<b>26,832,117</b>

## 2.3 Business Strategy

2021 was the year of execution and implementation of the updated strategy for Liberty Bank. The immediate plan is to strengthen the Management Board, reinforce the universal banking business model and move closer to the digitalization of the products and processes, all resulting into improving the access to finance in the regions of Georgia across all customer segments.

The Management Board's objective is to maximise the shareholder value by further growing the Bank into one of the leading financial institutions in Georgia and delivering profitable growth. The Bank has the broadest physical distribution network in Georgia, which includes full-service branches, service centres, smaller-scale sales outlets, as well as the outlets located at various third-party businesses. The Bank constantly tries to further grow reach to its customers through remote and digital channels.

In 2021, the Bank was committed to a new vision and mission:

- Vision: Our vision is to improve the life of every individual, family and business in Georgia.
- Mission: We care with big heart about individuals, their families and businesses. We will be accessible everywhere, where our customers are and will provide tailored and swift service.

### 2022 plans

- Establish a market leader in the MSME sector and strengthen market share positions.
- In 2022, the Bank aims to maintain its position as the third largest bank by assets in Georgia and at the same time a high level of larization in terms of both assets and liabilities.

### Universal Banking

- Liberty Bank will maintain its universal banking model with strong emphasis on Retail and MSME banking. The Corporate and Private banking businesses will remain a strong support in terms of building the universal bank.
- Whilst focusing on delivering strong performance as a universal bank, Liberty Bank will focus on developing innovative products, streamlining the processes and increasing its digitization level, as well as acquiring new customers, including those that are largely unbanked.

### Digital Banking

- The Bank intends to continue improving its digital banking capabilities and create superb digital user experience through its mobile and internet banking platforms.
- The Bank also aims to streamline its onboarding process for new customers.
- The innovative products will also be elaborated for the elderly and socially vulnerable segment, along with offering broader financial education opportunities.
- The e-commerce marketplace Onoff evolved as a subsidiary of Liberty Bank, which supports growth of digital offerings enabling the building ecosystem environment for customers.

### Customer Service

- Liberty Bank is a customer-centred financial services provider and intends to continue further enhancing customer service and experience. In this regard, the set of improvements are planned in relation to the customer servicing model, organizational redesign, and customer complaints handling.

### Funding

- Liberty Bank intends to further optimize its funding structure and tap the opportunities to reduce its cost of funds. In this regard, the Bank intends to continue cooperation and dialogue with International Development Financial Institutions.

**Corporate & Social Responsibility**

- The bank is actively promoting environmentally beneficial, as well as educational and health care CSR projects addressing the needs of the elderly and the most vulnerable part of society, as well as employee health care.
  - “Green Boxes” for used paper in HQ
  - Free financial and computer education for 60+, now online
  - Internal Fund for employees "With Heart, for one another" created during the pandemic to help their family members in case of deteriorating health.

**Table 2.3.1 The Bank’s main strategic indicators (IFRS based)**

<b>Profitability</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
ROAA, (annualised), %	1.39%	-0.19%
ROAE, (annualised), %	12.87%	-1.59%
Interest Income/Average Interest Earning Assets (annualised), %	12.93%	12.66%
Cost of Funds (annualised),%	7.82%	7.78%

<b>Asset Quality</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
NPLs/Gross Loans,%	5.20%	3.83%
Cost of Risk	2.17%	3.44%

<i>amounts are in GEL thousands</i>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
Gross Loans	2,030,630	1,733,613
Private companies	576,361	501,621

## 3 OWNERSHIP AND GROUP STRUCTURE

### 3.1 Ownership Structure

As of 31 December 2021 and 2020, the following shareholders owned more than 1% of the outstanding ordinary shares. Other shareholders individually owned less than 1% of the outstanding ordinary shares.

#### Ownership Structure

Shareholder	31-Dec-21		31-Dec-20	
	Ownership Interest, %	Voting Rights, %	Ownership Interest, %	Voting Rights, %
Georgian Financial Group B.V.	77.62%	95.99%	74.38%	91.99%
JSC Heritage Securities (NOMINEE Holder)	-	-	1.58%	1.07%
Liberty Bank (Treasury Shares)	18.43%	-	18.43%	0.00%
Galt & Taggart Securities	-	-	3.42%	4.23%
Other Minority Shareholders (less than 1%)	3.95%	4.01%	2.19%	2.71%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The Bank is a publicly traded company and its ordinary shares are traded on the Georgian Stock Exchange. The free float amounted to 7.94% as of 31 December 2021 (same as of 31 December 2020).

On October 13, 2017, Georgian Financial Group B.V. ("GFG"), former European Financial Group, a company established and organised under the laws of the Kingdom of Netherlands, purchased 74.64% of equity interest in the Bank. By December 31, 2018 the equity interest of GFG amounted to 75.66% and by December 31, 2019 it increased to 91.99%. As of 31 December 2021. GFG share in equity interest amounted to 95.99%.

As of, December 31, 2021 the ultimate beneficiary owners of the bank holding 5% or more of shares were:

Beneficiary Owners	
Irakli Otar Rukhadze	30.66%
Benjamin Alberts Marson	30.66%
Igor Alexeev	30.66%

## 3.2 Group Structure

The Bank is the parent company of the following (table below) entities consolidated in the audited financial statements (per IFRS). For regulatory and prudential purposes these entities are not consolidated and the Bank is required to comply with all regulatory requirements on a standalone basis. As of 31 December 2021, total net investments in these entities amounted to GEL 0.1 million per NBG and GEL 1.3 million per IFRS.

### *Bank Ownership Interest*

<i>Name</i>	<i>Country of Incorporation</i>	<i>31-Dec-19</i>	<i>31-Dec-18</i>	<i>Date of Incorporation</i>	<i>Activities</i>
Bus Stop LLC	Georgia	100.00%	100.00%	27-Aug-09	Outdoor advertising
JSC Smartex	Georgia	21.47%	21.47%	5-Jan-09	Early-stage VC investments

## 4 CORPORATE GOVERNANCE

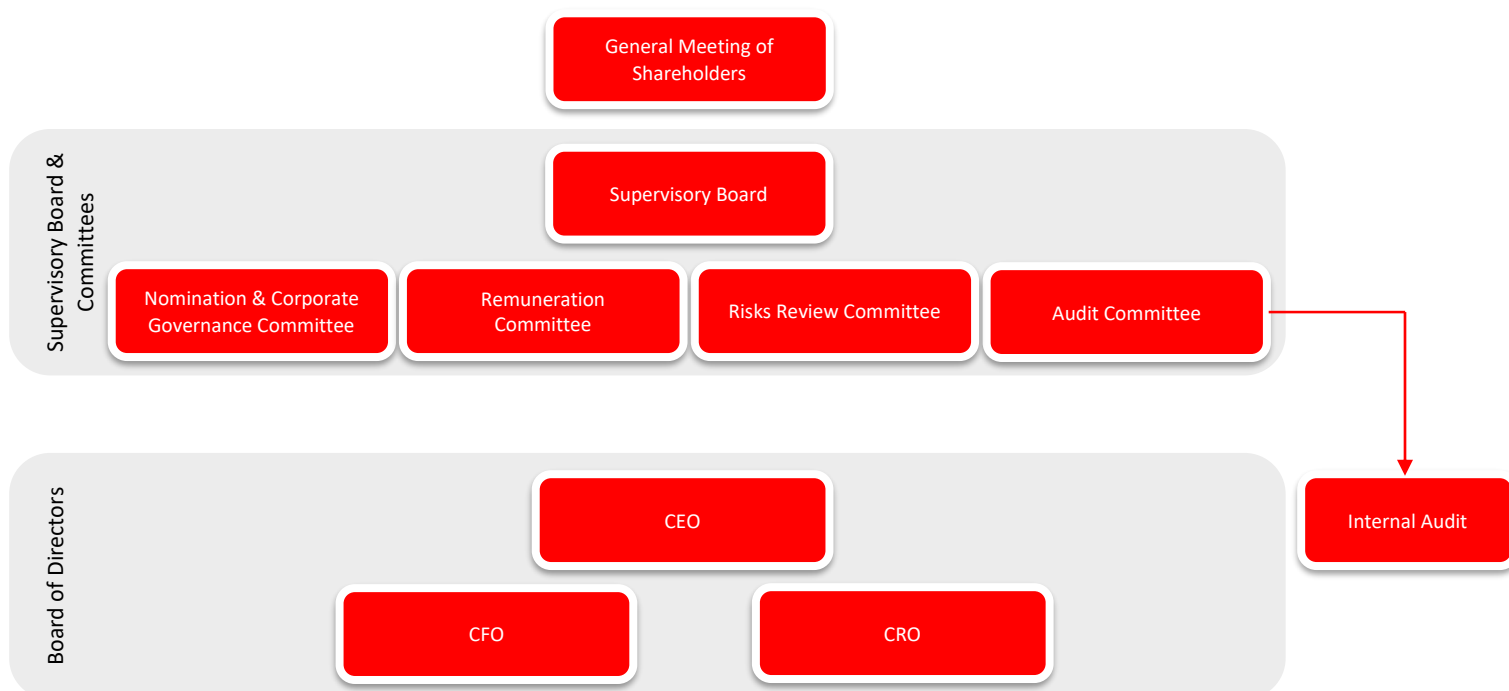
### 4.1 Corporate Governance Framework

This framework provides an overview of the corporate governance structures, principles, policies and practices of Liberty Bank, which together enable the Bank to meet governance expectations of the National Bank of Georgia and Georgian Stock Exchange.

To serve the interests of shareholders and other stakeholders, Liberty Bank's corporate governance system is subject to ongoing review, assessment and improvement. The Supervisory Board proactively adopts governance policies and practices designed to align the interests of the Supervisory Board and Management Board with those of shareholders and other stakeholders and to promote the highest standards of ethical behaviour and risk management at every level of the organization.

Common shares of Liberty Bank are listed on the Georgian Stock Exchange.

The Bank's corporate governance framework is fully compliant with the local and international standards. Established policies and procedures used by the Supervisory and Management Boards are described in other sections of this Pillar 3 Report. The fundamental relationships among Supervisory Board, its committees, management, shareholders and other stakeholders are established by the Bank's governance structure illustrated below, through which their ethical values and strategic and corporate objectives are set, and plans for achieving those objectives and monitoring performance are determined. The organizational chart below shows the governance structure of the Bank as of 31 December 2021:



Since 2021, the Corporate Banking Director and Chief Operations Officer have been separated from the Management Board. The corporate banking department is headed by the heads of the relevant departments, while the operational activities are managed by the Operations Director as the head of the department.

## **4.2 Annual General Meeting of Shareholders**

An annual general meeting of shareholders (“AGM”) is a mandatory yearly gathering of the Bank’s shareholders. At the AGM, the Supervisory Board presents an annual report containing information for shareholders about the company's performance and strategy. Shareholders with voting rights vote on current issues, such as appointments to the Supervisory Board, executive compensation, dividend payments and selection of external auditors.

### **4.2.1 Convocation of the AGM**

Under the Articles of Association of the Bank, the AGM is convened by the Supervisory Board within two months following the completion of the external audit of the Bank’s books and in any event within six months from the end of the preceding fiscal year. Issues that have not been considered by the AGM and fall within the scope of the responsibilities of the AGM are considered and resolved on extraordinary general meetings (“EGM”). The number of EGM gatherings per year is not limited and may vary from year to year. EGM may be called for by either the Supervisory Board, the Management Board, or at the written request of the shareholders holding at least 5% of the Bank’s voting shares. Shareholders who do not attend AGM may issue proxies, and the person(s) nominated under such proxies may vote on behalf of such shareholders.

General meeting of shareholders is presided over by the chairman of the Supervisory Board, or in his/her absence, by the deputy chairman, senior independent Board member or any other member of the Supervisory Board. In cases where the chairman does not attend the meeting and/or may not vote due to the matters related to possible conflict of interests, the deputy chairman, senior independent Supervisory Board member shall preside the meeting. In the absence of the members of the Supervisory Board, the meeting is presided over by the Chief Executive Officer.

All shareholders registered with the share registry as of the record date of the AGM and/or EGM shall have the right to attend and vote (if applicable) at the meeting. Shareholders who do not attend the meeting have the right to vote by a proxy.

On August 2, 2021, the Supreme Legislative Body of Georgia adopted a new version of the Law of Georgia on Entrepreneurs, which entered into force on January 1, 2022. Accordingly, until January 1, 2022, according to the Law of Georgia on Entrepreneurs in force at that time, a shareholder holding more than 75% of the bank's voting rights was entitled to make a decision without convening a general meeting. Such a decision is equivalent to the minutes of the General Meeting of Shareholders and is considered a decision made by the General Meeting of Shareholders. In such cases, the other shareholders will be notified of the decision in accordance with Georgian law.

### **4.2.2 Roles of the AGM**

Under Georgian Law and the Articles of Association of the Bank, the shareholders are authorized to pass resolutions on the following issues at an AGM:

**Corporate Governance**

- Adoption, approval and amendment of the charter;
- Consolidation, merger, dissolution, liquidation, reorganization and/or transformation of the Bank;
- Election and dismissal of the members of the Supervisory Board;
- Increase/decrease of authorized charter capital of the Bank.

**Approval Authorities**

- Approval/rejection of the reports of the Supervisory Board and Management Board;
- Approval of annual report and accounts;
- Selection, appointment and dismissal of independent auditors;
- Approval of the proposal of the Supervisory Board and/or the Management Board concerning the profit distribution, or make its own decision on profit distribution whenever such bodies fail to submit joint proposal.

**Controlling Powers**

- Making decisions on the acquisition, sale, transfer, exchange, (or such related transactions) or other encumbrance of the Bank's properties, the value of which is more than 10% of the equity value of the Bank.

### 4.2.3 Shareholder Meetings Held and Resolutions Adopted in 2021

Considering that Georgian Financial Group B.V. holds more than 75% of the Bank's voting shares, GFG adopted the following resolutions in 2021:

March 15, 2021

- Approval of the updated version of the Bank's Charter.

July 16, 2021

- Approval of annual 17% dividend pay-out in relation to the convertible preferred shares of the Bank for the calendar year 2020.

August 16, 2021

- Approval of 2020 audited consolidated financial statements of the Bank.



#### 4.2.4 Communication and Media Announcement

The time, place and the agenda of both the AGM and EGM is published in printed media at least 20 days prior to the meeting date. Decisions made by a shareholder holding more than 75% are also publicly available on the bank's website. Furthermore, as an additional measure to ensure the protection of rights of minorities, the shareholders holding at least 1% of the Bank's shares will be personally notified about the meeting and its respective agenda via registered mail or electronic mail. From 2022, the Bank will additionally publish the notice of convening the General Meeting, the agenda of the General Meeting and all other mandatory documents / information through the electronic portal of the registering authority, in accordance with the updated Law on Entrepreneurs.

### 4.3 Supervisory Board

Supervisory Board Responsibilities include to:

- Promote the highest standards of corporate governance in the Bank.
- Promote the success of the Bank for shareholders' benefit as a whole and create and deliver sustainable value.
- Ensure that management promotes the long-term growth of the Bank and maintains an effective system of internal control.

#### 4.3.1 Composition of the Supervisory Board

Under the Articles of Association, the Supervisory Board consists of at least three members. Under the NBG regulation effective from 1<sup>st</sup> of June 2018, the member of the Supervisory Board may not be part of the Management Board and should not have executive duties.

The Supervisory Board elects the Chairman, who convenes the Supervisory Board meetings, determines the agenda and signs relevant meeting minutes together with the secretary of the meeting. The Supervisory Board meeting may be held via telephone or video conference call.

31-Dec-20	Supervisory Board Members
Chairman (Independent Board member)	Murtaz Kikoria (elected on 30 December 2021)
Board member	Irakli Otar Rukhadze (resigned as Chairman on December 30, 2021)
Board member	Beka Gogichaishvili
Independent Board member	Magda Magradze
Deputy chairman, senior independent Board member	Mamuka Tsereteli

#### 4.3.2 Supervisory Board Education and Experience

The Supervisory Board members have a range of knowledge and experience in financial analysis, capital markets, financial reporting, information technology, strategic planning, risk management, compensation, regulations, corporate governance and management and they also have various backgrounds to promote the diversity of views. The members have reasonable understanding of local, regional, global, economic and market forces and legal and regulatory environment. Diversity of their expertise and skills has an important role in reduction of risks for the stakeholders of the Bank.

### **Irakli Otar Rukhadze**



#### ***Skills and experience:***

Irakli Otar Rukhadze was elected as the Chairman of the Supervisory Board of JSC Liberty Bank in October 2017. He has been a partner of Hunnewell Partners (UK) LLP, London, since 2011. Irakli was a Managing Director and partner of Salford Capital Partners, LP Salford Georgia, Tbilisi. In the capacity of a Managing Director Irakli managed Salford's Georgian operation while remaining responsible for specific areas globally (telecommunications, real estate). He successfully executed attractive deals in Georgia. Under his supervision and leadership, Georgian economy has obtained the investments of approximately USD 150 million. During 2001-2003 Irakli was a founder and partner of Argo Ventures LLC, Boston, MA. The company is focused on advising backed private companies, including mezzanine capital. Client list included global realty outsourcing - a successful US real estate analysis company whose investors now include Citigroup and First Union Securities. Furthermore, Irakli was the founder and CEO of Caucasus Advisors LLC, Boston, MA, responsible for the management of multimillion investment fund with the objectives to invest in the companies in the Caucasus region. Irakli also served as an engagement manager in McKinsey & Company Inc., Boston, MA and Dusseldorf, Germany where he led consulting and provided services in problem solving to improve client company performance. On December 30, 2021, in accordance with the best principles of corporate governance, Irakli Rukhadze resigned from the position of Chairman of the Supervisory Board and continues to work as a member of the Supervisory Board, and an independent member, Murtaz Kikoria, was elected as Chairman of the Board.

#### ***Education:***

Irakli Otar Rukhadze is a graduate of Tuck School of Business at Dartmouth College and holds the degree of Master of Business Administration. He is also the alumnus of Tbilisi State University with the degree of Master of Science in Mathematics and Economics.

### **Murtaz Kikoria**



#### ***Skills and experience:***

Murtaz Kikoria was elected as an independent member of the Supervisory Board of Liberty Bank in June 2019. Subsequently, as of July 2019 he was also elected as the chairman of the Risks Review Committee of the Supervisory Board. Murtaz joined the Bank with a tremendous background and experience in banking and financial sector generally. He had served as the chief executive officer of the sector leading companies/groups, namely in JSC Bank of Georgia in 2015-2016 and Georgia Healthcare Group in 2012-2014 years respectively. In addition to being the top executive of the above-mentioned highly reputable and regulated companies, he also has a multi-year experience of working as the chief financial officer of the JSC Bank of Georgia and a senior banker at European Bank for Reconstruction and Development (EBRD). Therefore, his knowledge and experience in finances, capital markets and funding acquisition are particularly important and valuable for the Bank. Murtaz's distinguished experience in banking and finances is even more enhanced by his managing, controlling and supervising skills which were well established starting from the beginning of 2000s when he worked as the head of the banking supervision and regulation department at the National Bank of Georgia. Later in 2016-2018 years he successfully served as the Vice-President of the National Bank of Georgia. Considering that according to the requirements of the Corporate Governance Code of Commercial Banks, the Chairman of the Supervisory Board of a Systemic Commercial Bank must be an independent member of the Board, Murtaz Kikoria has been elected as the Chairman of the Supervisory Board since December 30, 2021.

**Education:**

Murtaz Graduated from Tbilisi State University, faculty of Economics (finances and credits). His academic knowledge is also enhanced by several valuable local and international conferences, trainings and workshops in banking operations, financial markets, financing, negotiations and leadership, anti-money laundering and other relevant issues related to the banking sector.

**Magda Magradze**



**Skills and experience:**

Magda Magradze joined the Bank in August 2019. Subsequently, in October 2019 she was elected as the chairperson of the Remuneration Committee. Magda is the sole female Supervisory Board member. She has an outstanding background in project management, strategic planning, finances, monitoring, controlling and reporting. She has been working as a top executive at LEPL Millennium Challenge Account – Georgia where she currently occupies the position of the chief executive officer. Under her personal leadership and supervision, the organisation has successfully accomplished several projects. Currently the organisation manages a long-term project anticipating tens of millions of US Dollars. The project is primarily focused on developing general, professional and higher education in Georgia, including rehabilitation and

equipment of public schools and managing the professional development of academic staff. During 2008-2013 years Magda also worked as a manager of academic support programme implemented by the open societies. The programme mostly concentrated on educational development, creating local, regional and global academic network in southern Caucasus. Due to her personal endeavours and restless efforts several exchange educational programmes have been implemented in Georgia. Using her exceptional skills and experience Magda brings to the Supervisory Board high diversity, credibility, independence, high level of professionalism, planning and control. The Supervisory Board and the Bank in general, is well balanced in terms of performing business operations and risk management.

**Education:**

Magda has graduated from Tbilisi State University, faculty of law and was awarded the qualification of a lawyer. She is also an alumnus of Tbilisi State Institute of Economic Relations and is awarded the qualification of economist.

**Mamuka Tsereteli**



**Skills and experience:**

Dr. Mamuka Tsereteli was elected as an independent member of the Supervisory Board of Liberty Bank in December 2018. Subsequently, as of January 2019 he was appointed as the Chairman of the Audit Committee and the deputy chairman, senior independent member of the Supervisory Board. Dr. Tsereteli is the president of America-Georgia Business Council, founder and principal of Georgian House of Greater Washington LLC, and Senior Research fellow at Central Asia-Caucasus Institute at American Foreign Policy Council. He also serves as a member of the part time faculty at American University's School of International Service in Washington, DC and Johns Hopkins SAIS.

Until May 11, 2013 he served as Director for the Center for Black Sea-Caspian Studies at School of International Service (SIS) at American University. Previously he served as an assistant professor (2007-2011), and a member of the adjunct faculty (2002-2007) at American University. Dr. Tsereteli also served as a member of the part time faculty at Elliott School of International Affairs at George Washington University in 2006-2007, where he taught classes on Energy and National Security.

Dr. Tsereteli served as an Executive Director of America-Georgia Business Council (AGBC) for 12 years. He currently serves as the president of the organization. The Council is the major instrument for promotion of the US business interests in Georgia, as well as US-Georgian trade and economic partnerships. Dr. Tsereteli developed the themes and concepts for each of the twenty annual conferences of the AGBC and they became the most popular forum for public-private dialog on the issues of the US-Georgian economic partnership. In addition to the annual conferences, Dr. Tsereteli organized and hosted multiple brainstorming and strategic planning sessions for the political and economic development in Georgia, attended by member companies, International Financial Institutions (IMF, World Bank, IFC, EBRD), US export promotional agencies (Ex-Im Bank, OPIC, TDA), the donor agencies (USIAD, MCC), US and Georgian Government representatives, private companies and experts of the region. In 2007-2008 he led the project of America-Georgia Business Council for development of Tourism Strategy and Investment Plan for Georgia, funded by the US Trade and Development Agency.

**Education:**

Dr. Tsereteli has graduated from Tbilisi State University and holds the degree of Master of Arts in economic geography. He also holds degree Master of Science in management from University of Maryland College and Ph.D. in economics, from Institute of Economy and Forecast, Academy of Science of Russian Federation.

**Beka Gogichaishvili**



**Skills and experience:**

Beka Gogichaishvili was elected as a member of the Supervisory Board of Liberty Bank in October 2020. From November 2020 he was also elected as a member of the Audit Committee of the Supervisory Board. Beka has a diverse and distinguished experience in a variety of areas, which will greatly enhance the effective exercise of its powers by the Supervisory Board and its committees. In his professional career, Particularly important one is the position of Investment Manager at Hunnewell Partners Georgia, an investment and asset management company that currently manages tens of millions of GEL worth of investments in various business sectors. Until 2017, Beka worked in the Partnership Fund, where his main activities included financial analysis and risk assessment of projects financed by the Partnership Fund and, consequently, largely contributed to the successful investment activities of the Partnership Fund. He also has experience in the banking sector. In 2013-2014, he worked for TBC Bank, where he was directly involved in reporting for both internal purposes and supervisory compliance.

**Education:**

Beka holds a Master's degree in Management and Finance from the University of Sussex. He also graduated from Caucasus University in 2010 and holds a Bachelor of Business Administration degree in Finance.

### **4.3.3 Supervisory Board Diversity and Independence**

The Supervisory Board considers that a diversity of skills, professional career, knowledge and experience are important to effectively govern the business. The Supervisory Board, its Nomination and Corporate Governance Committee works to ensure that it continues to have the right balance of skills, experience, independence and the Bank knowledge necessary to discharge its responsibilities.

Currently the Supervisory Board is compliant with the Corporate Governance Code adopted by the National Bank of Georgia in terms of the number of independent and female members of the Supervisory Board. However, considering the updated requirements of the Corporate Governance Code, additional changes are planned at the level of the Supervisory Board and Committees, including the election of an independent Chairman of the Supervisory Board, the election of an additional female member and etc., making the Supervisory Board an even more independent and diverse body. Each Supervisory Board member occupies and/or has previously occupied senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Supervisory Board's deliberations through their experience and insight enabling them to contribute significantly to decision making. No individual or group of individuals is able to dominate the decision making process and no undue reliance is placed on any individual.

The independence of the Supervisory Board member is assessed prior to appointment in accordance with the requirements of the Corporate Governance Code of Commercial Banks.

### **4.3.4 Roles of the Supervisory Board**

In order to ensure that the Supervisory Board will be involved in the process of exercising effective control, specific decisions need to be approved by the Supervisory Board. Below are identified and formalised the competence issues of the Supervisory Board:

<p><b>Strategy and Management</b></p>	<ul style="list-style-type: none"> <li>• Responsibility for the overall management of the Bank;</li> <li>• Approval of: The Bank's commercial and investment strategies, annual budgets, decisions regarding important changes throughout the bank;</li> <li>• Controlling the Bank's activities;</li> </ul>
<p><b>Financial Reporting and Control</b></p>	<ul style="list-style-type: none"> <li>• Ensuring the Bank is operating at maximum effectiveness;</li> <li>• Exercise of voting rights connected to shares in any material subsidiaries of the Bank;</li> <li>• Inspection of the financial documentation, books and assets of the Bank;</li> </ul>
<p><b>Risks Framework and Appetite</b></p>	<ul style="list-style-type: none"> <li>• Identifying and controlling all major risks faced by the Bank;</li> <li>• Determining and establishing the risk management framework and the Risk Appetite Statement;</li> <li>• Identifying concrete steps in case the risk profile of the Bank exceeds Risk Appetite;</li> </ul>
<p><b>Internal Controls</b></p>	<ul style="list-style-type: none"> <li>• Adoption, termination or amendment of the Supervisory Board regulations or similar rules relating to the internal organization of the Supervisory Board;</li> <li>• Establishment of the Supervisory Board committee(s);</li> <li>• Selection of concrete actions according to the recommendations of the committees;</li> <li>• Approval of action policies regulating particularly important issues;</li> </ul>
<p><b>Contracts</b></p>	<ul style="list-style-type: none"> <li>• Approval of significant loans if the total risk exposure exceeds 5% of the Bank's equity;</li> <li>• Related party transactions in accordance with the Conflict of Interest Rules;</li> <li>• Purchase / alienation of any asset, or enter into any other agreement valued at more than US\$ 1,000,000;</li> <li>• Concluding or terminating a long-term partnership with a legal entity or company if it generates a liability of US\$ 1,000,000 per year or the right to receive the same amount;</li> </ul>
<p><b>Communication</b></p>	<ul style="list-style-type: none"> <li>• Approval of: Resolutions and corresponding documentation to be put forward to shareholders at a general meeting, any public offering of the equity or equity related instruments;</li> <li>• Redemption of the Bank's shares, including mandatory redemption;</li> </ul>
<p><b>Appointments and Remuneration</b></p>	<ul style="list-style-type: none"> <li>• Changes in the structure, size and composition of the Management Board;</li> <li>• Appointment and removal of the Management Board members, Audit Committee members and other members of the Supervisory Board of the bank;</li> <li>• Determining the remuneration policy for the Management Board;</li> <li>• Selection, retaining and dismissal of independent share registrar of the Bank;</li> </ul>
<p><b>Corporate Governance</b></p>	<ul style="list-style-type: none"> <li>• Supervising the activities of the management board;</li> <li>• Providing instructions to the Management Board on the general lines of different policies of the Bank;</li> <li>• Review of the Bank's overall corporate governance arrangements, annual reports and the proposals of the Management Board on distribution of profits;</li> <li>• Convening an extraordinary general meeting of shareholders;</li> <li>• Incorporation of a new subsidiary;</li> </ul>
<p><b>Other</b></p>	<ul style="list-style-type: none"> <li>• Instigation, conduction or settlement of any litigation where the amount in dispute exceeds US\$ 500,000, relates to criminal proceedings or proceedings with affiliated persons who are in managerial positions of the Bank;</li> <li>• Entry into any partnership/joint venture arrangement with any person/entity;</li> <li>• Making any political contribution/donation;</li> <li>• Sale/recapitalization of any equity of the Bank.</li> </ul>



The Supervisory Board is also the decision making body for all other important matters that could be significant to the Bank because of their strategic, financial or reputational implications or consequences.

#### 4.3.5 Operation and Meetings of the Supervisory Board

Meetings of the Supervisory Board (the “**Meeting**”) are held at least once per quarter at the legal address of the Bank or at the request of any member of the Supervisory Board at any other location. With the agreement of all other members, the Chairman (himself, or at the request of any member) may call the Meeting verbally or otherwise within a shorter period of time. The members of the Supervisory Board may be represented by other members of the Supervisory Board. Each member may represent only one other member of the Supervisory Board. The issues that require decisions outside the scheduled Meetings are dealt through special extraordinary meetings and conference calls. In total, the Supervisory Board met formally thirty-nine times during 2021 and the resolutions were passed in person, as well as on a conference call. During the Meetings, the Supervisory Board receives updates from the internal operating functions on control and risk management, compliance, internal audit, human resources and major contracts reserved for the Supervisory Board. In addition, there is also an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. These include the budget, regulatory reports, management accounts and conveyance of the annual general meeting of shareholders. Outside the Meetings, the Chairman and the board members of the Bank maintain frequent contact (in person or otherwise) with each other, as well as with the Chief Executive Officer, heads of control functions and other important business units. Details of the Supervisory Board Meeting attendance in 2021 are provided in table below:

##### *Supervisory Board Meetings*

<i>Members</i>	<i>Scheduled Meetings Eligible to Attend</i>	<i>Scheduled Meetings Attended</i>	<i>Attendance, %</i>
Irakli Otar Rukhadze	39	39	100%
Mamuka Tsereteli	39	39	100%
Murtaz Kikoria	39	39	100%
Magda Magradze	39	39	100%
Beka Gogichaishvili	39	39	100%

#### 4.3.6 Evaluation of the Supervisory Board Performance

The Supervisory Board continually cares to improve its effectiveness and recognises that its evaluation process is an important tool in reaching that goal. Overall, the Supervisory Board represents effective body, which creates a right balance of competence and experience and combines a real diversity of view and perspective. In accordance with the Corporate Governance Code for Commercial Banks, Liberty Bank has approved Supervisory Board evaluation policy, based on which, for the first time in the Bank’s history, in 2020 the Supervisory Board and its committees evaluated the effectiveness of their work as a unified collegial body, as well as determined the appropriate involvement, qualifications, suitability and effectiveness of the independent members and the chairperson. Overall, the effectiveness of the activities of the Supervisory Board and Committees was determined to be quite high. The effectiveness of the Supervisory Board and Committees was again assessed in 2021. According to the Supervisory Board the involvement of both the Supervisory Board and the Committees in overseeing matters within their competence is increased compared to 2020, as well as effectiveness in corporate governance, risk management and other. According to the evaluation policy, the evaluation will be carried out by an independent evaluator once in every three years.

## 4.4 Supervisory Board Committees

As per the requirements of the Corporate Governance Code for Commercial Banks, systemic commercial banks shall have the following Supervisory Board committees:

1. Audit Committee;
2. Risks Committee;
3. Nomination and Corporate Governance Committee;
4. Remuneration Committee.

In accordance with the requirements of the Corporate Governance Code of Commercial Banks, the members of the Committees were rotated at the end of 2021. By the end of 2021, the Supervisory Board committees were in full compliance with the Commercial Governance Code of Commercial Banks in terms of their number, arrangement and composition. However, due to the mandatory rotation provided by the Corporate Governance Code, at the end of 2021, additional rotation of members of the Supervisory Board committees was carried out.

### 4.4.1 Audit Committee

The Audit Committee is responsible for monitoring the operation of internal control functions, planning and supervising the fulfilment of annual action plan by the internal audit department, communicating with the external independent auditor, the committee also recommends to the Supervisory Board on possible weakness in internal control mechanisms.

The Audit Committee oversees the Bank's compliance with anti-bribery and anti-corruption, internal policies related to the management and disclosure of conflicts of interest. Considering the abovementioned, the Audit Committee considers that its overall internal control framework is effective.

The Committee is an independent structural unit and it reports to the Supervisory Board. The Committee consists of the following members:

- Mamuka Tsereteli (Chairman);
- Beka Gogichaishvili (Committee Member);
- Murtaz Kikoria (Committee Member).

The chairman of the audit committee should be an independent member of the supervisory board, and the majority of the committee members should be an independent member of the supervisory board. Therefore, the Bank is in full compliance with the requirements of the Corporate Governance Code of Georgia for Commercial Banks.

The Audit Committee shall be held at least quarterly and in certain cases extraordinary meeting may be called by the Supervisory Board at any time.

Major roles and key responsibilities of the Audit Committee:

- Set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the internal audit service of the Bank;
- Supervise the compliance of the Bank with the applicable laws;
- Responsible for overseeing the Internal Audit function, which serves to ensure the adequacy and effectiveness of the systems and processes of risk management and control across the Bank;



- Approve the regulations governing internal audit services and ensure the independence of the internal audit service from the Bank's Management Board;
- Approve the quarterly/semi-annual reports of the internal audit service and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- Approve the annual actions plan prepared by the internal audit service and perform the plan's quarterly review;
- Assess the function of the internal audit service, ensure adequate resource mobilization;
- Cooperation with the Bank's external Auditors.

One of the main activities of the Audit Committee is cooperation with the external auditor, promoting its activities and ensuring its independence. In accordance with the decision made by the shareholder, who owns more than 75% of the bank, the statutory audit of the financial statements for 2020-2023 is carried out by EY Ltd., which is a member of the Big Four. The selection of an independent external auditor for future reporting periods will be carried out with the involvement of the Audit Committee, in accordance with the applicable law.

In 2021, the Audit Committee formally met four times and approved the Internal Audit Budget and Action Plan, Audit Report, Performance Results, and Structural Changes for Internal Audit.

#### **4.4.2 Nominations and Corporate Governance Committee**

In December 2018, The Supervisory Board of the Bank established Nomination and Corporate Governance Committee to monitor the selection, appointments, rotation of members, performance appraisers of the Supervisory Board and the Management Board and oversee the corporate governance of the Bank.

The Committee is an independent structural unit, it reports to the Supervisory Board of the Bank and shall consist of at least 3 (three) members, which shall be members of the Supervisory Board and must include a sufficient number of independent members of Supervisory Board. Currently Nominations and Corporate Governance Committee consists of the following members:

- Murtaz Kikoria (Chairman);
- Irakli Otar Rukhadze (Committee member);
- Mamuka Tsereteli (Board Member).

Meetings of the Nomination and Corporate Governance Committee shall be held at least twice per year and in certain cases extraordinary meetings may be called at any time.

Major roles and responsibilities of the Nomination and Corporate Governance Committee:

- ***Nomination***. To regularly review the structure, size and composition of the Supervisory Board and the Management Board and its committees in consultation with the committee chairmen, taking into account the results of the Supervisory Board and/or Management Board performance evaluation process;
- The Committee shall give full consideration to rotation planning for members of the Supervisory Board and other senior executives considering the course of their work, taking into account the challenges and opportunities facing the Bank and the skills and expertise needed in the future;
- The Committee shall ensure the Supervisory Board performance evaluation is conducted and recommendations arising from these evaluations are reported to the Supervisory Board.

- **Corporate Governance.** The Committee ensures the introduction and continuous improvement of best corporate governance practices, including the development of corporate governance policies and their submission to the Supervisory Board.
- Monitors developing trends, initiatives and best practice in relation to corporate governance, evaluates the impact/compatibility of these trends and practices with the bank and, if necessary, issues recommendations.
- Periodically reviews the Supervisory Board related policies and ethics and give appropriate recommendations to the Supervisory Board;
- Discusses and reviews the appeals in relation to internal inspection and/or investigation activities conducted by Compliance or other structural unit having similar duties and authorities utilizing the authorization in identification and/or prevention of breach of the Bank's Code of Conduct and Business Ethics as well as the disciplinary measures or other types of sanctions applied to such breach;
- Periodically reports to the Supervisory Board on the activities done within its competence and evaluates the fulfilment of rights and obligations conferred upon the Committee with that regard.

Formally Nomination and Corporate Governance Committee has met once in 2021.

#### **4.4.3 Risks Committee**

The Risks Committee is responsible for supervision and compliance with the Bank's risk management policies/procedures, and for reviewing the adequacy of the risk management framework in relation to all types of risks faced by the Bank. It detects and monitors the fundamental risk issues and manages and controls relevant risk decisions.

The Committee assists the Supervisory Board and makes recommendations for risk management and internal control, assessing the adequacy and effectiveness of risk control functions, to identify and prevent specific types of operational, credit and other types of risks.

The Risks Committee also monitors the Bank's compliance with the risk management and risk mitigation policies and procedures. Considering the abovementioned, the Risks Committee considers that the Bank's overall internal control framework is effective.

The Committee is an independent structural unit and it reports to the Supervisory Board. The Committee consists of the following members:

- Magda Magradze (Chairman);
- Irakli Otari Rukhadze (Committee Member);
- Murtaz Kikoria (Committee Member);

The committee should be chaired by an independent member of the supervisory board, and the majority of the committee members should be independent members of the supervisory board. Therefore, the Bank is in full compliance with the requirements of the Corporate Governance Code for Commercial Banks.

The Risks Committee shall be held at least quarterly and in certain cases extraordinary meetings may be called at any time.

Major roles and key responsibilities of the Risks Committee:

- Approve risk management reports on a regular basis;

- Control the risk strategy and risk appetite, its consistency and alignment with strategy, capital and financial plans of the bank. In this regard, the Committee shall, if necessary, develop recommendations and submit them to the Supervisory Board;
- Control of capital and liquidity, as well as all types of risk relevant to the bank: credit, operational, market, reputational and other risk management strategies to ensure their compliance with the stated risk appetite and risk culture;
- Review reports on any breaches of risk appetite and the adequacy of proposed action;
- Review and approve the internal capital adequacy assessment process (ICAAP);
- Monitor the effectiveness and independence of the CRO, evaluate his/her levels of achievement and recommend to the Supervisory Board on issues related to appointment and/or resignation/dismissal of the CRO.

The Risk Committee met four times during 2021, approved the ICAAP, the risk appetite compliance report, provided the committee with important information, including market analysis, litigation, defined the risk culture, and approved the risk management report.

#### **4.4.4 Remuneration Committee**

The Remuneration Committee is responsible for creating and supervising the proper functioning of adequate and effective remuneration system for the members of the Management Board and material risk takers of the Bank.

The Committee is an independent structural unit and it reports to the Supervisory Board. The Committee consists of the following members:

- Murtaz Kikoria (Chairman);
- Beka Gogichaishvili (Committee Member);
- Magda Magradze (Committee Member).

The majority of the Remuneration Committee members are the independent members of the Supervisory Board. Therefore, the Bank is in full compliance with the requirements of the Corporate Governance Code for Commercial Banks.

Major roles and key responsibilities of the Remuneration Committee:

- Conduct regular reviews of, and making recommendations to the Supervisory Board on the remuneration policy to ensure that the Bank's remuneration policy is in compliance with the international standards and the respective regulations approved by the regulator;
- Review and update regularly the list of material risk takers and present recommendations to the Supervisory Board;
- Review the non-monetary remuneration scheme, make recommendations if necessary and submit to the Supervisory Board for approval;
- Make recommendations to the Supervisory Board on the remuneration of persons covered by the Bank's remuneration policy;
- Assess the performance of key performance indicators (KPIs) of material risk takers;
- Supervise the process of disclosing information on issues related to remuneration.

The Remuneration Committee did not formally meet in 2021.

#### **4.4.5 The role of committees in corporate governance**

In order to facilitate the performance of the rights and responsibilities of the Supervisory Board, to increase its effectiveness, committees have been established with the Supervisory Board, to which the functions of the Supervisory Board have been delegated to various directions. The activities of the committee are concentrated in a specific direction, which increases the level of expert involvement and quality performance. Increasing the involvement of committees, their proactivity is a particularly important component of the Bank's corporate governance framework.

Accordingly, in 2020, the Supervisory Board approved a calendar of specific reports, the implementation of which began at the end of 2020. Since 2021, the meetings of the Audit and Risk Committees have been held in a physical meeting format, making the committees' awareness, involvement and oversight control much more productive. Periodically, at the request of the Nomination and Corporate Governance Committee, the calendar reports will be reviewed and recommendations will be made to the Bank's management on additional measures to be taken by the Committees's oversight bodies. Within this framework, the committees will receive information in the form of reports on all important issues, which will help increase their awareness, involvement and the introduction of a sound and effective reporting and communication system between the governing bodies.

### **4.5 Management Board**

The Bank's day-to-day activities are carried out by the Management Board, whose members are appointed by the Supervisory Board. The Bank understands the importance of having a Management Board containing the right balance of skills, experience and diversity to enable them to discharge their respective duties and responsibilities effectively.

#### **4.5.1 Composition of the Management Board**

Law of Georgia on the Activities of Commercial Banks and Law of Georgia on Entrepreneurs set out as a main principle that there should be a clear division of responsibilities at the head of the company between supervising the company and the executive responsibility for running the company's business. The Management Board comprises of the Chief Executive Officer ("CEO") and the Directors. The CEO and each Director is appointed by the Supervisory Board.

The Management Board is headed by the CEO, who is responsible for all executive management matters affecting the Bank. All Directors report directly to him. The CEO is responsible for proposing, developing and supervising the Bank's strategy and overall commercial objectives, which he does in close communication with the Supervisory Board. The CEO and the rest of the Management Board members are responsible for implementing the decisions of the Supervisory Board and its relevant committees.

31-Dec-20	Management Board Members
Chief Executive Officer	Vasil Khodeli
Chief Financial Officer	Vakhtang Babunashvili (appointed as of February 3, 2021)
Chief Financial Officer	Davit Tsiklauri (he was relieved of his duties on February 3, 2021)
Corporate Banking Director	Teimuraz Jorbenadze (he was relieved of his duties on February 26, 2021 and the position of Director of Corporate Banking was cancelled)
Chief Risks Officer	David Abashidze (appointed as of February 3, 2021)
Chief Risks Officer	Mamuka Kvaratskhelia (he was relieved of his duties from February 3, 2021)
Chief Operations Officer	Levan Tkheldze (he was relieved of his duties from February 26, 2021 and The Chief Operating Officer is no longer a member of the Board of Directors)

#### 4.5.2 Management Board Education and Experience

The Management Board members have a range of knowledge and experience in various fields including finance and accounting, risk management, strategic planning, tax and legal issues, management and leadership, corporate governance and marketing. They are distinguished by their reasonable understanding of local and regional economic and market conditions, in-depth knowledge of legal and regulatory environment. Diversity of their expertise and skills has an essential role in creation of long-term value in the Bank.

### Vasil Khodeli



Vasil Khodeli was appointed as the Chief Executive Officer of the Bank on 30 December 2019. Vasil is an experienced banker and a distinguished managing force in the banking sector. He has more than 20 years of working experience in financial sector and more precisely, in banking sector. Prior to joining the Bank as the head of the Management Board Vasil has been working for JSC Bank of Georgia on several key managerial positions. From 2014 to 2017 he was the head of corporate and investment banking department and years of successful working in corporate banking led him the way in 2017 to the management board of Bank of Georgia and he became the deputy chief executive officer, chief corporate banking investment officer. In his new position he continued corporate banking affairs and successfully supervised management of corporate and investment portfolios with the exposure of hundreds of millions and effectively dealt with thousands of corporate clients operating in various business sectors. Vasil also worked for the former JSC Tbilinterbank in late 1990s prior to joining the Bank of Georgia. He has graduated from Tbilisi State University and holds a master's degree in economics. He was also awarded with a dual MBA degree from Grenoble School of Management and Caucasus Business School.

### Vakhtang Babunashvili



Vakhtang Babunashvili joined the Liberty Bank team in July 2020 as Deputy Chief Financial Officer, Head of Finance Department. From February 2021, he replaced Davit Tsiklauri as Deputy Chief Executive Officer, Chief Financial Officer. Vakhtang has 15 years of working experience in financial sector. His professional career started with the consulting company "Synergy Group", after which he held a number of managerial positions in Bank Republic (Societe Generale Group), TBC Bank and Bank of Georgia. In TBC Bank, he held a position of Deputy Chief Financial Officer, overseeing the development of pricing models for retail, small and medium-sized, corporate segment lending, leading organizational risk management and financial risk management. Vakhtang holds an MBA degree from INSEAD, is a graduate of Caucasus Business School with a degree in Finance, and is a Visiting Lecturer in

Management at Banking and Financial Institutions at Caucasus University.

### David Abashidze



David Abashidze joined the Liberty Bank team in February 2021, when he replaced Mamuka Kvaratskhelia as the Deputy CEO, Chief Risks Officer. David has almost 20 years of working experience in financial sector. Prior to joining Liberty Bank, David worked for years in the UK, London, in investment banking at global companies such as Citigroup and Barclays, where he was involved in raising funds for financial institutions and financial technology companies (Fintech), investing in corporations, and investing. Activities in the direction of analysis. From 2006 to 2012, David was in charge of financial risk management in Cartu Bank. David holds an MBA degree from INSEAD, is a graduate of Caucasus Business School with a degree in Finance, he is also a CFA Charterholder.

### 4.5.3 Roles of the Management Board

In addition to carrying out day-to-day activities of the Bank, major roles of the Management Board are outlined below:

- Provide input to the agenda of the Supervisory Board and General Meeting of Shareholders;
- Provide the Supervisory Board with the annual business plan, including the budget, profit & loss forecast and the Bank's development strategy;
- Arrange for and supervise lending, settlements, financing, cash services, accounting and reporting of cash and valuables of the Bank, internal controls and accounting, ensure that the Bank provides proper service to the customers;
- Arrange for and supervise the functioning of the Bank's branches and service centres;
- Review the information obtained from internal audit or external inspections as well as the reports submitted by branch/service centres managers and make appropriate decisions based on the above information;
- Ensure the fulfilment of resolutions adopted by the Supervisory Board and/or the General Meeting of Shareholders;
- Develop procedures, internal regulations, product and service conditions, other internal documents;
- Decide on the selection, dismissal, training and remuneration of employees ((Considering that the decision on the remuneration of the members of the Management Board and other material risk takers is made by the Supervisory Board and the Remuneration Committee);
- Monitor and adhere to the risk management principles set by the Supervisory Board and ensure that the Bank's risk profile is within the limits outlined in the Risk Appetite Statement - RAS.

The Management Board is also the decision making body for all other activities not specifically reserved for the Supervisory Board and/or General Meeting of Shareholders.

### 4.5.4 Operation and Meetings of the Management Board

The activities of the Management Board are led by the CEO. The CEO is authorised to severally represent the Bank before any person. Any transaction or any internal regulation, order or instruction of the Bank unless authorised by the signature of the CEO may be authorised by the signatures of all the remaining members of the Management Board. The CEO may issue a power-of-attorney to other Directors and relevant persons to severally represent the Bank in respect of various transactions and commitments.

The Board of Directors makes decisions at the meetings of the Board of Directors. The powers of the Board of Directors are delegated to the committees under the Board of Directors according to their areas of activity, and the Board of Directors meets directly to discuss only particularly important issues. In total, in 2021, the Board of Directors met fourteen times and resolved various issues with the existing Board of Directors (EB) on the development of new products and services, management and / or implementation of current and future projects, opening / closing of branches / service centers, structural reorganization, approval of internal action documents. It approves the structure, powers and action documents.

### 4.5.5 Evaluation of the Management Board Performance

The Supervisory Board continually evaluates the activities of the Management Board to reach overall goals of the Bank and strongly believes that the Management Board continues to operate and perform effectively and has a good balance of expertise and knowledge.



## **4.5.6 Committees of the Management Board**

### **4.5.6.1 Credit Committee**

In order to manage credit risk and reduce credit risk losses, the Bank has a multi-level system of credit committees that reviews credit risks related to corporate, micro, small and medium, retail and wholesale Lombard products and decides on the terms of the credit product.

The credit committee of all levels makes a decision within the limit approved for it. The members of the highest level committee in the hierarchy of credit committees are the Chief Risks Officer and the CEO or the director of the relevant business direction. The credit risk management function is represented by the chair of any link committee and has the power to veto any decision.

### **4.5.6.2 Operational Risks Committee**

For early risk identification, effective risk management and monitoring, there is an Operational Risk Committee with the Bank's Management Board, which is responsible for preparing the operational components of the Operational Risk Framework, the effectiveness of the Operational Risk Management function and submitting relevant recommendations to the Supervisory Board. The Committee ensures the independent and uninterrupted operation of the operational risk management function.

The Committee is chaired by the Chief Risks Officer. The committee meets at least once a month, or more often, if necessary.

### **4.5.6.3 Information Security Committee**

To monitor the effectiveness of the Bank's internal control mechanisms and ensure the protection of the Bank's information assets, there is an Information Security Committee with the Management Board of the Bank, which oversees the Bank's information security framework and risk management system.

The main functions of the Committee are to identify information and cyber threats and to control the protection of the bank in this area, have appropriate response measures to cyber threats.

The CEO, the Chief Risks Officer, the Chief Information Security Officer and the Chief Information Officer are the members of the Committee. Additionally, senior members of the relevant qualifications and experience and other employees of the Bank may be invited as members of the Committee. The committee meets once a month.

### **4.5.6.4 Information Technology Executive Committee**

To optimize the processes in the bank through information technologies, manage investments in information technologies and optimize the expenses related to information technologies, the Information Technology Executive Committee functions with the Management Board.

The Committee reviews the Bank's business ideas that require IT involvement, reviews IT applications for new projects, prioritizes them as needed, reviews IT gaps, identifies potential risks and circumstances hindering effective operation.

The Committee is chaired by the CEO, while the members are the members of the Management Board and the relevant managers. The committee meets once a month.

### **4.5.6.5 Marketing and Sales Committee**

Marketing and Sales Committee functions with the Management Board for marketing planning, awareness raising, communication and cooperation between the Bank and civil society representatives. The committee represents a



platform, and committee meetings are a means by which those responsible for planning and implementing the bank's business, together with marketing staff, provide marketing campaign planning. The Committee also organizes the planning and implementation of activities within the Bank's Corporate Social Responsibility (CSR) and the development of a marketing strategy related to the development of the Bank's brand, identifying the means needed for its implementation.

The committee meets once a month and sets priorities for current issues, as well as summarizes information on already implemented campaigns and activities and evaluates the results achieved.

#### **4.5.6.6 Assets and Liabilities Management Committee (ALCO)**

To maximize the effective management of the Bank's assets and liabilities, in compliance with supervisory and prudential norms and requirements, the Assets and Liabilities Management Committee functions with the Management Board in order to maximize the profitability of banking operations.

The Committee ensures the optimal management of the bank's funds, the control of the protection of prudential requirements, the supervision of the profitability of banking operations, taking into account the value of resources, and the determination of measures to be taken to increase profitability. In addition, the Committee also monitors and analyzes various types of risk (currency risk, liquidity risk, interest rate risk), including assessing the level of interest rate risk, controlling the maintenance of assets required to maintain liquidity.

The committee is chaired by the CEO, while the members are members of the Management Board and the heads of the finance, treasury, organizational risk management units. The committee meets once a month.

#### **4.5.6.7 Anti-Money Laundering (AML) Committee**

The AML Board, together with the Management Board, is responsible for promoting the prevention of money laundering/ illegal income, combating and financing terrorism, and is responsible for developing and implementing strategies and action plans to combat and prevent money laundering and terrorist financing.

The Committee reviews and develops drafts of the Bank's internal documents for money laundering and terrorist financing, reviews changes to the Client Risk category, and decides whether to open an account or conduct operations according to the Client Risk Category.

Chairman of the Committee is the Chief Risks Officer.

## **4.6 Code of Conduct and Ethics**

The Bank is committed to the highest standards of conduct in all aspects of its business activities. Issues regarding the behaviours and standards of conduct applicable to all individuals working in the Bank are regulated by certain policies and regulations approved by the Supervisory Board or the Management Board.

### **4.6.1 Code of Conduct and Business Ethics**

In December 2018, the Supervisory Board approved the Code of Conduct and Business Ethics (the "Code") of Liberty Bank. The Code outlines general principles of the business ethics and values of Liberty Bank. It is Liberty Bank's policy to act honestly and fairly at all times and comply with all applicable laws and regulations in all that it does and each employee is expected to do the same.

<b>Relationship with colleagues</b>	<ul style="list-style-type: none"><li>•Responsible for understanding and complying with the code and reporting suspected and/or actual violations;</li></ul>
<b>Safety policies</b>	<ul style="list-style-type: none"><li>•All employees shall maintain office safety;</li><li>•Violence-free and drug-free workplace;</li><li>•Unauthorised photography and recordings are prohibited;</li><li>•Staying alert and reporting violations to the compliance or the information security officer;</li></ul>
<b>Relationship with customers</b>	<ul style="list-style-type: none"><li>•Being transparent and acting with integrity;</li><li>•Earning and keeping customers' trust by responding quickly, providing thoughtful solutions and keeping confidential information safe from theft;</li></ul>
<b>Fair sales and marketing</b>	<ul style="list-style-type: none"><li>•Acting with integrity and dealing fairly with customers, suppliers, competitors, the public and each other;</li></ul>
<b>Confidentiality</b>	<ul style="list-style-type: none"><li>•Keeping confidential information secret from anyone outside the Bank (unless there is a legitimate business purpose for doing so);</li></ul>

#### 4.6.2 Whistleblowing Policy

In December 2018 the Supervisory Board of Liberty Bank approved the Whistleblowing Policy which sets the procedures for the disclosing person to report any concerns and/or suspicions regarding the possible violations of laws, rules or regulations or suspected wrongdoing of internal Liberty Bank policies and standards or procedures. The policy also sets out the procedure for making such a statement and the relevant review and decision-making bodies/entities. The policy protects the anonymity of these persons and protects their rights and interests from any oppression, harassment and other discrimination in the event of making a statement, even if the authenticity of the alleged suspicion and/or fact is not proven.

#### 4.6.3 Remuneration Policy

In 2019 the Supervisory Board approved the Remuneration Policy. The principles and structure set forth under the Remuneration Policy supports the sound governance and risk management, risk-based remuneration, increasing effective performance, reinforces the Bank's operating and risk culture and is in line with the business and risk strategy, objectives, values and long-term interests of the Bank.

The Remuneration Policy runs in pursuit of the following objectives: continuous monitoring of market trends and practices, compliance with regulatory requirements and principles of good business conduct, motivation and retention of employees, minimisation of potential risks, maintenance of a reasonable ratio between the amount of risk incurred by the employee and his/her remuneration, the remuneration compliance with the bank's capital and the performance of the key performance indicators (KPIs).

In addition, the Remuneration Policy also determines the components of remuneration, principles (such as deferral and retention principles), mechanisms for adjustment of variable remuneration (malus and clawback

clauses) and methods and forms of payment determined by the regulator or recommended under the best practice available.

At a meeting of the Remuneration Committee in 2020, the Committee issued a recommendation on changes to the remuneration policy. This recommendation was issued in two main directions: a) identification of bank employees as material risk takers based on qualitative and quantitative characteristics and b) introduction of an effective remuneration system for material risk takers.

In accordance with the recommendations issued by the Remuneration Committee, amendments to the remuneration policy were prepared and in April 2021, the Supervisory Board approved an updated version of the remuneration policy, according to which a circle of material risk takers was established throughout the bank, taking into account international recommendation documents. At the same time, the remuneration system of the bank's directors and other material risk takers (except for the members of the supervisory board) is being introduced.

#### **4.6.4 Anti-Bribery and Anti-Corruption Policy**

By adopting Anti-Bribery and Anti-Corruption Policy in 2019, the Bank publicly declares the significant values on which the Bank's business activities are based. These include:

- Prudent and reasonable conduct;
- Customer loyalty and high professionalism;
- Encouraging employee accountability;
- Arm's Length approach, anticipating the circumstances, where parties to a transaction are independent and treated on an equal footing;
- Zero tolerance for facts committed for corruption purposes, such as offering or receiving undeserved benefits of any value to anyone, such as: improper payments to public officials or individuals for any benefit on their part; This includes promising to pay a bribe (directly or indirectly) as well as assistance in obtaining it in any form.

#### **4.6.5 Environmental Sustainability Policy**

The Environmental Sustainability Policy was approved by the Supervisory Board in 2019. The Policy expresses and confirms the Bank's readiness to comply with all relevant legislation and other requirements. In addition, the Bank aims to minimize its impact on the environment by integrating environmental considerations into business decisions, engaging with industry groups and non-governmental organizations and civil society in order to contribute positively and proactively to environmental sustainability in business, raising the employees' awareness of environmental issues, encouraging environmentally responsible behavior and committing other socially and environmentally helpful activities.

Georgia is a signatory state to the Paris Convention on Climate Change. The signatory states to the Convention agree on a common position to minimize the impact of business and the economy on nature and the environment. The Bank fully shares this approach and plans to further integrate environmental issues and related risks into its operations, which will be implemented in stages. In addition to environmental issues, social and governance issues that affect the Bank's business are also important. In this regard, the Supervisory Board approved the Environmental and Social Risk Management System in December 2021, based on performance standards developed by the International Finance Corporation (IFC) and regulating ESG risk management issues, including business risks and banking Resulting environmental impact risks. The policy also includes the ESG risk assessment procedure, including the categorization of risk under the loan project, the ESG risk mitigation

mechanisms and the risk monitoring procedure. The Bank will disclose information regarding the management of ESG issues at least annually.

#### 4.6.6 Corporate Manual

The Bank provides a safe working environment in which employees are treated fairly and with respect. The Bank is committed to empowering employees to excel and reach their full potential, receive remuneration on the basis of merit and does not tolerate discrimination or harassment of any kind. The Bank values clear and open communications with its employees. Employees are expected to promptly raise any concerns about unethical or illegal conduct and the Bank will investigate all concerns raised in good faith, while maintaining confidentiality and protecting the reporting employee.

The following values are set in the corporate manual of the Bank:

<b>Principles of the Bank</b>	<ul style="list-style-type: none"> <li>•Employees are loyal towards their work and take efforts to achieve maximum results;</li> </ul>
<b>Performance</b>	<ul style="list-style-type: none"> <li>•All employees of the Bank should strive to improve their professionalism, ensure that their goals are met in a timely manner, meet the qualification requirements set for the positions they hold, plan and use the Bank's resources wisely, determine the optimal level of delegation and control;</li> </ul>
<b>Flexibility and initiative</b>	<ul style="list-style-type: none"> <li>•The bank encourages its employees to develop own capabilities, achieve set goals, ensure creative approach and initiatives, improve working processes and increase the customers' satisfaction, strive to maintain competitive advantage of the Bank;</li> </ul>
<b>Teamwork and partnership</b>	<ul style="list-style-type: none"> <li>•The Bank's top priorities are healthy working atmosphere at the Bank, mutual respect among the employees and faithful attitude towards the work;</li> </ul>
<b>Transparency and trust</b>	<ul style="list-style-type: none"> <li>•The Bank uses all sources of information: business meetings, group discussions, internet, intranet, press conferences to disseminate unbiased information;</li> </ul>
<b>Obligatory rules of conduct of an employee</b>	<ul style="list-style-type: none"> <li>•The employee should always protect the Bank's interests and image in front of the customers and partners, must be honest and objective towards his/her clients, colleagues and subordinates, should respect and protect their interests and avoid conflict;</li> </ul>
<b>Gambling activities</b>	<ul style="list-style-type: none"> <li>•Employees are prohibited to participate in or organise gambling and betting activities as defined under the Laws of Georgia;</li> </ul>

#### 4.6.7 Regulation on the Management of the Conflicts of Interest

In order to protect interests of the Bank depositors and creditors and ensure the Bank's adequate supervision and control of the transactions with affiliated parties, certain employees are expected to be free from actual or potential conflicts of interest that may influence their judgement or actions when working for the Bank. For this purpose, the Supervisory Board has approved the regulation on the management of the conflicts of interest, thus, enhancing the Bank's commitment to act ethically and take assertive measures to properly identify and manage, if permissible, potential conflicts of interest.

For the management of the conflicts of interest, the Bank identifies related/affiliated parties, creates respective list of such related parties, categorises such list, identifies process of the transactions subject to control/reporting and sets out types and list of transactions approval of which is exclusively reserved for the Supervisory Board.

The Bank's Audit Committee and Supervisory Board are constantly committed to refining the internal process of conflict of interest management to ensure proper control and accountability of related transactions and to adhere to the principle of open arms. In April 2021, the Supervisory Board approved an updated version of the Bank's Conflict Management Statute, which established clear criteria for identifying parties related to the Bank and integrated ecosystem principles into the Statute.

#### **4.6.8 Information Security**

The Bank holds information about its customers, suppliers and colleagues in the strictest confidence and in compliance with applicable law and regulations. Principles and basic rules for information security management within the Bank's technical infrastructure is regulated by the information security policy. General objective of the information security management system is to protect information utilized by the Bank in attaining its business goals. Information security must be managed in line with the Bank's risk management and business continuity, thus by reducing the occurrence and potential damage caused by information security incidents. Goals are in line with the Bank's business objectives, RAS, strategy and business plans, for protecting confidentiality, integrity and availability of underlining information processes and assets. Protection of integrity, availability, and confidentiality of assets is the responsibility of the owner of each asset.

In addition to abovementioned policies and manuals, Liberty Bank intends to approve Anti-bribery and Anti-Corruption Policy, Environmental Sustainability Policy and Remunerations Policy as required under the Corporate Governance Code of Georgia for Commercial Banks.

#### **4.6.9 Diversity Policy**

According to the Corporate Governance Code of Commercial Banks, commercial banks must have adequate policy-procedures, including a diversity policy. In accordance with the above, in December 2021, on the recommendation of the Nomination and Corporate Governance Committee, the Supervisory Board approved a policy of selection, suitability and diversity of directors, which sets out, among other things, the selection and dismissal of the Bank's governing body Identify forms of discrimination and reinforce the diversity of education, experience, gender, age, ethnic and cultural origin in governing bodies.

## 5 REMUNERATION

### 5.1 General Remuneration Framework

The Bank is one of the leading employers in Georgia with over 4,374 employees. The Bank believes that its long-term success depends on the talent of its employees, therefore the main objective of the remuneration strategy is to attract, retain and motivate the best talents in the market, as well as constantly care for the development of existing employees. On the other hand, the Bank's value proposition is the competitive compensation package with plenty of professional development opportunities and challenging working environment.

The Bank is positioning as a socially responsible and fair player on the labour market. The bank treats their employees the same regardless of race, gender and other issues to avoid discrimination and any kind of unequal treatment; The Bank believes that all employees are given an equal opportunity to work in a position appropriate to their qualifications. According to the Bank's Remuneration framework, employees are paid competitive salary compared to the similar positions available in the market. The same approach is applicable for creating compensation packages for existing employees. Employee remuneration consists of monthly salaries and bonus scheme. Bonus scheme is performance based and varies by business lines and particular positions. The Bank permanently conducts market salary surveys and analysis, based on which decisions are made regarding remuneration changes.

The Bank is focused to create better working atmosphere for all employees and maintain their sustainable performance. Employees who adhere to the Bank's values and contribute to the Bank's success are rewarded accordingly. Various performance assessment methodologies and reward systems are used, which include both, financial and non-financial benefits. A talent management program has been introduced to support the development/motivation/career advancement of the bank's employees. In addition to paying cash bonuses, the bank provides employees with a competitive health insurance package, fully-paid six-month maternity leave, paid annual leave, as well as sick leave. Bonuses are awarded based on key performance indicators or the implementation of important projects. In addition, the Bank supports enriching employees knowledge and fully finances their studies both inside and outside the country.

#### 5.1.1 General Bonus Pool Policy

In 2010, the Bank has implemented the policy of setting aside and distributing annual cash bonuses to its employees. The Policy considers the distribution of predefined amount of the pre-tax profit result as per the financial statements from the previous year.

For the back-office employees and middle management, bonuses are calculated based on the Bank's annual pre-tax profit and are fully discretionary. The allocation of bonuses per employee is based on the level of their respective key business objective ("KBO") fulfilment. KBOs are set at the beginning of the assessment period. In addition, at the beginning of the reporting year, the KPI is determined for each employee, the quality of which is taken into account when calculating the annual bonus. Employees are aware of their role and responsibilities within their competences and have clear understanding of their input in organisation goals and objectives. The table below demonstrates the remuneration policy for different employees:

### Remuneration Policy for different employees:

#### Front Office Employees

- Fixed monthly salary and monthly/quarterly variable bonuses;
- Transparent and fully understandable performance plan with specific targets is defined for each Front Office position and is subject to change on a monthly basis;
- Credit officers earn bonuses based on the quantity, volume and the quality of loans issued;
- Teller bonuses are calculated according to the quantity, volume and duration of attracted deposits;
- Front office employees' and sale representatives' performance measures are set by the Management Board or the relevant curator.

#### Back Office Employees

- Fixed monthly salary; Monthly/quarterly variable bonuses are distributed depending on the position and performance;
- The Bank has explicit performance appraisal system for the back office employees. Based on annual feedback sessions, full and balanced picture of employees' professional and personal skills is obtained. This process and outcome are essential for the Management Board to support high performance and ensure that employees' interests are aligned with those of investors;
- Most of the Head Office employees are eligible to the General Bonus Pool. Bonus amount is based on the performance at the department level and individual KPIs and fulfillment of the KBOs.

### Remuneration Policy for senior management:

#### Management Board

- The Supervisory Board, as a plenary body, is responsible for structuring the remuneration system for the members of the Management Board as well as for determining their individual compensation;
- The remuneration system for the members of the Management Board is regularly reviewed by the Supervisory Board; Incentive programs and cash awards of the members of the Management Board are subject to approval of the Supervisory Board as well.
- Fixed remuneration is determined by the remuneration committee based on responsibility, experience and skills and is reflected in top manager's employment contract.
- Variable remuneration of top management should consist of both monetary and non-monetary parts and depends on the KPIs, which include the fulfillment of the strategic objectives and financial indicators.

#### Supervisory Board

- Remuneration of the Supervisory Board members is set by the Annual General Meeting and is closely related to the achievement of corporate KBOs and the Bank's general performance by the end of the given calendar year;

In 2022, the Bank plans to introduce the remuneration system for the members of the Management Board, which will include the principles and forms of payment of variable remuneration, the grounds for reducing and repaying variable remuneration, and other remuneration issues. Variable remuneration will be based on the results of the variable remuneration period, which will be approved by the Supervisory Board. This system will comply with the requirements of the Corporate Governance Code.

## 5.2 Employees having a Material Impact on the Bank's Risk Profile

Employees in key managerial positions are material risk takers as they are responsible for the business activities under their supervision. The Bank defines the circle of employees whose professional activities significantly affect the Bank's risk profile based on the following criteria:

- Members of the Supervisory Board and Management Board;
- Employees have significant influence on day-to-day management of the business - Heads of the following units:
  - HR
  - Internal Audit
  - Legal
  - Finance
  - Sales
  - IT
  - Credit Risks
  - Operational Risks.
  - Compliance
  - AML
  - Information security
  - Marketing

For more details on remuneration awarded to the Management and Supervisory Boards, as well as employees having a material impact on the Bank's risk profile, see Appendix Table 15.



## 6 RISK MANAGEMENT

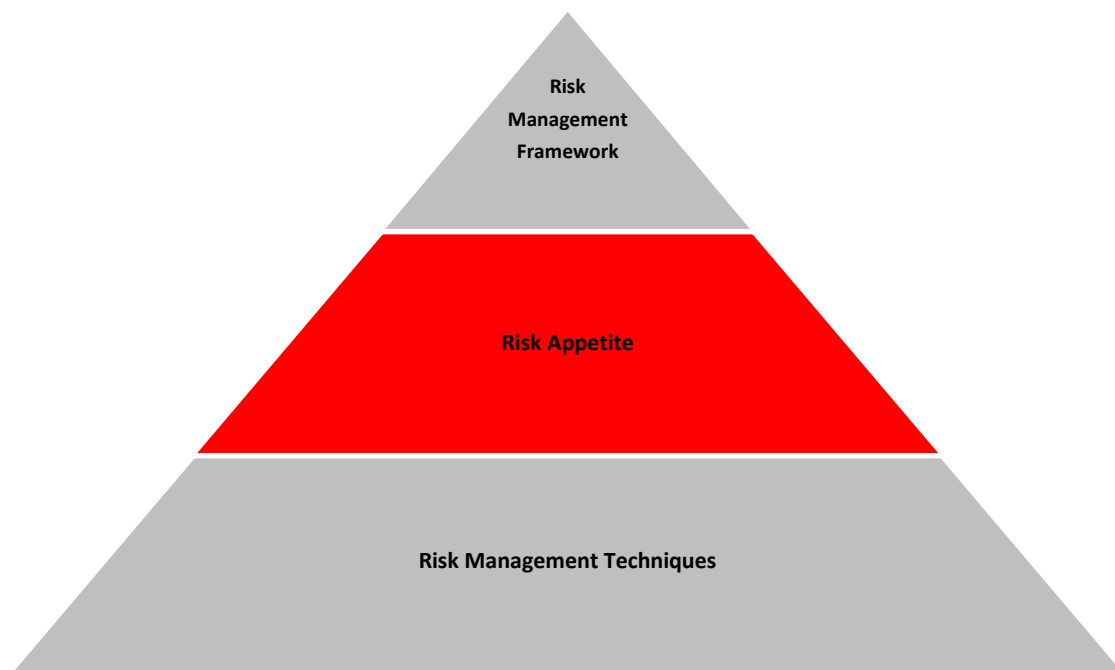
Risk is inherent in the Bank's activities but managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk, operational risk and other non-financial risks. The risk management framework adopted by the Bank sets the boundaries of risk bearing capacity for each risk and business line and ensures its compliance.

### 6.1 Risk Management Framework

The Supervisory Board of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions, products and services offered. The Bank, through its management standards, procedures and trainings aims, has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The responsibility of the individuals accountable for risk management is to ensure the compliance of the Bank to the RAS set by the Supervisory Board of the Bank. The compliance is ensured by continuous monitoring of the RAS parameters. With the active involvement of Management Board, risk management functions ensure proper communication and clarity at all levels regarding risk objectives, constant monitoring of risk profile against risk appetite, timely escalation of risk-related alerts and design of mitigating actions.



The Bank's risk management framework consists of the following four components:

1. **Risk Management Principles** provide the qualitative foundation of the risk management framework. These include:
  - Promotion of a robust risk culture;
  - Accountability for risk by the Business Lines;
  - Independent central risk oversight;
  - Avoidance of and / or reduction in excessive concentrations;
  - Ensuring that the risks are clearly understood, measurable and manageable.
2. **Strategic Principles** provide qualitative benchmarks to guide the Bank in its pursuit of the Governing Financial Objectives, and to gauge the degree of alignment between new initiatives and the Bank's Risk Appetite. Strategic Principles include:
  - Placing emphasis on the diversity, quality and stability of earnings;
  - Focusing on core businesses by leveraging the Bank's competitive advantages;
  - Making disciplined and selective strategic investments.
3. **Governing Financial Objectives** focus on the long-term build-up of shareholder value and the sustainability of the Bank's business franchise. These objectives focus on the internal generation of capital through sustainable earnings growth, improving the Bank's access to capital on reasonable commercial terms, and maintenance of adequate capital in relation to the Bank's risk profile.
4. **Risk Appetite Measures** provide objective metrics that gauge the risk and articulate the Bank's Risk Appetite. They provide a link between the actual risk-taking activities and the Risk Management Principles, Strategic Principles and Governing Financial Objectives. These metrics include capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets and limits.

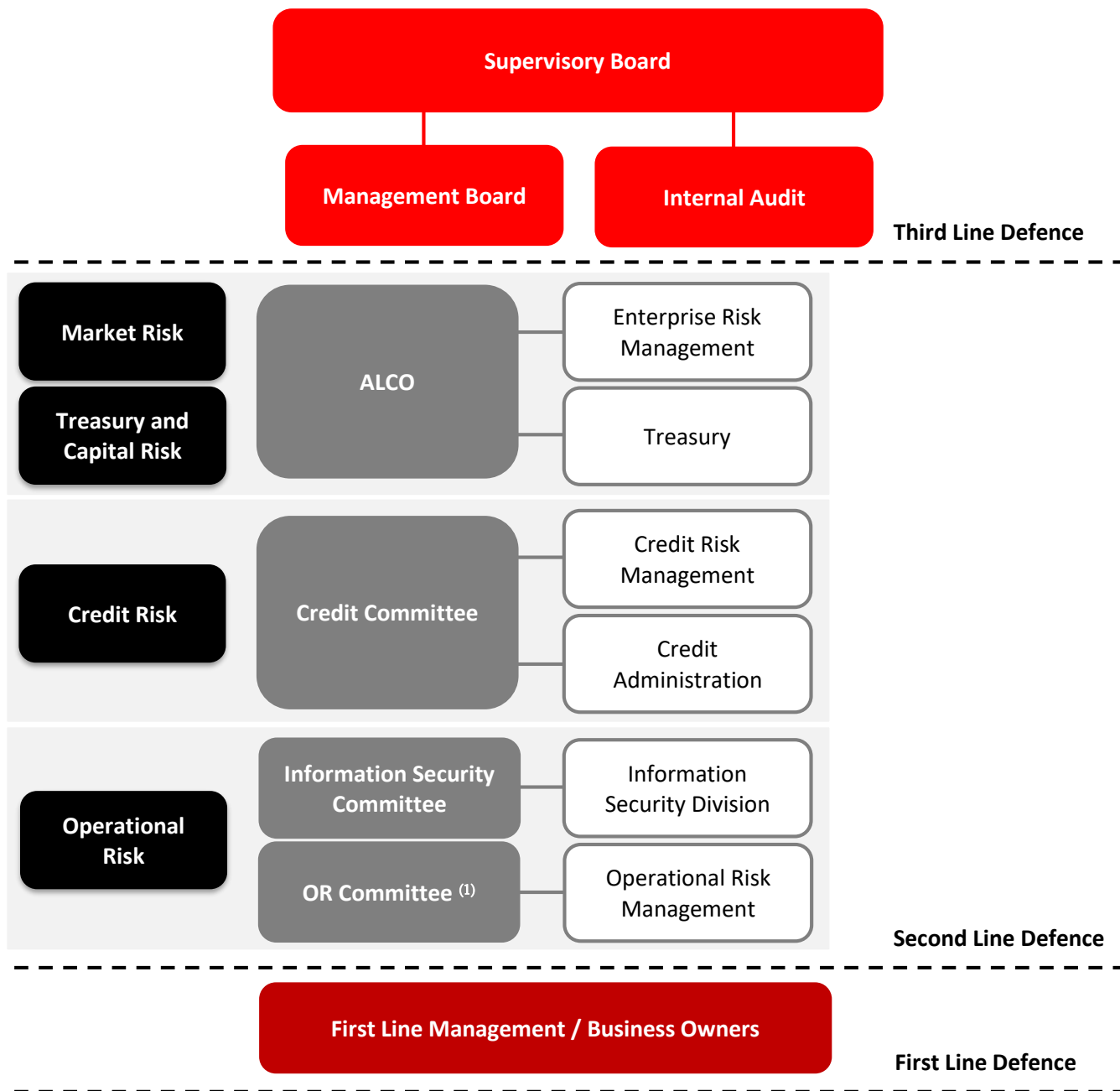
The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The key risks of the Bank are managed by the following committees and units with the active involvement of Management Board:

- Credit risk is managed by the Credit Risk Committee;
- Liquidity risk is managed by the Assets and Liabilities Management Committee ("ALCO");
- Market risk is managed by the ALCO;
- Operational risk is managed by the Operational Risk Committee;
- Information security and technology risks are managed by Information Security Committee.

Business lines represent the primary owners of risks affecting daily activities and operations within the Bank. Business processes incorporate controlling activities performed by the relevant risk unit representatives. Units with risk management functions that are independent from the core businesses contribute to the management and internal control of risks. They represent the second line of control and defence, the first one being ensured by the businesses. The following departments/divisions are responsible for day-to-day management of credit, liquidity, market, operational and other financial and non-financial risks:

- Enterprise Risk Management ("ERM");
- Treasury;
- Credit Risk Management;
- Credit Administration;
- Operational Risk Management ("ORM");
- Information Security;
- Security;
- AML;
- Compliance.

Table below shows three lines of defence in the management of risk.



(1) Operational Risk Committee was created in 2019

### 6.1.1 Credit Risk Committee

The Credit Risk Committee has an overall responsibility to manage credit risks in respect to all kinds of business activities on an enterprise level. It performs major role in identification of possible significant credit risks in Bank’s portfolio and has the authority to make a final decision on approval or rejection of proposed credit risk related transactions. The Credit Risk Committee has developed credit risk assessment policies and procedures which is consistent with the Bank’s current risk profile and future growth plans. Various credit risk units and departments are input providers to the Credit Risk Committee. To ensure sound credit risk environment, comprehensive control and monitoring systems are implemented, where roles and responsibilities of entities and employees involved in credit risk management are clearly defined.

Main responsibilities of the Credit Risk Committee are the following:

- Review and approve the risk management framework and policies;
- Approve credit exposures within identified limits;
- Supervise and manage on-balance and off-balance credit and concentration risks;
- Set credit limits by client category and operation type;
- Early identification of possible credit risk losses;
- Maintain an appropriate credit administration, measurement and monitoring process across all business lines.

### 6.1.2 Assets and Liabilities Management Committee

Core functions of the ALCO are management of the capital, liquidity, interest and funding risks and loans/guarantees pricing. The Chairman of committee is CEO. ERM and Budgeting division provides the relevant analytical inputs for effective decision making process. ALCO meetings are conducted on a monthly basis or at any time deemed necessary.

The primary objectives of the ALCO are the following:

Capital Risk	<ul style="list-style-type: none"> <li>• Manage capital adequacy according to NBG requirement and analyse the capital forecasts;</li> <li>• Manage economic capital and analyse main changes;</li> <li>• Monitor early warning indicators along with quarterly capital stress-tests;</li> </ul>
Liquidity Risk	<ul style="list-style-type: none"> <li>• Develop funding plan considering the Bank's investment capabilities to avoid excessive liquid funds;</li> <li>• Monitor early warning indicators along with monthly liquidity stress-tests and act according to its results;</li> <li>• Manage liquidity risk mitigation tools and maturity gap of assets and liabilities;</li> </ul>
Market Risk	<ul style="list-style-type: none"> <li>• Manage interest rates and interest rate gap;</li> <li>• Manage FX position;</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• Set minimum levels of interest rates for loans and guarantees;</li> <li>• Control disbursed loans effective interest rates compared to pricing;</li> </ul>

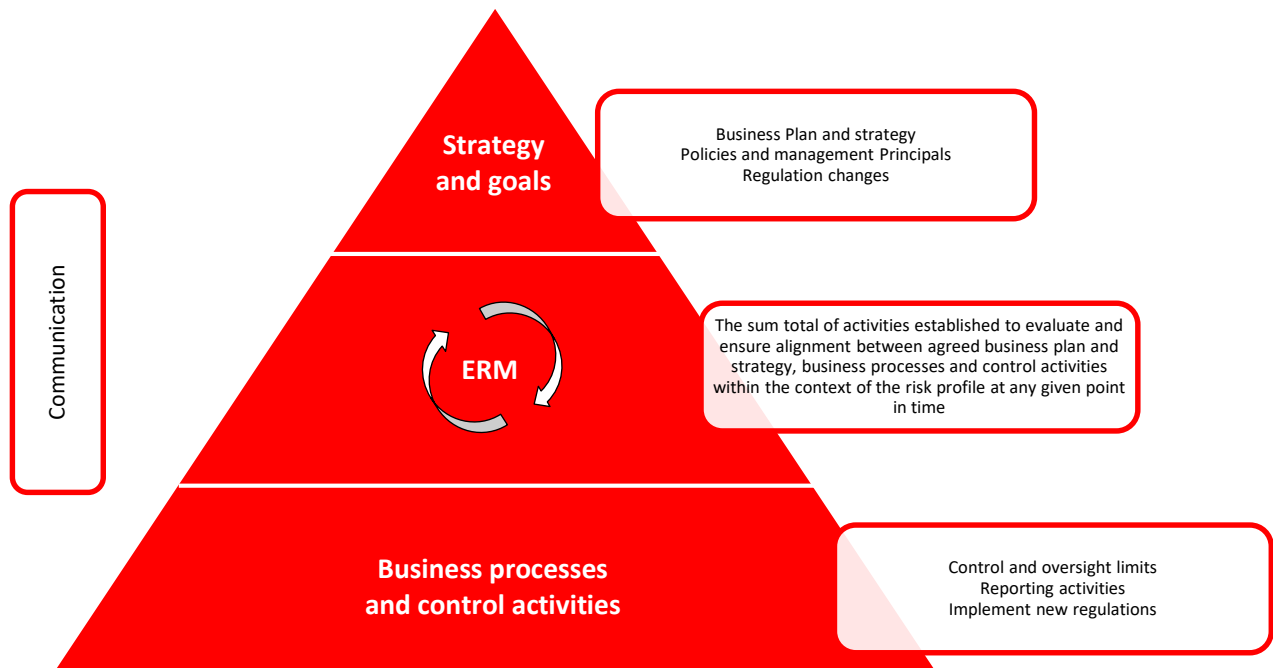
In addition, ALCO sets limits for interbank counterparty exposures. With fulfilling its core responsibilities, the Committee is ensuring the development and implementation of an appropriate assets and liabilities management policy. The policy is the main guidebook for performing comprehensive monitoring and in-depth analysis pertaining to the Bank's balance sheet and its related indicators.

### 6.1.3 Enterprise Risk Management

The objective of the ERM and Budgeting division is to maintain risk at an acceptable level to ensure the best balance possible between threats and opportunities – in line with the risk appetite and business strategy of the Board and Executive Management. It is concerned with ensuring the achievement of goals as the enterprise develops and appropriate management of the organisation's assets, including avoidance of losses as a result of unwanted events.

This will include matters occurring in all levels of the organisation. ERM and Budgeting division’s role in governance is illustrated in figure 6.1.3.1.

**Table 6.1.3.1 The interrelationship between ERM and Budgeting division and governance**



ERM and Budgeting division facilitates cross-risk activities such as aggregation and analytics, cross-risk reporting and addresses issues that are not specific to a single type of risk. Major risk functions of ERM and Budgeting division are outlined as follows:

- Being in charge of Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Plan documents;
- Assisting Management Board and Supervisory Board in coordinating RAS review process and in monitoring, controlling and reporting of RAS compliance;
- Conducting enterprise-wide and other ad-hoc stress tests;
- Day-to-day communication with Treasury and additional input provider for ALCO;
- Managing and reporting the Regulatory Risk.

## 6.2 Risk Appetite Statement

### 6.2.1 Risk Appetite

The Supervisory Board of the Bank is responsible for establishing the framework and determining the Bank’s Risk Appetite. The Bank’s Risk Appetite is documented in the Risk Appetite Statement (“RAS”). The Risk Appetite is broadly defined as the types and degree of risk the Bank is willing to accept on behalf of its shareholders and depositors in its strategic, tactical and transactional business actions. The Risk Appetite is expressed as a set of concrete, quantifiable boundaries on the various risk taking activities which the Bank should not cross. The RAS also sets various limits on counterparties to avoid concentration risks.

Risk capacity (also known as risk-bearing capacity) represents the Bank’s overall ability to absorb potential losses. Risk profile is a snapshot of the Bank’s risk portfolio at a specific point in time (past, present, or future). The Risk Appetite is not the same as (and must be lower than) the Bank’s risk-bearing capacity and may also differ from the Bank’s risk profile. Risk profile should generally be lower than Risk Appetite. Risk profile could be higher than Risk

Appetite on an exceptional basis (for instance, due to external shocks or marked shift in the Bank's Risk Appetite) for finite and brief periods of time.

In 2017 the new management decided to make Risk Appetite statement as a separate document.

In Risk Appetite statement bank's attitude to following key risks are described:

- Credit Risk
- Treasury and Capital Risk
- Market Risk
- Operational Risk
- Other Prudential Risks

The Bank's Risk Appetite Measures are designed to provide safeguards and guidelines to achieve and improve the Bank's strategic objectives:

- Ensuring capital adequacy at all times;
- Ensuring sound management of the liquidity and funding risk that includes: LCR and Liquidity Ratio maintained comfortably above the regulatory minimums; limitations on single client exposures; concentration limits; stress tests endurance (base, mild and severe cases) and achieving and maintaining a well-diversified funding structure;
- An upfront assessment against the stated Risk Appetite should be submitted to the Supervisory Board for significant new projects / investments, new products, and entry into new market segments or business lines;
- Maintaining sustainable economic profit commensurate with the risks taken.

The Management Board reviews and approves bank's risk appetite statement on an annual basis, or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that they are consistent with Bank's strategy, business and regulatory environment and stakeholders' requirements.

Reports relating to bank's risk appetite are presented regularly to the Management Board and Risk Committee of the Supervisory Board.

Whenever the Bank's risk profile exceeds the Risk Appetite set by the Supervisory Board, a concrete set of steps must exist together with the Management Board tasked with executing these steps in order to bring the Bank's risk profile in line with its Risk Appetite within a defined period of time.

Management Board and all heads of departments/divisions are responsible for the implementation of, and compliance with, the Risk Appetite Statement.

### **6.2.2 Monitoring, Reporting and Review**

The Supervisory Board is ultimately responsible for controlling overall risk profile of the Bank. The Credit Risk Committee, ALCO and Information Security, ORM department and ERM and Budgeting division are responsible for monitoring risks and ensuring compliance with the Risk Appetite. ERM and Budgeting division has the overall responsibility for continuous monitoring of RAS parameters and limits, and reporting on compliance with RAS on a quarterly basis to the Supervisory Board.

This Risk Appetite Statement is reviewed at least annually, or whenever there is a significant change to the Bank's operating environment in which case the review process is initiated by the Supervisory Board. The Management

Board can propose to the Supervisory Board that the RAS requires review, however the Supervisory Board decides whether to start the process.

The review is coordinated by the ERM and Budgeting division. Proposed changes to the Risk Appetite Statement are endorsed by the Management Board and approved by the Supervisory Board.

## 6.3 Types of Risk

The Bank faces a variety of risks as part of its business activities with the most significant ones described below. The Regulation covers the credit risk, market risk, operational risk and treasury and capital risk. As part of the ICAAP, the Bank calculates the economic capital that is required to cover all the material risks, except for the liquidity risk.

### 6.3.1 Credit Risk

The credit risk is the risk that the borrower or any counterparty will fail to meet its obligations in accordance with agreed terms. These obligations are typically part of the Bank's traditional non-trading lending activities, primarily loans.

The bank has different categories of credit risk:

- Default Risk – is the risk that counterparty will be unable to make the required payment on their debt obligations.
- Country Risk - is the risk stemming from the unexpected deterioration of the creditworthiness or default of Georgia due to social unrest, political instability, war or other unfavourable developments in the country.
- Concentration Risk – is the risk of loss arising from a large position in a single asset, or group of an assets. This risk arises when portfolio has less diversification in terms of sector and group of borrowers.

### 6.3.2 Market Risk

Market risk is the risk that affects the overall performance of the financial market. The main types of market risks include interest rate risk, foreign currency risk and their levels of volatility. Market risk arises mainly from trading activities. The market risk related to the banking activities encompasses the risk of loss on equity holdings, and the interest rate and foreign exchange risk stemming from banking intermediation activities.

### 6.3.3 Operational Risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, or from external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks. Credit or market events such as default or fluctuations in value do not fall in the scope of operational risk. Compliance risk is included under operational risk. Compliance risk is the potential that the Bank may incur regulatory sanctions, financial loss and/or reputational damage arising from its failure to comply with applicable laws, rules and regulations. The operational risk does not cover the reputational risk.

### 6.3.4 Treasury and Capital risk

Treasury and capital risk includes liquidity and capital risks.

Liquidity risk is the financial risk arising from the Bank's potential inability to meet all payment obligations when they come due or are only able to fulfil these obligations at a higher cost. The bank divide liquidity risk into two types:

**Market liquidity** - The market liquidity risk is the risk that bank does not have the ability to buy and sell an asset without changing the price materially and without incurring large transaction costs.

**Funding liquidity** - The funding liquidity risk arises when the bank is unable to pay its debt when they fall due and the bank cannot meet the demand of customers wishing to withdraw their deposits.

Capital risk is arising from inadequacy of capital to support risk exposure arising from normal business activities, inability to meet dividend targets, to increase cost of fund due to deterioration in investors' appetite or credit rating and to comply with regulatory capital requirements under normal operating environment.

### 6.3.5 Macroeconomic Risk

Macroeconomic situation can affect Banks profitability, portfolio quality and growth rate.

The main factors that directly influence Banking Sector in Georgia are:

- GDP growth rate
- Unemployment rate
- Exchange rate
- Inflation rate
- Real interest rate
- Business and consumer expectations
- Fiscal and current account imbalances
- Political cycles

In addition, Georgia's economy depends on the economy and political situation of neighbor countries. These can alter export, tourism, money transfers and foreign direct investments.

## 6.4 Stress Testing

To ensure dynamic risk supervision and management, the Bank has developed the stress testing framework as described below.

### 6.4.1 Stress Testing Framework

The Bank uses stress tests in order to project its financial needs in various adverse scenarios. The stress tests cover all the material risks and enable the Bank to assess the effect of unfavourable economic trends on various risk types. Stress testing forms an integral part of the risk management system. The Bank uses scenario based approach in order to assess the impact of adverse developments in the economy. The stress tests are conducted on an enterprise level.



ERM and Budgeting division is responsible for designing the methodology of the stress scenarios and determination of appropriate parameters to translate input data into reliable outcomes. As a final user, ALCO examines the stress-test results and takes decisions, if necessary, on the implementation of corrective measures.

#### **6.4.2 Stress Testing Methodology and Scenario Definition**

The stress testing methodology consists of four steps. The first step is to define and prepare the internal stress test scenarios. Each scenario consists of the macroeconomic variables. The Bank has a base case scenario that represents its forecast of financial trends during normally expected state of economy and a recession case scenario that represent shocks to the economy that are not expected but are plausible. The scenarios reflect the current as well as the predicted economic conditions and are adjusted accordingly by the Management Board. The second step is to determine the effect of the scenarios on the various risk types and capital. When the stress test scenarios are translated into effects on the risks, the income and cost structure, the Bank calculates capital requirement ratios under each scenario. Finally, the results are evaluated by the Management Board in order to ensure consistency and reliability. The findings are then reported to the Supervisory Board.

In addition to the enterprise-wide stress testing, the Bank uses various specialised scenarios that give the Management Board an understanding of the effect on the Bank under specific types of events.

#### **6.5 Recovery Plan**

The Bank maintains the Recovery Plan that outlines possible recovery options if the Bank was to find itself in a distressed situation. The Recovery Plan serves as an additional risk management tool and aims to shorten recovery period and minimize losses in case of crisis. Based on the overall risk profile of the Bank and the Bank-specific risks, the plan contains specific triggers that would require the Management Board to initiate the Recovery Plan.

The Recovery Plan describes and quantifies the events that could trigger the recovery. In order to envisage the critical amounts causing the Recovery Plan activation the analysis was made of baseline forecasted (budgeted) scenario. Since the precise nature of an event that will cause pressure on the Bank cannot be known in advance, the plan is designed to be flexible in response to the severity of the stress event and provides a menu of options that could be used as needed during the distress. The plan describes respective mitigating factors/actions and the effect of their application on the existing pressures.

The capital triggers are monitored by ERM and budgeting division on a monthly basis. Any potential trigger event is escalated to the Management Board level and should be discussed at the meeting. If triggered, the Recovery Plan strategy will be executed under the supervision of the Management Board.

## **7 CAPITAL MANAGEMENT AND CAPITAL ADEQUACY**

### **7.1 Capital Requirements**

Starting from 30 June 2014, the Bank has to comply with minimum capital adequacy ratios stipulated by "Regulation on Capital Adequacy Requirements for Commercial Banks" approved under Decree # 100/04 (the "Pillar 1 Regulation") of the President of the NBG dated 23 October 2013.

Principal measures to assess the capital adequacy of a credit institution from a regulatory perspective are regulatory capital ratios, defined as regulatory capital divided by risk-weighted exposures (the "RWE"). Under the Pillar 1 Regulation, the NBG requires the banks to maintain the minimum Regulatory Capital Ratio of 8.0% of the RWE, Tier 1 Capital Ratio of 6.0% of the RWE, and Common Equity Tier 1 Ratio of 4.5% of the RWE, computed based on the Bank's stand-alone financial statements. In addition to the mandatory requirement all banks are required to hold a capital conservation buffer, countercyclical capital buffer and systematic risk buffer, to ensure that they accumulate a sufficient capital base in prosperous times to enable them to absorb losses in the event of a crisis.

The purpose of the conservation buffer is to conserve a bank's capital. When a bank breaches the buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make.

The countercyclical capital buffer is a prudential tool introduced by the Basel III agreement to counteract the effects of the economic cycle on banks' lending activity.

With the objective to formalize and establish this framework National Bank of Georgia introduced "Rule on Additional Capital Buffer Requirements for Commercial Banks within of Pillar 2". In accordance with this rule, Pillar 2 capital requirements include requirements for unhedged currency induced credit risk buffer, concentration buffer, net stress-test buffer and GRAPE buffer.

It's important to note, that capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 4.5%, Tier 1 capital 6% and Total Regulatory Capital 8%). Therefore, 56 % of capital required under Pillar 2 should be held through Common Equity Tier 1, while 75% through Tier 1 capital instruments.

To mitigate the negative impact of the COVID-19 pandemic on the financial sector and to promote the economy of the country, National Bank of Georgia lowered capital requirements for the commercial banks, which implies to Capital Conservation Buffer (2.5% of the risk weighted assets) and the portion of the pillar 2 buffer (2/3 of the currency induced credit risk buffer). NBG also postponed increase of CET1 and Tier 1 requirements for GRAPE and concentration buffers.

In December 2021, to encourage the issuance of GEL loans, the National Bank of Georgia decided to change the method of calculating the foreign currency credit risk buffer (CICR) and made it dependent on the level of dollarization of the commercial bank's loan portfolio. Currency credit risk buffer is determined by the dollarization of loans instead of the existing 75% risk weight requirement. This change will take effect on January 1, 2022.

As of 31 December 2021, Liberty Bank systemic risk buffer increased to 1.5% from 1.2%, according to Decree # 174/04 of the president of NBG dated 18 October 2017.

## 7.2 Regulatory Capital

The regulation requires banks to have set aside enough capital to cover unexpected losses and keep themselves solvent in a crisis. As a main principle, the amount of capital required depends on the risk attached to the assets of a particular bank.

The total regulatory capital comprises tier 1 and tier 2 capital. Tier 1 capital is subdivided into Common Equity Tier 1 (CET 1) capital and Additional tier 1 (AT 1) capital.

Tier 1 capital is considered to be the going concern capital. The going concern capital allows a bank to continue its activities and keeps it solvent. The highest quality of Tier 1 capital is common equity tier 1 (CET1) capital.

Tier 2 capital is considered to be gone concern capital. The gone concern capital allows an institution to repay depositors and senior creditors if a bank becomes insolvent.

Table below sets out the details of the Bank's capital base under the NBG Regulation.

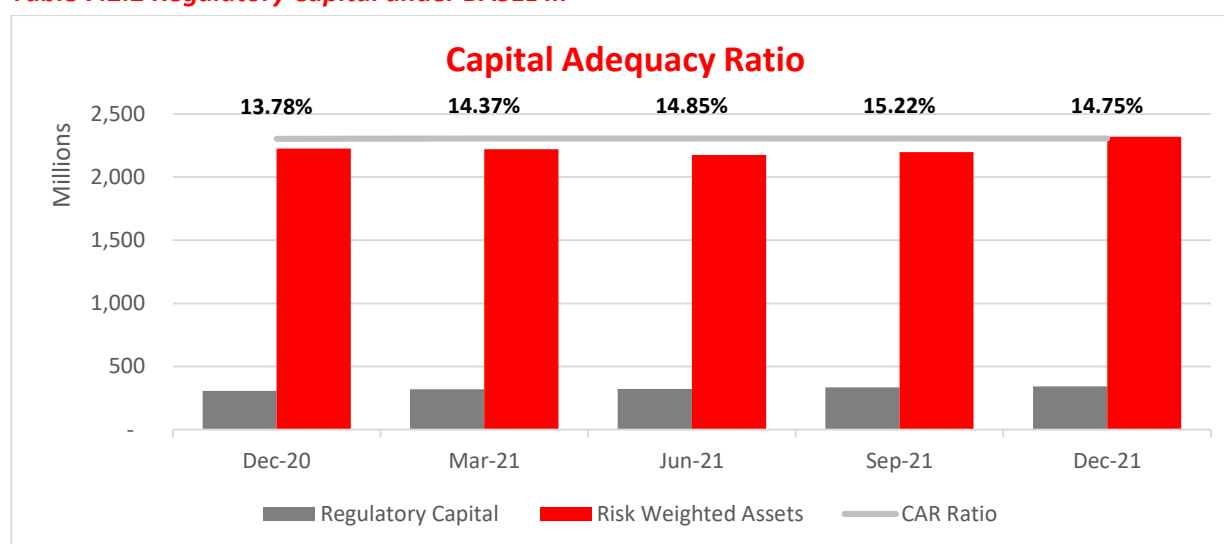
**Table 7.2.1 Regulatory Capital under BASEL III**

GEL '000s, unless otherwise noted	31-Dec-21	31-Dec-20	Change
<b>Common Equity Tier 1 capital prior to regulatory adjustments</b>	<b>335,096</b>	<b>280,898</b>	<b>19%</b>
Qualifying common share capital	44,490	44,490	0%
Share premium on qualifying common share capital	35,132	35,132	0%
Accumulated other comprehensive income	35,278	29,074	21%
Other disclosed reserves	1,694	1,694	0%
Retained earnings	218,501	170,507	28%
<b>Common Equity Tier 1 capital: regulatory adjustments</b>	<b>-95,124</b>	<b>-84,511</b>	<b>13%</b>
Revaluation reserves on assets	-35,278	-29,074	21%
Accumulated unrealised revaluation gains on assets through P&L	-3,037	-3,037	0%
Intangible assets	-56,702	-52,293	8%
Investments in subsidiaries/affiliates	-106,733	-106,733	0%
<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>239,972</b>	<b>196,387</b>	<b>22%</b>
<b>Additional Tier 1 Capital</b>	<b>4,565</b>	<b>4,565</b>	<b>0%</b>
<b>TIER 1 CAPITAL</b>	<b>244,537</b>	<b>200,952</b>	<b>22%</b>
<b>TIER 2 CAPITAL</b>	<b>97,704</b>	<b>105,950</b>	<b>-8%</b>
Subordinated debt	74,104	83,415	-11%
General reserves	23,600	22,535	5%
<b>REGULATORY CAPITAL</b>	<b>342,241</b>	<b>306,902</b>	<b>12%</b>

In 2021 total Regulatory Capital decreased by GEL 35.3 million compared to 2020. The main changes resulted from increase in RE by GEL 48 million.

The Chart below shows quarterly trend of regulatory capital and total risk weighted assets.

**Table 7.2.2 Regulatory Capital under BASEL III**



See table 2 and table 3 in appendix for additional information about Regulatory Capital.

## 7.2.1 Risk-weighted Risk Exposures

As of 31 December 2021, risk-weighted exposures in the amount of GEL 2,320 million by type of risk break down as follows: credit risk accounted for 81.4% of RWE, market risk accounted for 1.6% of RWE and operational risk accounted for 17% of RWE. Between 31 December 2021 and 31 December 2020, RWE for credit risk increased by GEL 85.2 million, RWE for operational risk increased by GEL 12.9 million, due to decrease 3-year average revenue used in Basic Indicator calculation whereas RWE for market risk decreased by GEL 5.2 million. The table below provides RWE split by categories and capital requirements.

**Table 7.2.1.1 Minimum Capital Requirements and Risk-weighted Exposures**

GEL Millions, unless otherwise noted	31-Dec-21		31-Dec-20		Change(1)
	RWE	Capital Requirement	RWE	Capital Requirement	
<b>Credit Risk</b>	<b>1,888.0</b>	<b>263.4</b>	<b>1,802.80</b>	<b>236.4</b>	<b>5%</b>
<b>Balance sheet items</b>	<b>1,846.2</b>	<b>257.5</b>	<b>1,764.90</b>	<b>231.4</b>	<b>5%</b>
Central governments or central banks	75.8	10.6	195.2	25.6	-61%
Commercial banks	68.1	9.5	75	9.8	-9%
Corporates	384.0	53.6	356.9	46.8	8%
Retail	757.9	105.7	728.2	95.5	4%
Exposures secured by residential property	98.2	13.7	59.3	7.8	66%
Past due items	6.6	0.9	5.7	0.7	16%
High-risk category	304.3	42.4	179.4	23.5	70%
Other items	150.5	21.0	168.7	22.1	-11%
<b>Off-balance sheet items</b>	<b>27.9</b>	<b>3.9</b>	<b>22.5</b>	<b>3</b>	<b>24%</b>
<b>Counterparty credit risk</b>	<b>13.9</b>	<b>1.9</b>	<b>15.4</b>	<b>2</b>	<b>-10%</b>
<b>Market Risk</b>	<b>37.2</b>	<b>5.2</b>	<b>42.4</b>	<b>5.6</b>	<b>-12%</b>
<b>Operational Risk</b>	<b>394.7</b>	<b>55.1</b>	<b>381.8</b>	<b>50.1</b>	<b>3%</b>
<b>TOTAL</b>	<b>2,320.0</b>	<b>323.6</b>	<b>2,227.00</b>	<b>292.1</b>	<b>4%</b>

(1) Percentage change in the RWE is same as the percentage change in the capital requirement.

The main change in credit risk was caused by increase in loan portfolio. See table 4 in appendix for additional information about Risk Weighted Risk Exposures.

## 7.3 Capital Management

The Capital Management is induced by bank’s strategic and organizational requirements, taking into account the regulatory, economic and commercial environment. The main goal is maintaining stable capital base to overcome fundamental risks.

The bank defines losses into categories. Some financial losses that are normal part of business day to day operations are covered by the bank’s earnings. However, if various internal and external factors cause losses that might exceed earning, capital should be used for covering.

The Bank’s capital management objectives consist of ensuring its solvency at all times, complying with the supervisory and internal capital requirements, and maintaining a prudent capital cushion in order to protect the Bank from known (and, to some extent, the unknown) risks.

### 7.3.1 Capital Management Organisation

The supervisory board approves capital plan and decisions related to changes in capital structure of the banks. The strategy includes fundamental objectives and basis practices:

Objectives	Practices
Manage capital adequacy to cope with the impact of the risk, rising from normal and stressed condition.	<ul style="list-style-type: none"> <li>Comply with the regulatory requirement</li> <li>Retain the RAS limit buffer</li> </ul>
Maintain the adequate level of capital to finance business growth and related risks.	<ul style="list-style-type: none"> <li>Make short-term and long-term forecast of capital adequacy ratio</li> </ul>
Define strategies for addressing potential capital shortages.	<ul style="list-style-type: none"> <li>Make Stress-test</li> </ul>
Guide capital planning, capital issuance and dividend distribution action.	<ul style="list-style-type: none"> <li>Develop procedures for capital planning, which will be compliant with main strategies</li> </ul>

The Bank’s management of its total capital is based on the Internal Capital Adequacy Assessment Process (the “ICAAP”), which represents its main capital management tool.

### 7.3.2 Planning, Monitoring and Reporting of Capital Adequacy

Part of the ICAAP is planning the future capital needs in relation to the business environment, growth and strategic plans of the Bank. Potential major changes to the risk profile, and thereby the future capital needs, are estimated using the ICAAP. The input is used in the strategic decision-making process by the Supervisory Board and the Management Board.

Capital planning is incorporated in strategic planning process which aligns risk strategy and appetite with the Bank’s commercial objectives. The capital plan is developed by the Management Board and approved by the Supervisory

Board. The Management Board is responsible for the review and monitoring of the capital plan and position. The capital plan is a function of the estimated (budgeted) forecast of capital, risk and earnings.

The bank's risk controlling and monitoring process results in generating revision to the identified risks and defining new action items for risk treatment process. The regulatory capital ratios are calculated on a monthly basis and are reported to the NBG. The Bank observes its capital buffer over the minimum regulatory ratios on a monthly basis. ERM and Budgeting division takes the organizational and technical measures to ensure that all of the control parameters are calculated and reported to the Management Board and Supervisory Board in a timely manner. If capital adequacy is expected to drop below the limits set by the NBG or the limits set by the RAS, the Bank's Supervisory Board is responsible for formulating a strategy to be carried out by the Management Board to offset this trend by limiting or reducing risks or by strengthening the capital base.

## 7.4 Leverage Ratio

In September 2018 NBG introduced leverage ratio, that is based on BIS Basel 3 framework. The Leverage Ratio framework is critical and complementary to the risk-based capital framework. The Leverage Ratio captures both the on-balance and off-balance sheet sources of banks' leverage. The Leverage Ratio is defined as the capital measure divided by the exposure measure.

The commercial banks should maintain Leverage Ratio higher than the 5% minimum set by NBG. The Bank's Leverage Ratio was 7.9% and 6.8% as of 31 December 2021 and 31 December 2020, respectively.

The table below provides details on Leverage Ratio calculated according to NBG standards.

### 7.4.1 Leverage Ratio

<i>GEL millions, unless otherwise noted</i>	<i>31-Dec-21</i>	<i>31-Dec-20</i>	<i>Change</i>
<b>On-balance sheet exposures</b>	<b>3,050.6</b>	<b>2,926.2</b>	<b>4%</b>
On-balance sheet items	3,145.8	3,010.7	4%
(Asset amounts deducted in determining Tier 1 capital)	-95.1	-84.5	13%
<b>Off-balance sheet exposures</b>	<b>41.4</b>	<b>22.6</b>	<b>83%</b>
Off-balance sheet exposures at gross notional amount	141.5	145.8	-3%
(Adjustments for conversion to credit equivalent amounts)	-100.1	-123.2	-19%
<b>Derivative exposures</b>	<b>13.9</b>	<b>15.4</b>	<b>-10%</b>
<b>Total leverage ratio exposures</b>	<b>3,105.9</b>	<b>2,964.1</b>	<b>5%</b>
<b>Tier 1 capital</b>	<b>244.5</b>	<b>201.0</b>	<b>22%</b>
<b>Leverage Ratio</b>	<b>7.9%</b>	<b>6.8%</b>	<b>16%</b>

## 8 CREDIT RISK

Credit risk is the risk that the borrower or any counterparty will fail to meet its obligations in accordance with agreed terms. These obligations are typically part of the Bank's traditional non-trading lending activities, primarily loans. Default risk, the most significant element of the credit risk, refers to the risk of losses due to defaults by counterparties. The Bank distinguishes the country risk as a separate kind of a credit risk. The country risk for the Bank is the risk stemming from the unexpected deterioration of the creditworthiness or default of Georgia due to social unrest, political instability, war or other unfavourable developments in the country. Credit risk may be further amplified by concentration risk, which arises from a large exposure to a given risk or to one or more counterparties.

### 8.1 Exposure to Credit Risk

The Bank has developed policies ensuring that all credit exposures are identified and classified consistently and appropriately. Data for exposure identification and risk mitigation item classification has been tracked on regular basis. These policies and procedures have been submitted to the NBG and are subject to regular reviews and monitoring.

Under the Pillar 1 Regulation, total credit risk exposure of the Bank as of 31 December 2021 was GEL 3,100.8 million, up 4% y-o-y.

The table below sets out detailed breakdown of total credit risk exposures under the Pillar 1 Regulation.

#### *Exposure to Credit Risk under the Pillar 1 Regulation*

<i>GEL '000s, unless otherwise noted</i>	<i>31-Dec-21</i>	<i>31-Dec-20</i>	<i>Change</i>
Central governments or central banks	362,485	495,685	-27%
Commercial banks	547	-	
Corporates	894	-	
Retail	332,255	370,564	-10%
Claims secured by mortgages	398,862	363,229	10%
Past due items	1,025,275	981,006	5%
High-risk category	280,457	169,356	66%
Other items	6,955	5,136	35%
<b>Balance Sheet Items</b>	226,472	129,010	76%
Off-balance sheet items	419,465	418,731	0%
Counterparty credit risk	<b>3,053,667</b>	<b>2,932,717</b>	<b>4%</b>
<b>TOTAL EXPOSURE TO CREDIT RISK</b>	33,222	31,428	6%

See Appendix Table 5, for linkages between financial statement assets and balance sheet items subject to credit risk weighting. Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes could be found in Appendix Table 6.

## 8.2 Credit Risk Management

Credit risk management at the Bank is overseen by the Chief Risks Officer (Deputy CEO), under the supervision of the Management Board and the Supervisory Board.

Various counterparty types are examined to assess the credit risk exposure and the outstanding counterparty risk is determined in each case or each segment of the portfolio. The risk factors and results are continuously assessed using impact and likelihood, based on the empirical data, expert judgment and internal credit scoring.

### 8.2.1 Decision Making Procedures

Bank has adopted systems and procedures which divide the decision making process into the following three major categories:

- Risk Level for Corporate/SME exposures;
- Risk level for MSME clients;
  - In December 2021, the Underwriting Department was established, which has been delegating the decision-making process on micro-client applications since February 2022.
- Risk level for Retail exposures;
- Risk level for Automated retail exposures.

Counterparty assessment and credit approval procedures (steps) include the following:

Corporate customers	Retail customers	Automated retail loans
<ul style="list-style-type: none"> <li>•Application process and due diligence of the client’s financial position – is performed by Corporate Bankers / Senior Credit Experts;</li> <li>•Client’s business specifications / management assessment – is performed by Corporate Bankers / Senior Credit Experts;</li> <li>•Client’s legal due diligence (when necessary) – is performed by legal department of the Bank;</li> <li>•Collateral assessment / appraisal – is performed by collateral assessment unit of the Bank (independent from the front office);</li> <li>•Client’s risk assessment and appraisal (based on report, client’s free cash flow sufficiency for servicing the requested loan) – is performed by the Bank’s credit risk management department.</li> </ul>	<ul style="list-style-type: none"> <li>•Application process and collection of first-hand documents from the client (proof of income, liabilities, inflows and costs of the family, other necessary information) – is performed by the Credit Experts at Service Centres &amp; Branches;</li> <li>•Collateral assessment / appraisal – is performed by collateral assessment unit of the Bank (independent from the front office);</li> <li>•Review and identification of client’s credit rating carried out by teams of independent credit risk.</li> </ul>	<ul style="list-style-type: none"> <li>•Application process and collection of client personal information - is performed by the front line employees (operators / sales agents);</li> <li>•Assessment is done by an automatic processing (approval &amp; rejection) system - a software solution, which online analyses clients declared income and total liabilities, check eligibility for the certain cut off criteria (including credit score) and based on results either approves or rejects the application– the methodology and the score cards are reviewed and approved by the Management Board.</li> </ul>



The decision Making Regulation of approval of: Corporate, Retail, Micro, MSME Loans, Wholesale pawnshops, Credit cards, Banking Guarantees, Letter of Credits, Factoring Operations, Overdrafts, as well as the purchase of corporate securities by the bank, is validated by Management Board; The decision-making procedure determines the structure and composition of credit committees, the scope of authority granted to credit committees and other authorized persons; The decision is considered to be made by a majority vote of the full membership. The chairman of the committee has the right to veto;

The Bank has the following decision-making credit committees:

- Corporate Loan Credit Committee;
- MSME Loan Credit Committee;
- Retail Loan Credit Committee;
- Wholesale Pawnshop Loans Credit Committee.

The levels and members of the above mentioned credit committees are defined by the credit limit and/or the defined responsible line . According to the limits, decisions can be made through the scoring system automatically, or individually by the credit risk manager.

The application approved by the Credit Committee is reviewed and validated by the Supervisory Board of the Bank:

- a) If exposure limit of the borrower exceeds 5% of the bank's equity;
- b) In accordance with the “Regulation on the Management of the Conflict of Interests” of NBG.

## **8.2.2 Credit Risk Management during COVID-19**

Bank has revised its credit policy to align with updated credit risk approach. The Management Board in addition to the Risk Committee place a greater focus on the loan portfolio analysis during COVID-19 crisis. A credit portfolio review identifies impaired credit exposures and risk concentrations. The aim is to address material risks in a timely and focused manner and derive appropriate measures such as:

- Identification of risk criteria and risk exposures;
- Identification and close monitoring of impaired credit exposures, with potential workout solutions determined;
- Monitoring of risk concentrations, for example, sectoral concentrations in collateral;
- Monitoring of risk drivers.

To understand which clients are likely to be most affected, bank needs to take a new approach to credit risk management in order to anticipate declining credit quality more quickly and intervene proactively.

- Bank conducts granular analysis on an industry basis to understand how the COVID-19 crisis could impact a sector’s supply- and demand-side economics;
- Bank tries to assess which clients are most at risk during this crisis; Stress testing allows bank to model potential liquidity impacts;
- Bank reviews portfolio to see which clients in affected industries are most at risk. Analyzing the EBITDA margin, free cash flow, and cost structure can help bank assess the intrinsic “fragility” of a company’s balance sheet;
- Bank credit actions could combine levers such as moratoria, government-backed financing, and new credit lines to clients facing short-term cash shortages. This also includes debt restructuring, such as maturity revision, interest-only payments, and the conversion of short-term debt into long-term.

### 8.2.3 Monitoring, Portfolio Management and Reporting

The Management Board reviews and supervises loan portfolio management. The credit risk team performs the analysis on loan portfolio segregation and clustering, cost of risk, trend calculation and reporting. The Portfolio Quality Administration & Reporting department consolidates data and reports to the following recipients:

- Branch/business unit Level - Operational reports for daily portfolio at risk (“PAR”) and loan loss provision (“LLP”) overview and management;
- Middle Management/product owners – various reports on product and its quality (PAR, LLP, changes in composition and concentrations);
- Top Management - reports on business line/regional level for more consolidated groups of portfolio.

The Bank has adopted a system where there are three independent portfolio management and monitoring layers:

- Business lines responsible for specific product produce daily/monthly reports on commercial activities, also reflecting general portfolio statistics and quality (PAR and LLP);
- Credit risk management team, independent from commercial business owner, is responsible for portfolio quality monitoring and reporting on a monthly basis. The reports reflect PD, LGD, DPD, PAR and LLP on various loan products. The credit risk management team should alert the Management Board if portfolio parameters deviate from their normal forecasted levels;
- The Bank has a reporting and portfolio overview system at the Financial department level, responsible for the loan book segregation and analysis for budgeting and planning purposes.

### 8.2.4 Credit Risk Measurement

Credit Risk measurements and assessments are based on the principle that the following factors vary for different borrower types:

- The factors relevant to creditworthiness;
- The available data sources;
- Credit risk levels.

As previously mentioned, the Bank has adopted standards for segmenting the loan book for assessing the creditworthiness of all the Bank’s borrowers based on the specific risk involved.

On the basis of business considerations, the Bank distinguishes between the following general segments:

- Sovereigns/central governments;
- Banks/institutions;
- Corporate clients;
- Retail customers, including mass market retail loans;
- Private banking customers.

The Bank has adopted a system where the credit risk is measured at the moment of the loan origination. Thus, all the loans are individually provisioned at origination. The Bank considers the client grade as equivalent to the provision bucket.

Risk is considered as a default probability less recovery expectation for the specific products and client groups. Historical data is usually reviewed and expected losses are adjusted (score cards adjusted respectively) on a quarterly basis. The credit risk management team is in charge of tracking loss events, its statistics and testing the forms of score cards and software solutions used for individual decision-making.

### 8.2.5 Impairment

For regulatory purpose the Bank calculates its LLP following the NBG regulation on “Assets Classification and the Creation and Use of Reserves for Losses by Commercial Banks” approved on 10 August 2017. For International Financial Statements the Bank uses IFRS 9 in the process of calculating LLP, in accordance with standards based on PD & LGD statistical models.

#### Impairment Methodology per NBG Regulation

In 2017 NBG approved updated regulation on “Assets Classification and the Creation and Use of Reserves for Losses by Commercial Banks” to ensure that commercial banks have the adequate internal procedures and reporting standards for the classification of their assets and provisioning obligations.

With numerous changes in the methodology, the most considerable introductions were payment-to-income (PTI) and loan-to-value (LTV) ratios. For the business (Corporate, SME and Micro) loans, NBG has developed the loan performance, efficiency and profitability ratios such as: Debt/EBITDA, EBITDA/Interest Expenses, EBIT/Interest Expenses and Capital/Assets. During transitional period determined by the new regulation, Liberty Bank has successfully developed and implemented relevant infrastructure and policies to be fully compliant with the regulatory requirements and to adequately present the Bank’s financial position.

Simultaneously, the Bank is optimizing the existing impairment methodology to report accurate, complete and up-to-date information on its assets’ quality. Current credit risk management framework is consistent with the NBG’s asset classification system, which comprises five risk categories:

- Standard – 2%;
- Watch – 10%;
- Substandard – 30%;
- Doubtful – 50%;
- Loss – 100%.

in addition to the overdue Loan criteria, the Bank has developed and gradually improved the analysis and monitoring system based on the borrowers' financial ratios, and ongoing revaluation of the collateral. This approach facilitates the early identification and management of potential credit impairment.

#### NBG Impairment methodology during COVID-19

As soon as the Covid-19 pandemic started, Liberty Bank proactively started assessing process of its Credit portfolio. The Bank conducted portfolio stress testing under various scenarios and in March 2020 created a buffer for possible loan losses of GEL 23.5 million (total reserve), which was utilized after June 2020, which mostly affected corporate loans Horeca and the pro-cyclical sectors. Later, from October 1, after the end of the second wave of the pandemic, the buffer utilization also affected retail and micro loan portfolios. In order to utilize Covid-19 Buffer - the Bank developed an appropriate methodology for the retail portfolio, according to which the estimated portfolio was determined.

During the Covid-19 pandemic crisis, Liberty Bank created sufficient reserve to offset the expected losses. In the first quarter of 2021, the Bank completed the process of Covid-19 Buffer transfer from the total reserves to special reserves.

#### IFRS Impairment Methodology

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract.

Bank recognises impairment losses according to IFRS 9 approach. Based on IFRS 9, formation of loan impairment loss reserves is based on the ECL (expected credit loss) accounting model and not the already established loss accounting model. Liberty Bank assesses impairment in two areas: individually significant risk positions and collectively assessed (homogeneous groups) risk positions.

**Individually significant risk exposures**

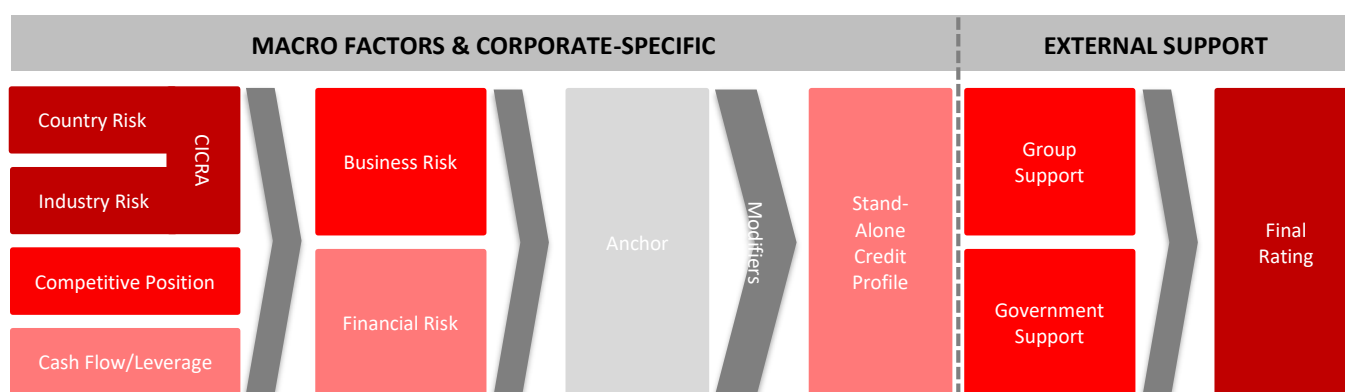
The Bank determines the allowances appropriate for each individually significant loan on an individual basis. According to Bank’s methodology the minimum limit for individually significant risk exposures is GEL 300 thousand. Furthermore, any determined individual risk exposure is based on the decision taken by the Bank’s managements’ discussions, assumptions and estimates.

The Bank will use the methodologies developed by S&P Global for each individual risk position or group of risk positions, which include the following models by economic sectors: PD Scorecard - rating system that determines the probability of default of the borrower, LGD Scorecard - the amount of loss in case of default and IFRS Macroeconomic overlay - the impact of macroeconomic forecast parameters on the probability of default of the borrower.

Company Risk Assessment (PD Scorecard) is a strategy for determining the individual credit risk profile and final rating for non-financial corporate borrowers. This assessment reflects the business risk profile of the companies, the financial risk profile and other factors that have a significant impact on the rating of the individual credit profile of the company.

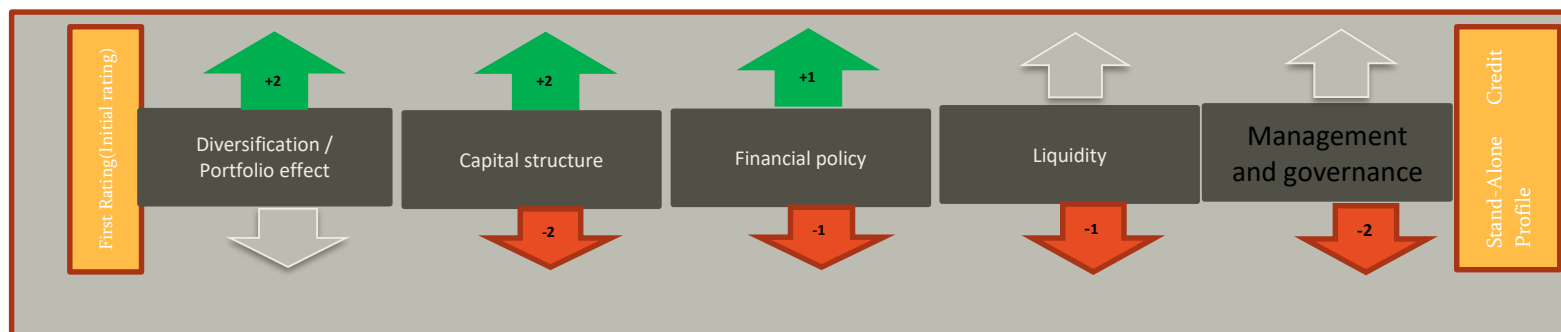
The business risk (BR) profile of an entity comprises of the risk and return potential for a company in the markets in which it operates, the competitive climate within those markets, the country risks within those markets, and the competitive advantages and disadvantages the company has within those markets. Companies’ business risk profile assessments include industry and country risk, competitive environment and the weighted scores of business production.

The financial risk (FR) profile is the outcome of decisions that management makes in the context of its BR profile and its financial risk tolerances which reflects the manner in which the management seeks funding and the relationship of cash flows given the company’s financial obligations. The FR score entails only one risk dimension (‘Cash Flow / Leverage’) which again is further divided into risk factors and are typically weighted in the Scorecard.



The Scorecard combines an issuer's BR score and its FR score to determine the company’s initial rating (Anchor). Additional rating factors, so called “Modifiers/Correctors” have the potential to influence the initial rating, either negatively or positively. They can improve/worsen the initial rating of one or more companies. These corrective

factors are: "Diversification/portfolio effect", "Capital structure", "Financial policy", "Liquidity" and "Management and governance".



The Bank uses LGD Scorecards to assess the components of the Company's default loss (LGD), which is based on expectations of the general economic situation. Three Scenarios are considered - positive, neutral and negative. The LGD is calculated as a weighted average interest rate of 3 scenarios based on the above mentioned economic scenarios.

The Credit Cycle Projection Overlay transforms average PD rates to forward-looking PDs, using macroeconomic variables. For the calculations of forward-looking PD rates the Bank uses macroeconomic forecasting scenarios proposed by the NBG. The forecast horizon is three years and the scenarios are updated biannually. The scenarios describe the macroeconomic situation in the country and cover all of the main macroeconomic variables. However, not all of these variables require inclusion in the credit loss assessment model.

For the purposes of final ECL calculation (For Individually significant risk exposures) the Bank assigns 50% probability to the baseline scenario, while the upside and adverse scenarios are given 25%-25% probabilities.

To adequately assess credit risk, Liberty Bank continued to use a countercyclical buffer in the ECL calculation for the prospective sectors by 2021. For this purposes the Bank uses the main principle of the Spanish Dynamic Provisioning System stipulates that credit risk assessment should not only be made by actual loan losses. Better foresight is expected since "bad loans" are extended during "good times".

Pursuant to Liberty Bank's corporate lending strategy Pro-cyclical sectors belong to the following economic sectors:

1. Real Estate Development;
2. Real Estate Management;
3. Construction (Non-Development) Companies;
4. Extraction, production and trade of construction materials;
5. Production and Trade of Durable Goods.

For these 5 sectors, during 2018-2019 the bank has created relevant Pro-cyclical buffer, the materialization of which in 2020-2021 with relatively less credit losses shifted the shocks caused by the COVID crisis.

### **Collectively assessed risk exposures**

Expected credit loss calculations for this category of risk positions are made in terms of homogeneous products, which means that statistics and parameters are collected and calculated individually for each product.

The collective risk position provisioning model is built to monitor borrower behaviour. Based on customer observations, each borrower is individually assigned the appropriate MOB and AGE combination for the product. MOB - indicates the number of months of continuous observation in a particular product, while AGE - indicates the rate of withdrawal of defaulted client in a particular product.

To determine the Probability of Default (PD), the bank uses the Marginal Mortality Rate ("MMR") to define the PD on various credit products by their historical maturity.

In addition, for future forecasts, the interrelationships of business cycles and the standard/non-standard portfolios' default probabilities are modelled.

Various macroeconomic variables are used for this purpose, for example: GDP, unemployment rate, inflation rate and etc. Some of the macroeconomic indicators forecast scenarios included in the model are published twice a year by the National Bank of Georgia, while the rest of the variables are forecasted using time series statistical methods.

### IFRS 9 Impairment methodology during Covid-19

The provisioning methodology for the purposes of IFRS 9 under the Covid-19 pandemic has also undergone significant modifications to adequately use forecasting information for the estimation of expected credit losses.

Apart from the overdue component of retail loans, a PTI (Loan Service Ratios) -based approach was additionally used.

Provision Category	Risk Stage 1	Risk Stage 2	Risk Stage 3
PTI	≤ 60%	60% - 70%	> 70%

The financial instrument collateral ratio (LTV) and loan restructuring based on 'restructured' status were also used.

All restructured risk positions, if the loan has a grace period and/or a change in the loan agreement/schedule due to a deterioration in the borrower 's financial position, is classified as a Stage 2 risk position and therefore the method of expected credit loss over the life of the financial instruments is used.

For individually assessed risk positions, in parallel with the identification of risk sectors and the stress testing scenarios typical for these sectors, Liberty Bank has additionally used LGD (Loss Given Default) - an updated methodology for estimating losses in the event of default, reflected in the conservative approach to weighing expectations on macroeconomic scenarios.

Economic Forecasts	Before Covid-19	After Covid-19
	Economic Scenarios Materialization Probability	Economic Scenarios Materialization Probability
Positive	30%	15%
Neutral	30%	15%
Negative	40%	70%

At the start of the Russia-Ukraine war, the bank conducted a stress test to assess the potential impact of the war on Liberty Bank's portfolio in the event of a negative development.

The main assumptions were:

- Disconnect from the Russian Swift and disrupt the global supply chain.
- Reduction of projected GDP growth in Georgia in 2022;
- The GEL exchange rate will depreciate against the dollar and the euro;
- Fall in real estate prices, leading to a deterioration in the LGD setting for real estate loans;

- Significant reduction or complete cessation of remittances from Russia, Ukraine and Belarus;
- Suspension of export products of corporate companies dependent on the Russian / Ukrainian market;
- Significant decrease in companies' revenues / turnover in tourism / hospitality / procyclical sectors;

The amount of losses expected from the results of the stress test does not pose a threat to the quality of the bank's loan portfolio, capital position and liquidity.

### **8.2.6 External Credit Assessment Institutions**

According to the NBG's regulatory framework, banks are allowed to use credit rating services from External Credit Assessment Institutions ("ECAIs") to determine the risk-weights of exposures. The NBG sets the list of eligible ECAIs that comply with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency. A bank may nominate one or more eligible ECAIs to be used for the determination of risk-weights to be assigned to assets and off-balance sheet items. If a credit assessment by an eligible ECAI is available for an exposure, then its risk-weight is determined according to the "Regulation on Capital Adequacy Requirements for Commercial Banks" and used in calculation of a bank's capital adequacy ratios.

The Bank has selected Fitch Ratings, Standard & Poor's Ratings and Moody's Ratings services for the purpose of external credit risk assessment. These ratings are used to determine the equivalent credit quality steps and assign the proper risk-weight that are in accordance with NBG's credit quality assessment scale. The Bank uses the credit assessments produced by an eligible ECAI for a certain class of items in continuous way and consistently for all exposures belonging to that class.

Bank uses credit rating agency information for weighting commercial and central banks' exposures.

Local currency denominated exposures to the NBG and Georgian Government are assigned 0% risk-weight.

## **8.3 Credit Risk-weighted Exposures**

Under the Pillar 1 Regulation, the banks are only allowed to use the standardised approach to credit risk (the "SACR"). The SACR is based on flat risk-weighting or external ratings. In order to mitigate the credit risk fully, the Bank takes only deposits into consideration, while collateral in the form of residential property reduces the risk-weighting.

The table below sets out the credit risk exposures allocated to the risk-weightings before credit risk mitigation ("CRM") is used, the CRM and the credit RWE after the CRM is applied.



### Credit Risk-Weighted Exposures

As of 31 December 2021										Credit RWE before CRM	CRM	Credit RWE after CRM
GEL '000s, unless otherwise noted	0%	20%	35%	50%	75%	100%	150%	250%				
Central governments or central banks	286,683	-	-	-	-	75,802	-	-	75,802	-	-	75,802
Multilateral development banks	547	-	-	-	-	-	-	-	-	-	-	-
International Organizations	-	-	-	-	-	894	-	-	894	-	-	894
Commercial banks	-	328,503	-	2,779	-	972	-	-	68,062	-	-	68,062
Corporates	-	-	-	-	-	398,862	-	-	398,862	14,843	-	384,018
Retail <sup>(1)</sup>	-	-	-	-	1,025,275	-	-	-	768,956	11,093	-	757,863
Claims secured by mortgages	-	-	280,457	-	-	-	-	-	98,160	-	-	98,160
Past due items	-	-	-	999	-	4,788	1,168	-	7,040	424	-	6,615
High-risk category <sup>(2)</sup>	-	-	-	-	-	74,969	149,436	2,067	304,291	-	-	304,291
Other items	268,564	521	-	-	-	150,380	-	-	150,484	-	-	150,484
<b>Balance Sheet Items</b>	<b>555,795</b>	<b>329,025</b>	<b>280,457</b>	<b>3,779</b>	<b>1,025,275</b>	<b>706,667</b>	<b>150,604</b>	<b>2,067</b>	<b>1,872,551</b>	<b>26,361</b>	<b>-</b>	<b>1,846,190</b>
Off-balance sheet items	-	-	-	-	13,483	19,739	-	-	29,852	1,939	-	27,913
Counterparty credit risk	-	-	-	-	-	13,917	-	-	13,917	-	-	13,917
<b>TOTAL</b>	<b>555,795</b>	<b>329,025</b>	<b>280,457</b>	<b>3,779</b>	<b>1,038,758</b>	<b>740,323</b>	<b>150,604</b>	<b>2,067</b>	<b>1,916,319</b>	<b>28,300</b>	<b>-</b>	<b>1,888,019</b>

As of 31 December 2020										Credit RWE before CRM	CRM	Credit RWE after CRM
GEL '000s, unless otherwise noted	0%	20%	35%	50%	75%	100%	150%	250%				
Central governments or central banks	300,522	-	-	-	-	195,164	-	-	195,164	-	-	195,164
Commercial banks	-	369,312	-	312	-	939	-	-	74,958	-	-	74,958
Corporates	-	-	-	-	-	363,229	-	-	363,229	6,302	-	356,927
Retail	-	-	-	-	981,006	-	-	-	735,755	7,515	-	728,240
Claims secured by mortgages	-	-	169,356	-	-	-	-	-	59,275	-	-	59,275
Past due items	-	-	-	683	-	2,709	1,744	-	5,666	-	-	5,666
High-risk category <sup>(2)</sup>	-	-	-	-	-	30,602	96,636	1,772	179,986	611	-	179,375
Other items	249,558	560	-	-	-	168,613	-	-	168,725	-	-	168,725
<b>Balance Sheet Items</b>	<b>550,080</b>	<b>369,872</b>	<b>169,356</b>	<b>995</b>	<b>981,006</b>	<b>761,256</b>	<b>98,380</b>	<b>1,772</b>	<b>1,782,758</b>	<b>14,428</b>	<b>-</b>	<b>1,768,330</b>
Off-balance sheet items	-	-	-	-	13,072	18,356	-	-	28,160	5,627	-	22,533
Counterparty credit risk	-	-	-	-	-	15,390	-	-	15,390	-	-	15,390
<b>TOTAL</b>	<b>550,080</b>	<b>369,872</b>	<b>169,356</b>	<b>995</b>	<b>994,078</b>	<b>795,002</b>	<b>98,380</b>	<b>1,772</b>	<b>1,826,308</b>	<b>20,054</b>	<b>-</b>	<b>1,806,253</b>

(1) Upon the NBG instructions, in 2019 gross exposures that exceed 0.2% of regulatory retail portfolio, are not allowed to be included in retail class and are included in corporates class.

(2) High-risk category comprises the investment property risk-weighted at 250%.

For more details on credit risk-weighted RWE, see Appendix Table 7. For detailed breakdown of CRM, refer to Appendix Table 8 and for details on the effect of CRM, see Appendix Table 9. For more information on counterparty credit risk, refer to Appendix Table 10.

## 8.4 Credit Risk Concentration

The concentration risk mainly arises from imperfect diversification in assets and liabilities structure. It is vital to establish the prudent internal monitoring and management procedures to identify and mitigate the concentration risk.



The Bank is exposed to two types of concentration risks:

- The first type, single-name concentration, relates to imperfect diversification of idiosyncratic risk in the portfolio because of its large exposures to specific individuals or group of individuals.
- The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectoral factors which are mainly induced by excessive exposures to specific economic sectors.

The Bank uses various internal procedures and policies for the concentration risk management and complies with regulatory concentration risk requirements. As part of the risk appetite framework, the Bank sets measures and limits for both credit, funding and investing operations that may cause the undesirable concentration risks.

According to NBG requirements the bank calculates concentration risk based on Herfindahl-Hirschman Index (“HHI”) methodology and is subject to monthly reporting.

## **8.5 Restructured Loans**

The Bank has adopted and implemented strict restructuring policy. For ECL calculation purposes the Bank defines “Refinanced loan due to non-business problems” - as a loan, in which the bank and the borrower have agreed to change the repayment terms and the change of repayment terms are not caused by the borrower’s financial difficulties. “Restructured loan - due to business problems” – is defined as a loan, in which the Bank and the borrower have agreed to change the repayment terms because of the borrower’s legal or financial difficulties. In line with the policy, the restructuring of an unsecured credit exposure could be initiated only if the client clearly identifies verified source of income sufficient for repayment of the loan within the restructured schedule. For ECL calculation purposes all restructured loans are a subject to stage 2 and stage 3 expected credit risk assessment.

## **8.6 Credit Risk Hedging and Mitigation**

The Bank uses various credit risk mitigation instruments that provide partial or full protection against the risk of debtor insolvency. The main two categories are personal guarantees and collateral. Personal guarantees are commitments made by a third party to replace the primary debtor in the event of the latter’s default. During the credit approval process, an assessment is performed on the guarantor’s ability to meet its obligations. The Bank’s collateral primarily consists of the following:

- Residential and commercial real estate;
- Gold and other precious metals;
- Vehicles;
- Cash and cash equivalent (deposits, CDs).

Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity. The collateral valuation process is independent from the loan application initiation as well as from its financial monitoring. Credit Risk Management department is responsible for approving the operating procedures for guarantee and collateral valuation during loan origination phase or upon the renewal of credit application.

The Bank uses credit risk mitigation (“CRM”) to decrease its risk-weighted exposures. The CRM is in line with credit risk mitigation policy adopted by the Bank and approved by the NBG.

## 9 MARKET RISK

Market risk is the risk of incurring a loss of value due to adverse changes in market prices or rates, including interest rates and foreign exchange rates, and their levels of volatility. Market risk arises mainly from trading activities. These risks are managed by the Treasury department and the results are reported to the Management Board.

### 9.1 Foreign Exchange Risk

#### 9.1.1 Foreign Exchange Policy and Limits

The objective of the FX policy is to establish parameters for the Bank for the management of foreign currency exposures. The process of FX management includes, but is not limited to:

- Using adequate methodology for the FX risk identification and quantitative measurement;
- Daily monitoring of the open FX position;
- Minimising FX risk through compliance with the established limits;
- Revealing existing and anticipated negative tendencies of increased FX Risk followed by the analysis of its causes and implications;
- Making recommendations on the FX Risk Management Strategy;
- Determining the types and limits on instruments used in the FX operations.

The basis for setting internal limits includes the following: local FX market volume, activeness of the banks and their clients in individual currencies, actual volumes of operations and exchange rate volatility for respective periods. FX position limits are established for both total open FX position (“OCP”) and individual currencies. Total OCP is limited to 20% of the Total Regulatory Capital under the NBG Regulation. OCP is managed by Treasury department on a centralised level.

FX policy sets volume limits per trade including for FX forwards & FX swaps. FX policy also sets trading position aggregate intraday limits and trading position limits. The limits are set for dealer and for Treasury department.

FX policy sets daily value at risk (“VAR”) limit on OCP. The VAR is measured on the open positions only in US\$ and Russian Ruble as in normal course of the FX activities the Bank holds no significant open positions in other foreign currencies. The overall VAR on the FX position is calculated by adding the VAR on both open positions not taking into account the correlation between the rates of the currencies. The OCP VAR is calculated and presented to the Management Board by the Treasury department on a daily basis. If necessary, the Treasury department works out a plan of correction and presents it to the ALCO.

#### 9.1.2 Risk-weighted Exposure and Capital Requirement

Under the Pillar 1 Regulation, a narrow definition of the market risk is used as it only takes into account foreign-exchange risk. The RWE for foreign-exchange risk equal to overall OCP as defined in the NBG regulation on “Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks”. As of 31 December 2021, the RWE for the market risk amounted to 37.2 million GEL with the total capital requirement of 5.2 million GEL.

## **9.2 Interest Rate Risk**

Movement in interest rates will affect the net interest income (“NII”) and consequently the NIM. The earnings of the interest bearing assets and costs of the interest bearing liabilities are closely related to the market interest rate volatility as changes in the interest rates affect the underlying value of the Bank’s assets, liabilities and off-balance sheet instruments.

The major form of the interest rate risk in the Bank arises from timing differences in maturity for the fixed rates assets and repricing for floating rate assets, liabilities and off-balance sheet items.

### **9.2.1 Measurement and Management of the Interest Rate Risk**

Methodology used by the Bank to measure the interest rate risk is the gap analysis. The analysis involves grouping assets and liabilities by their maturity period, or the time period over which the interest rate will change, such as less than three months, three months to one year, etc. The gap for each category is then expressed as the GEL of assets minus liabilities. A large, negative gap would indicate that the Bank has a greater amount of liabilities that are repriced during that time than assets, and therefore the Bank would be exposed to an increase in interest rates. A positive gap would suggest an exposure to a decline in interest rates. Interest rate gap is modified with the major adjustment made to balances on interest-bearing current accounts that are reallocated from “Up to 1 month” maturity range to respective contractual time ranges.

The Bank uses an indicator system that implies identifying the major trends for product categories and monitoring deviation from these trends, to evaluate the potential changes in interest rate levels.

Within the scope of the interest rate risk management, the Bank analyses macroeconomic and financial data and identifies those factors that might have an impact on interest rate levels or yield curve shapes. Based on the forecasts, the Bank evaluates the need to change the product terms and sets the priorities.

In the process of the interest rate risk management the Bank uses the earnings approach, focusing on the risks to the reported earnings over the one-year time period. As mentioned above, the measurement of the interest rate risk is done through the gap analysis summarising the repricing mismatches for each defined time horizon and the potential impact on the net interest income over a year for a given rate change.

If the results of the analysis highlight significant negative trends, detailed analysis is conducted for assets and liabilities volumes, maturity structures and possible changes in interest rates. When necessary, decisions are made by the ALCO.

From March 2020 National Bank of Georgia approved decree for Interest Risk Management. For regulatory purposes, interest rate risk is calculated using economic value of the capital and net interest income methodology, including different stress and shock scenarios, defined by regulator. Changes in economic value should not exceed 15% of Tier 1 Capital.

### **9.2.2 Hedging of the Interest Rate Risk**

Treasury department uses forward rate agreements in managing and hedging of interest rate risk.

However, as the interbank derivatives market in GEL remains under-developed, the main action to mitigate the interest rate risk is the respective change in interest rates by the Bank. To minimize interest rate risk, bank focuses on increasing loan portfolio with floating rates.

## 10 OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from faulty internal processes, human action, system malfunctions or defects, or external factors (including but not limited to internal and external fraud, floods, fires, earthquakes, terrorist, or cyber-attacks). Operational risk includes legal, but not strategic and reputational risks.

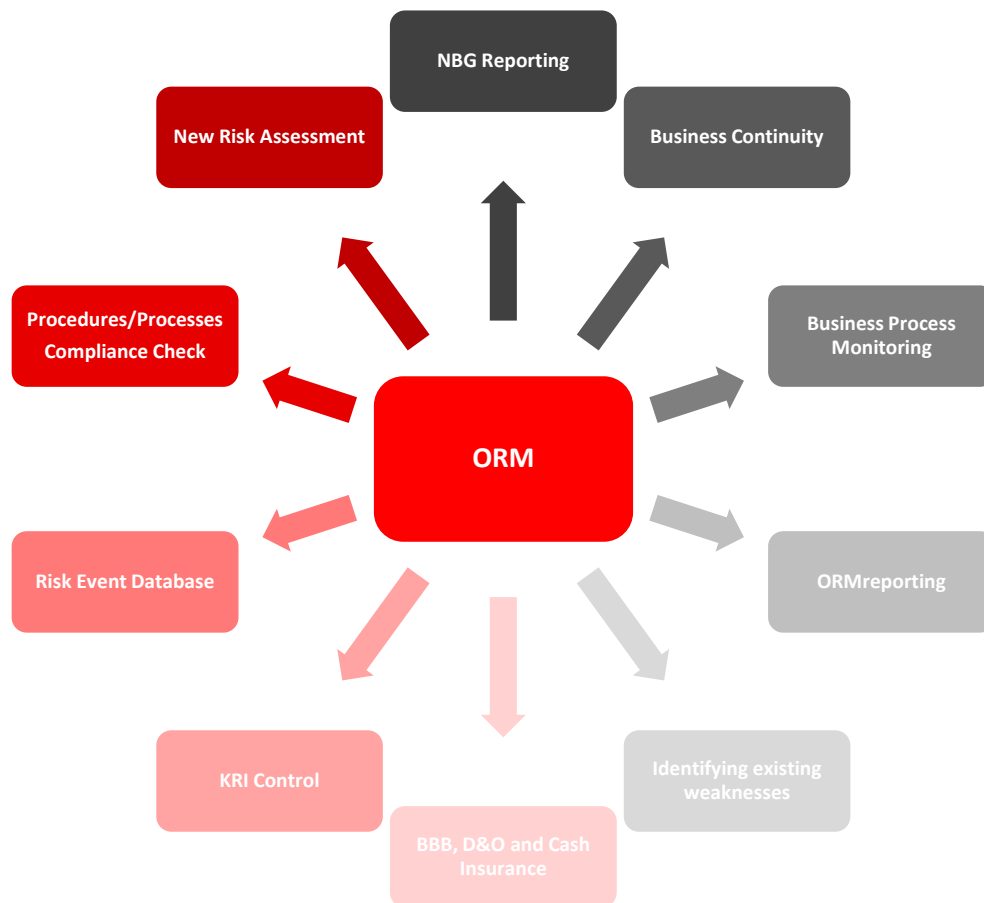
### 10.1 Operational Risk Management Structure

The Bank has established the Operational Risk Management (ORM) framework and takes all possible steps to understand exposure of the business to the variety of operational risks arising from inadequate or failed internal processes, people and systems or from external events. The aim of the ORM framework is to enable the Bank to collect, assess, manage, and report operational risk efficiently and effectively.

The ORM department at the Bank is overseen by the CRO and represents the Bank's second line of operational risk protection. The Supervisory Board, the Management Board/Operational Risks Committee and the ORM department are notably responsible for the following tasks:

Supervisory Board/Risks Committee	Management Board	ORM Department
<ul style="list-style-type: none"><li>• Determine, approve and periodically review risk framework and all underlining policies;</li><li>• Approve the Bank's risk strategies/risk appetite in accordance with the existing regulations, bank's internal risks and strategic development;</li></ul>	<ul style="list-style-type: none"><li>• Facilitate consistent implementation of the operational risk management policies, processes and systems, that include all products, services and operations;</li><li>• Ensure that operational risk management units are independent;</li><li>• Assess the performance of the Operational Risk Management Department.</li></ul>	<ul style="list-style-type: none"><li>• Operational risk management, control of the bank's operational risk, development and implementation of strategies;</li><li>• Operational risk management, control in terms of key indicators and business processes;</li><li>• Develop and implement methods for identifying, assessing and mitigating operational risks throughout the Bank;</li><li>• Permanent control of operational risks covering different business risks associated;</li><li>• Develop and promote operational risk culture throughout the Bank;</li></ul>

Operational risks cover the following areas:



Bank's Operational Risk Profile is divided into the following Risks:

- Business process risk;
- Information technology risk
- External Fraud
- Internal Fraud
- Information security risk
- Risk related to humans
- Hacking
- Natural Disasters

The Bank's operations are highly dependent on the Information Technology (IT), therefore the IT system is important for the operational risk profile of the bank. The conducted business impact analysis showed that a malfunction or failure of the IT system could have a significant impact on the bank. In 2021, the Bank continued to synchronize data from operating and loan modules and enhance the process of improving its back-up procedures.

It is important for the bank to reduce the risk of fraud, therefore, in order to strengthen the operational risk management function, the process of introduction of analytical systems has been developed since 2021. The content of the systems is based on the synthesis of statistical and expert analysis and provides early identification and prevention of alert and increased risk levels based on banking operations.

Specialized analytical systems tailored to business lines control the risk of both internal and external fraud and error. The implementation process is going according to plan.

## 10.2 Managing the Operational Risk

Operational risks in the bank are managed according to the following basic principles:

- Integration of operational risk management in the planning, preparation and execution of all business processes of the Bank;
- Involvement of all related parties in the risk management process;
- Make decisions within the authority in the risk management process;
- Manage, reduce, transfer and distribute existing and expected risks to minimize losses.

Risk assessments are carried out in coordination with the owners of the relevant processes. In identifying and assessing risk, the Bank considers the following important factors:

- Types of customers, activities and products;
- Design and architecture of Processes and systems;
- Organizational risk culture and permissible level of risk;
- Personnel management process and work environment.

The following tools are used by the bank in the process of creating a risk profile:

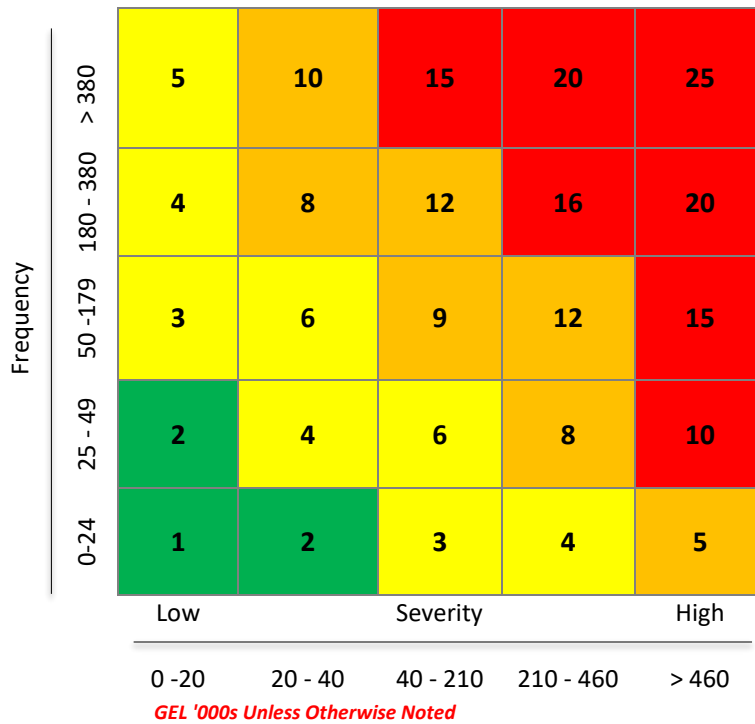
- Description of business processes and process risk analysis;
- Operational Risk Event Database (RED);
- New risk approval (NRA);
- Risk indicators.

The key mitigation controls the Bank deploys stem from its Operational Risk Profile (ORP) and the Risk Appetite Statement (RAS) of the Supervisory Board.

### 10.2.1 Operational Risk Assessment

**Risk Assessment Matrix → Risk Map** are the key milestones of the Bank's approach towards the Operational Risk Assessment process.

Risk Assessment Matrix is generated for each individual risks, which are sorted from highest to lowest risk scores. Risk scores are determined based on the following matrix:



### 10.2.2 New Risk Approval

Every new or substantial business process, product or service offered to customers requires a new risk approval (“NRA”). In order to ensure compliance with existing regulations, the NRA procedure developed by the Bank provides for the assessment of new operational risks, which include the study of new product, process, service risks, introduction of control elements, and prior notice to the National Bank of Georgia about the introduction of a new product / process / system. The new product / process manager, together with the Operational Risk Management Department, determines how the NRA should be evaluated and approved. All relevant structural units are involved in the risk assessment process, including information security, legal, business and / or information technology services involved in establishing a common control environment. Prior to the approval of the new risk, consolidated conclusions are prepared in writing with detailed recommendations, which are submitted to the person authorized for the new product / process for further introduction. Depending on the nature of the new product / process, the new risk approval process may also be overseen by the Bank’s Board of Directors.

### 10.3 Measuring Operational Risk

Risk Event Database (“RED”) is a single form of operational events used to monitor risk indicators in business processes. It also provides the bank with a technical tool through which systematic processing and storage of already occurred and potentially risky cases takes place. This information is used to refine the identification of risks and the appropriate approaches to managing them. The collection of the data and a corresponding analysis is carried out by the ORM department in a centralised manner. Monthly report on operational risks is sent to the National Bank of Georgia.



### 10.3.1 Quantitative Data on Operational Losses

Over the past three years total operational losses amounted to GEL 14.8 million. Table below provides information on historical operational loss data (unrounded amounts are provided in Appendix Table 14).

#### Historical Operational Losses

<i>GEL millions, unless otherwise noted</i>	2020	2019	2018
Total amount of losses	7.0	5.9	2.0
Total amount of losses, exceeding GEL 10,000	5.1	4.6	0.8
Number of events with losses exceeding GEL 10,000	64	41	25
Total amount of 5 biggest losses	4.1	4.0	0.4

### 10.3.2 Capital Requirement

The Bank uses the basic indicator approach to calculate the RWE for Operation Risk. As of December 2020, the RWE for Operational Risk amounted to GEL 381.8 million. Table 10.3.2.1 sets out detailed calculation of the RWE for Operational Risk.

**Table 10.3.2.1 Risk-Weighted Exposure for Operational Risk**

	2020	2019	2018	Average of sums of net interest and net non-interest income during last three years	Risk Weighted Asset (RWA)
Net Interest Income	216,778,769	154,248,375	162,385,086		
Total Non-Interest Income	26,740,588	35,801,278	36,180,872		
Less: Income (loss) from selling property	(681,259)	122,214	315,197		
<b>Total Income</b>	<b>244,200,615</b>	<b>189,927,439</b>	<b>198,250,761</b>	<b>210,792,939</b>	<b>395,236,760</b>

The Bank has a number of risk mitigation controls, there are limits on each electronic channel to bring all possible operational risks to an acceptable level, and any fluctuations different from the trend will automatically cause the channel to be shut down until further consideration. Additionally, the big mitigating control against any fraud is the BBB insurance policy with the deductible of GEL 300,000 per claim. The Bank believes that based on its historical loss data, which for the past three years amounted to GEL 10 million, the current allocation of capital for operational risk purposes is more than sufficient to cover any unexpected losses arising from operational risk for the next 12 months.

## 11 LIQUIDITY RISK

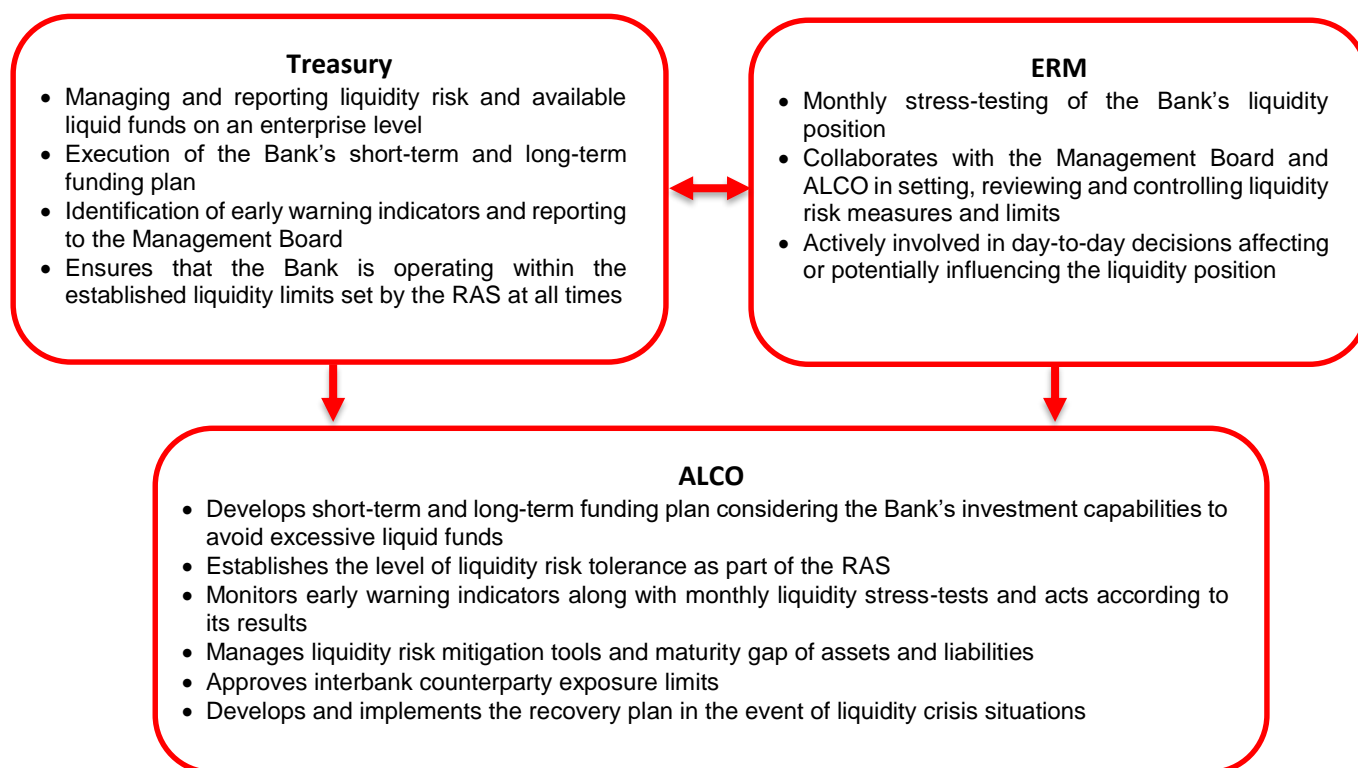
Liquidity risk corresponds to the risk of the Bank being unable to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. Liquidity risk is inherent in all banking operations and can be affected by a range of the Bank-specific and market-wide events.

### 11.1 Liquidity Risk Management and Control

The primary objective of the liquidity risk management is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress the source of which could be either Bank-specific or market-wide. Main objective of liquidity risk control framework includes securing a balanced financing mix for the Bank's activities, compliance with standards set by the NBG, maintain internal buffers that are consistent with the RAS, managing crisis situations and controlling the cost of funding.

The Treasury department manages the liquidity risk on a centralised level and reports to the Management Board at least weekly. Key decisions on liquidity risk management, including the determination of liquidity risk limits, and monitoring are taken by the ALCO. Input for analysis for ALCO purposes is presented by Treasury department and ERM and Budgeting division. ERM and Budgeting division performs additional monthly stress-tests on liquidity position of the Bank and reports the results to the ALCO. Besides, ERM and Budgeting division is actively involved in day-to-day transactions/decisions affecting or potentially influencing the liquidity position of the Bank.

Main roles and responsibilities in liquidity risk management and control are listed in the diagram below:



The Treasury department ensures that the Bank operates within established limits. ERM and Budgeting division controls and reports any breach of limit to the Management Board. The Management Board is continuously updated through sufficiently detailed reporting on the treasury operations. Liquidity Report covering most recent changes in the Bank’s liquidity position is presented to the Management Board on a monthly basis.

## 11.2 Liquidity Requirements

In addition to internal liquidity risk management and control, the NBG requires all banks in Georgia to comply with the liquidity coverage ratio (“LCR”) and net stable funding ratio (“NSFR”) standards.

The LCR is calculated following Basel 3 framework, however, higher run-off rates apply. The ratio is defined as the amount of high quality liquid assets that could be used to raise liquidity, measured against the total volume of net cash outflows. The NBG requires all banks to maintain minimum total LCR of 100%, GEL LCR of 75% and Foreign Currency (“FX”) LCR of 100% on a daily basis.

In 2020 the National Bank of Georgia has taken emergency measures to mitigate the negative impact of the COVID-19 pandemic on the banking sector, which included following provision of liquid funds:

From May 1, 2020, within one year, minimum requirement for GEL LCR of 75% was cancelled and the banks were able to use the foreign currency buffers for GEL liquidity management and by doing so, maintain the total liquidity demand. Accordingly, from May 1, 2021, compliance with the minimum requirements has been restored and compliance with the requirements of 75% of the liquidity coverage ratio has become mandatory.

Also, in July 2021, the NBG amended the Minimum Reserve Requirements Rule by Commercial Banks. This change implies that the minimum reserve requirement for foreign currency attracted funds is determined individually for a particular commercial bank, according to the dollarization of deposits.

In 2021, the Bank continued to use liquid assets effectively and to finance business loans with liquid funds, as a result of which the liquidity position decreased during the year. At the end of 2021, the liquidity coverage ratio (according to the NBG) was 134.68%, which is 12% lower than the corresponding 2020 ratio.

### Liquidity Coverage Ratio

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>LCR, Total</b> (last day of the month)	146.60%	133.37%	125.04%	140.20%	134.68%
<b>LCR, GEL</b> (last day of the month)	110.88%	95.12%	96.40%	103.06%	86.87%
<b>LCR, FX</b> (last day of the month)	173.70%	228.01%	198.60%	218.43%	205.90%

For more detailed information on LCR, see Appendix Table 11.

The Net Stable Funding Ratio (“NSFR”) was proposed by the NBG starting from January 2019, as the regulatory metric for assessing a bank’s structural funding profile. The NSFR is intended to reduce medium to long-term funding risks by requiring banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liabilities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

Since September 2019, the NBG requires all banks to maintain the NSFR of minimum 100%.

Table 11.2.1 below sets out the Net Stable Funding Ratio for 2021.

**Table 11.2.1 Net Stable Funding Ratio**

	<i>Dec-20</i>	<i>Mar-21</i>	<i>Jun-21</i>	<i>Sep-21</i>	<i>Dec-21</i>
Available amount of stable funding	2,055,857,761	1,941,745,935	1,960,511,450	2,077,660,400	2,132,240,643
Required amount of stable funding	1,387,652,210	1,441,264,537	1,460,433,946	1,501,117,105	1,456,959,715
<b>Net Stable Funding Ratio</b>	<b>148.15%</b>	<b>134.73%</b>	<b>134.20%</b>	<b>138.40%</b>	<b>146.30%</b>

# APPENDIX

Disclosure of the tables provided in this Appendix is mandatory under the NBG regulation on “Commercial Banks’ Pillar 3 Disclosure Requirements”. Reporting date (period) for all tables is 31 December 2020 and all numbers are reported in GEL, unless otherwise noted.

**Table 1: Off-balance sheet items per standardized regulatory report**

In GEL N	Off-Balance Sheet Items	31/12/2021			31/12/2020			31/12/2019		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
<b>1</b>	<b>Contingent Liabilities and Commitments</b>	<b>84,661,024</b>	<b>57,189,366</b>	<b>141,850,390</b>	<b>76,250,396</b>	<b>69,829,269</b>	<b>146,079,665</b>	<b>51,626,192</b>	<b>68,804,449</b>	<b>120,430,641</b>
1.1	Guarantees Issued	11,050,456	6,242,265	17,292,721	6,081,985	6,016,067	12,098,052	5,947,533	12,000,052	17,947,585
1.2	Letters of credit Issued	1,477,201	657,013	2,134,214	9,047,735	-	9,047,735	8,574,362	-	8,574,362
1.3	Undrawn loan commitments	71,733,367	50,290,087	122,023,454	60,920,676	63,704,666	124,625,343	36,904,297	56,709,406	93,613,703
1.4	Other Contingent Liabilities	400,000	-	400,000	200,000	108,536	308,536	200,000	94,991	294,991
<b>2</b>	<b>Guarantees received as security for liabilities of the bank</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>3</b>	<b>Assets pledged as security for liabilities of the bank</b>	<b>267,100,000</b>	<b>-</b>	<b>267,100,000</b>	<b>239,597,000</b>	<b>-</b>	<b>239,597,000</b>	<b>66,465,000</b>	<b>-</b>	<b>66,465,000</b>
3.1	Financial assets of the bank	267,100,000	-	267,100,000	239,597,000	-	239,597,000	66,465,000	-	66,465,000
3.2	Non-financial assets of the bank	-	-	-	-	-	-	-	-	-
<b>4</b>	<b>Guarantees received as security for receivables of the bank</b>	<b>396,430,889</b>	<b>8,209,626,413</b>	<b>8,606,057,303</b>	<b>464,391,867</b>	<b>3,147,145,726</b>	<b>3,611,537,593</b>	<b>556,411,384</b>	<b>2,138,938,946</b>	<b>2,695,350,330</b>
4.1	Surety, joint liability	-	-	-	-	-	-	-	-	-
4.2	Guarantees	396,430,889	8,209,626,413	8,606,057,303	464,391,867	3,147,145,726	3,611,537,593	556,411,384	2,138,938,946	2,695,350,330
<b>5</b>	<b>Assets pledged as security for receivables of the bank</b>	<b>218,296,746</b>	<b>4,262,859,696</b>	<b>4,481,156,442</b>	<b>161,696,462</b>	<b>3,092,303,835</b>	<b>3,254,000,297</b>	<b>140,348,714</b>	<b>2,084,344,274</b>	<b>2,224,692,989</b>
5.1	Cash	27,813,183	8,044,539	35,857,723	14,421,722	7,515,981	21,937,702	6,945,372	22,202,756	29,148,128
5.2	Precious metals and stones	73,449,598	98,955,707	172,405,305	78,065,560	103,991,028	182,056,588	78,939,393	93,537,413	172,476,806
5.3	Real Estate:	15,473,554	2,172,204,743	2,187,678,297	627,031	1,799,382,761	1,800,009,792	205,246	1,182,772,505	1,182,977,751
5.3.1	Residential Property	271,800	1,029,057,288	1,029,329,088	480,831	961,575,471	962,056,302	42,531	410,935,794	410,978,325
5.3.2	Commercial Property	183,000	618,363,431	618,546,431	11,000	506,673,178	506,684,178	11,000	143,431,537	143,442,537
5.3.3	Complex Real Estate	-	52,705,667	52,705,667	-	52,926,923	52,926,923	-	37,847,905	37,847,905
5.3.4	Land Parcel	349,700	427,852,599	428,202,299	100,200	190,306,545	190,406,745	4,000	48,368,699	48,372,699
5.3.5	Other	14,669,054	44,225,758	58,894,812	35,000	87,900,644	87,935,644	147,715	542,188,570	542,336,285
5.4	Movable Property	3,693,295	195,669,874	199,363,169	3,836,952	183,786,317	187,623,269	5,513,505	151,979,963	157,493,468
5.5	Shares Pledged	12,125,000	649,412,248	661,537,248	10,000,000	317,417,700	327,417,700	10,000,000	181,623,850	191,623,850
5.6	Securities	19,000,000	744,137,604	763,137,604	9,000,000	217,805,545	226,805,545	-	186,089,825	186,089,825
5.7	Other	66,742,116	394,434,982	461,177,097	45,745,198	462,404,502	508,149,700	38,745,198	266,137,963	304,883,161
<b>6</b>	<b>Derivatives</b>	<b>180,347,927</b>	<b>358,115,308</b>	<b>538,463,235</b>	<b>151,995,399</b>	<b>400,052,194</b>	<b>552,047,593</b>	<b>155,752,749</b>	<b>372,043,514</b>	<b>527,796,262</b>
6.1	Receivables through FX contracts (except options)	12,862,645	244,412,951	257,275,596	9,952,280	255,879,612	265,831,892	89,281,165	168,216,657	257,497,822
6.2	Payables through FX contracts (except options)	167,485,282	113,702,357	281,187,639	142,043,119	144,172,582	286,215,701	66,471,584	203,826,856	270,298,440
6.3	Principal of interest rate contracts (except options)	-	-	-	-	-	-	-	-	-
6.4	Options sold	-	-	-	-	-	-	-	-	-
6.5	Options purchased	-	-	-	-	-	-	-	-	-
6.6	Nominal value of potential receivables through other derivatives	-	-	-	-	-	-	-	-	-
6.7	Nominal value of potential payables through other derivatives	-	-	-	-	-	-	-	-	-
<b>7</b>	<b>Receivables not recognized on-balance</b>	<b>117,377,452</b>	<b>2,173,273</b>	<b>119,550,725</b>	<b>110,334,165</b>	<b>2,062,588</b>	<b>112,396,753</b>	<b>110,090,825</b>	<b>2,029,317</b>	<b>112,120,141</b>
7.1	Principal of receivables derecognized during last 3 month	354,754	-	354,754	16,600,847	155,259	16,756,106	6,341,831	16,276	6,358,107
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 months	-	-	-	-	-	-	-	-	-
7.3	Principal of receivables derecognized during 5 years month (including last 3 months)	117,377,452	2,173,273	119,550,725	110,334,165	2,062,588	112,396,753	110,090,825	2,029,317	112,120,141
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	-	-	-	-	-	-	-	-	-
<b>8</b>	<b>Non-cancellable operating lease</b>	<b>3,436,142</b>	<b>40,942,866</b>	<b>44,379,008</b>	<b>3,255,565</b>	<b>49,100,854</b>	<b>52,356,419</b>	<b>3,258,606</b>	<b>45,189,746</b>	<b>48,448,352</b>
8.1	Through indefinite term agreement	-	-	-	-	-	-	-	-	-
8.2	Within one year	1,486,829	7,855,339	9,342,168	596,059	9,933,259	10,529,318	688,201	8,678,711	9,366,913
8.3	From 1 to 2 years	487,868	6,838,087	7,325,955	481,638	8,736,830	9,218,468	453,779	7,754,605	8,208,384
8.4	From 2 to 3 years	357,473	6,293,204	6,650,677	467,353	7,117,725	7,585,078	389,658	6,935,029	7,324,687
8.5	From 3 to 4 years	347,673	5,342,039	5,689,712	430,658	6,194,464	6,625,122	375,373	5,517,979	5,893,352
8.6	From 4 to 5 years	315,123	4,336,403	4,651,527	417,978	5,159,419	5,577,397	338,678	4,589,492	4,928,170
8.7	More than 5 years	441,175	10,277,794	10,718,970	861,879	11,959,157	12,821,035	1,012,917	11,713,930	12,726,846
<b>9</b>	<b>Capital expenditure commitment</b>	<b>110,211</b>	<b>1,787,221</b>	<b>1,897,432</b>	<b>408,416</b>	<b>2,265,133</b>	<b>2,673,548</b>	<b>483,551</b>	<b>5,750,730</b>	<b>6,234,281</b>

**Table 2: Regulatory capital**

N		In GEL
1	Common Equity Tier 1 capital before regulatory adjustments	335,095,827
2	Common shares that comply with the criteria for Common Equity Tier 1	44,490,460
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	35,132,256
4	Accumulated other comprehensive income	35,278,498
5	Other disclosed reserves	1,694,028
6	Retained earnings (loss)	218,500,585
<b>7</b>	<b>Regulatory Adjustments of Common Equity Tier 1 capital</b>	<b>95,124,322</b>
8	Revaluation reserves on assets	35,278,498
9	Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	3,037,001
10	Intangible assets	56,702,091
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	0
12	Investments in own shares	0
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	0
14	Cash flow hedge reserve	0
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	0
16	Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	0
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	106,733
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	
19	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	
<b>23</b>	<b>Common Equity Tier 1</b>	<b>239,971,505</b>
<b>24</b>	<b>Additional tier 1 capital before regulatory adjustments</b>	<b>4,565,384</b>
25	Instruments that comply with the criteria for Additional tier 1 capital	45,654
26	Including: instruments classified as equity under the relevant accounting standards	45,654
27	Including: instruments classified as liabilities under the relevant accounting standards	0
28	Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	4,519,730
<b>29</b>	<b>Regulatory Adjustments of Additional Tier 1 capital</b>	<b>0</b>
30	Investments in own Additional Tier 1 instruments	
31	Reciprocal cross-holdings in Additional Tier 1 instruments	
32	Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
33	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
34	Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	
<b>35</b>	<b>Additional Tier 1 Capital</b>	<b>4,565,384</b>
<b>36</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>97,704,464</b>
37	Instruments that comply with the criteria for Tier 2 capital	74,104,226
38	Stock surplus (share premium) that meet the criteria for Tier 2 capital	0
39	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	23,600,238
<b>40</b>	<b>Regulatory Adjustments of Tier 2 Capital</b>	<b>0</b>
41	Investments in own shares that meet the criteria for Tier 2 capital	
42	Reciprocal cross-holdings in Tier 2 capital	
43	Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
44	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
<b>45</b>	<b>Tier 2 Capital</b>	<b>97,704,464</b>

**Table 3: Reconciliation of balance sheet to regulatory capital**

N	On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per local accounting rules	linkage to capital table
1	Cash	269,082,422	
2	Due from NBG	114,713,313	
3	Due from Banks	330,994,892	
4	Dealing Securities		
5	Investment Securities	233,393,540	
6.1	Loans	1,975,000,866	
6.2	Less: Loan Loss Reserves	-140,334,062	
6.2.1	of which loan loss general reserves	23,600,238	
6.2.2	of which Covid-19 reserve		
6	Net Loans	1,834,666,804	
7	Accrued Interest and Dividends Receivable	34,113,919	
8	Other Real Estate Owned & Repossessed Assets	116,954	
9	Equity Investments	106,733	
9.1	Of which above 10% equity holdings in financial institutions	106,733	
9.2	Of which significant investments subject to limited recognition		
9.3	Of which below 10% equity holdings subject to limited recognition		
10	Fixed Assets and Intangible Assets	239,803,221	
10.1	Of which intangible assets	56,702,091	table 9 (Capital), N10
11	Other Assets	54,356,277	
<b>12</b>	<b>Total assets</b>	<b>3,111,348,075</b>	
13	Due to Banks	5,012,984	
14	Current (Accounts) Deposits	1,020,542,249	
15	Demand Deposits	271,101,336	
16	Time Deposits	931,068,043	
17	Own Debt Securities	0	
18	Borrowings	344,496,233	
19	Accrued Interest and Dividends Payable	12,513,371	
20	Other Liabilities	74,937,413	
20.1	of which off-balance general reserves	-210,327	
21	Subordinated Debentures	112,015,236	
21.1	Of which tier II capital qualifying instruments	74,104,226	
<b>22</b>	<b>Total liabilities</b>	<b>2,771,686,865</b>	
23	Common Stock	54,628,743	
24	Preferred Stock	61,391	
25	Less: Repurchased Shares	-10,154,020	
26	Share Premium	39,651,986	
27	General Reserves	1,694,028	
28	Retained Earnings	218,500,586	
29	Asset Revaluation Reserves	35,278,498	
<b>30</b>	<b>Total Equity Capital</b>	<b>339,661,210</b>	



**Table 4: Risk Weighted Assets**

N	In GEL	31/12/2021	31/12/2020	31/12/2019
1	Risk Weighted Assets for Credit Risk	1,888,019,009	1,802,773,676	1,390,536,797
1.1	Balance sheet items	1,846,189,665	1,764,850,264	1,358,398,135
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
1.2	Off-balance sheet items	27,912,616	22,533,462	19,332,413
1.3	Counterparty credit risk	13,916,727	15,389,950	12,806,249
<b>2</b>	<b>Risk Weighted Assets for Market Risk</b>	<b>37,206,543</b>	<b>42,402,190</b>	<b>11,395,735</b>
<b>3</b>	<b>Risk Weighted Assets for Operational Risk</b>	<b>394,734,589</b>	<b>381,833,773</b>	<b>400,856,480</b>
<b>4</b>	<b>Total Risk Weighted Assets</b>	<b>2,319,960,142</b>	<b>2,227,009,638</b>	<b>1,802,789,012</b>

**Table 5: Linkages between financial statement assets and balance sheet items subject to credit risk weighting**

	Account name of standardized supervisory balance sheet item	Carrying values as reported in published stand-alone financial statements per local accounting rules	Carrying values of items	
			Not subject to capital requirements or subject to deduction from capital	Subject to credit risk weighting
1	Cash	269,082,422		269,082,422
2	Due from NBG	114,713,313		114,713,313
3	Due from Banks	330,994,892		330,994,892
4	Dealing Securities	-		-
5	Investment Securities	233,393,540		233,393,540
6.1	Loans	1,975,000,866		1,975,000,866
6.2	Less: Loan Loss Reserves	(140,334,062)		(140,334,062)
6	Net Loans	1,834,666,804		1,834,666,804
7	Accrued Interest and Dividends Receivable	34,113,919		34,113,919
8	Other Real Estate Owned & Repossessed Assets	116,954		116,954
9	Equity Investments	106,733	106,733	0
10	Fixed Assets and Intangible Assets	239,803,221	91,980,589	147,822,633
11	Other Assets	54,356,277		54,356,277
<b>Total exposures subject to credit risk weighting before adjustments</b>		<b>3,111,348,075</b>	<b>92,087,322</b>	<b>3,019,260,754</b>

**Table 6: Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes**

<b>1</b>	<b>Total carrying value of balance sheet items subject to credit risk weighting before adjustments</b>	<b>3,019,260,754</b>
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	141,450,390
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	257,624,073
<b>3</b>	<b>Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes</b>	<b>3,418,335,216</b>
4	Effect of provisioning rules used for capital adequacy purposes	34,406,561
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(108,227,937)
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	(243,707,346)
6	Effect of other adjustments	
<b>7</b>	<b>Total exposures subject to credit risk weighting</b>	<b>3,100,806,494</b>

Table 7: Credit Risk Weighted Exposures (on-balance items and off-balance items after credit conversion factor)

Weights Exposure Classes	Risk	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount			
1	Claims or contingent claims on central governments or central banks	286,683,127	-	-	-	-	-	-	-	-	-	75,802,220	-	-	-	-	-	75,802,220
2	Claims or contingent claims on regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Claims or contingent claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Claims or contingent claims on multilateral development banks	547,403	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Claims or contingent claims on international organizations/institutions	-	-	-	-	-	-	-	-	-	-	894,392	-	-	-	-	-	894,392
6	Claims or contingent claims on commercial banks	-	-	328,503,324	-	-	-	2,779,340	-	-	-	971,907	-	-	-	-	-	68,062,242
7	Claims or contingent claims on corporates	-	-	-	-	-	-	-	-	-	-	398,861,663	19,739,185	-	-	-	-	418,600,848
8	Retail claims or contingent retail claims	-	-	-	-	-	-	-	-	1,025,274,681	13,483,267	-	-	-	-	-	-	779,068,461
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	280,456,616	-	-	-	-	-	-	-	-	-	-	-	98,159,816
10	Past due items	-	-	-	-	-	-	999,476	-	-	-	4,788,030	-	1,167,858	-	-	-	7,039,555
11	Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-	-	-	74,968,664	-	149,436,438	-	2,066,880	-	304,290,521
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Other items	268,564,144	-	521,257	-	-	-	-	-	-	-	150,379,892	-	-	-	-	-	150,484,144
<b>Total</b>		<b>555,794,674</b>	<b>0</b>	<b>329,024,581</b>	<b>0</b>	<b>280,456,616</b>	<b>0</b>	<b>3,778,816</b>	<b>0</b>	<b>1,025,274,681</b>	<b>13,483,267</b>	<b>706,666,769</b>	<b>19,739,185</b>	<b>150,604,296</b>	<b>0</b>	<b>2,066,880</b>	<b>0</b>	<b>1,902,402,198</b>

**Table 8: Credit Risk Mitigation**

		Funded Credit Protection		Total Credit Risk Mitigation On-balance sheet	Total Credit Risk Mitigation Off-balance sheet	Total Credit Risk Mitigation
		Cash on deposit with, or cash assimilated instruments	Standard gold bullion or equivalent			
1	Claims or contingent claims on central governments or central banks	-	-	-	-	-
2	Claims or contingent claims on regional governments or local authorities	-	-	-	-	-
3	Claims or contingent claims on public sector entities	-	-	-	-	-
4	Claims or contingent claims on multilateral development banks	-	-	-	-	-
5	Claims or contingent claims on international organizations/institutions	-	-	-	-	-
6	Claims or contingent claims on commercial banks	-	-	-	-	-
7	Claims or contingent claims on corporates	15,910,340	-	14,843,233	1,067,107	15,910,340
8	Retail claims or contingent retail claims	11,964,721	-	11,092,809	871,912	11,964,721
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	0
10	Past due items	424,855	-	424,855	-	424,855
11	Items belonging to regulatory high-risk categories	1	-	1	-	1
12	Short-term claims on commercial banks and corporates	-	-	-	-	0
13	Claims in the form of collective investment undertakings	-	-	-	-	0
14	Other items	-	-	-	-	0
	<b>Total</b>	<b>28,299,918</b>	<b>-</b>	<b>26,360,898</b>	<b>1,939,019</b>	<b>28,299,918</b>

**Table 9: Standardized approach - Effect of credit risk mitigation**

	Asset Classes	On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density
			Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
1	Claims or contingent claims on central governments or central banks	362,485,347	-	-	75,802,220	75,802,220	21%
2	Claims or contingent claims on regional governments or local authorities	-	-	-	-	-	nmf
3	Claims or contingent claims on public sector entities	-	-	-	-	-	nmf
4	Claims or contingent claims on multilateral development banks	547,403	-	-	-	-	0%
5	Claims or contingent claims on international organizations/institutions	894,392	-	-	894,392	894,392	100%
6	Claims or contingent claims on commercial banks	332,254,571	-	-	68,062,242	68,062,242	20%
7	Claims or contingent claims on corporates	398,861,663	85,945,266	19,739,185	418,600,848	402,690,508	96%
8	Retail claims or contingent retail claims	1,025,274,681	55,505,124	13,483,267	779,068,461	767,103,740	74%
9	Claims or contingent claims secured by mortgages on residential property	280,456,616	-	-	98,159,816	98,159,816	35%
10	Past due items	6,955,364	-	-	7,039,555	6,614,700	95%
11	Items belonging to regulatory high-risk categories	226,471,982	-	-	304,290,521	304,290,520	134%
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	nmf
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	nmf
14	Other items	419,465,293	-	-	150,484,144	150,484,144	36%
	<b>Total</b>	<b>3,053,667,312</b>	<b>141,450,390</b>	<b>33,222,453</b>	<b>1,902,402,198</b>	<b>1,874,102,281</b>	<b>61%</b>

Table 10: Counterparty credit risk

	Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
<b>1 FX contracts</b>	257,624,073		13,916,727						13,916,727			13,916,727
1.1 Maturity less than 1 year	137,022,791	2.0%	2,740,456						2,740,456			2,740,456
1.2 Maturity from 1 year up to 2 years	-	5.0%	0						-			0
1.3 Maturity from 2 years up to 3 years	87,403,301	8.0%	6,992,264						6,992,264			6,992,264
1.4 Maturity from 3 years up to 4 years	15,457,000	11.0%	1,700,270						1,700,270			1,700,270
1.5 Maturity from 4 years up to 5 years	17,740,981	14.0%	2,483,737						2,483,737			2,483,737
1.6 Maturity over 5 years												
<b>2 Interest rate contracts</b>												
2.1 Maturity less than 1 year		0.5%										
2.2 Maturity from 1 year up to 2 years		1.0%										
2.3 Maturity from 2 years up to 3 years		2.0%										
2.4 Maturity from 3 years up to 4 years		3.0%										
2.5 Maturity from 4 years up to 5 years		4.0%										
2.6 Maturity over 5 years												
<b>Total</b>	<b>257,624,073</b>		<b>13,916,727</b>						<b>13,916,727</b>			<b>13,916,727</b>

Table 11: Liquidity Coverage Ratio

		Total unweighted value (daily average)			Total weighted values according to NBG's methodology* (daily average)			Total weighted values according to Basel methodology (daily average)		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
<b>High-quality liquid assets</b>										
1	Total HQLA				414,948,417	442,984,457	857,932,874	407,353,988	130,760,646	538,114,634
<b>Cash outflows</b>										
2	Retail deposits	758,351,379	423,778,741	1,182,130,119	118,331,094	73,876,284	192,207,378	30,409,159	19,330,055	49,739,214
3	Unsecured wholesale funding	727,709,380	416,190,478	1,143,899,859	295,649,024	110,091,547	405,740,571	241,436,132	78,536,268	319,972,400
4	Secured wholesale funding	-	-	-	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	668,757	-	668,757	7,337	-	7,337	7,337	-	7,337
6	Other contractual funding obligations	48,919,107	29,775,269	78,694,376	17,229,584	23,087,109	40,316,693	5,286,933	5,512,626	10,799,558
7	Other contingent funding obligations	81,080,238	53,538,560	134,618,798	34,760,405	10,151,819	44,912,224	34,446,966	10,500,366	44,947,332
<b>8</b>	<b>TOTAL CASH OUTFLOWS</b>	<b>1,616,728,861</b>	<b>923,283,048</b>	<b>2,540,011,909</b>	<b>465,977,444</b>	<b>217,206,759</b>	<b>683,184,203</b>	<b>311,586,528</b>	<b>113,879,314</b>	<b>425,465,842</b>
<b>Cash inflows</b>										
9	Secured lending (e.g. reverse repos)	15,652,174	-	15,652,174	-	-	-	-	-	-
10	Inflows from fully performing exposures	1,334,627,755	568,335,253	1,902,963,008	70,192,318	6,639,908	76,832,225	77,787,311	319,705,999	397,493,309
11	Other cash inflows	34,669,227	4,424,278	39,093,505	1,489,852	-	1,489,852	1,489,852	-	1,489,852
<b>12</b>	<b>TOTAL CASH INFLOWS</b>	<b>1,384,949,155</b>	<b>572,759,531</b>	<b>1,957,708,686</b>	<b>71,682,170</b>	<b>6,639,908</b>	<b>78,322,078</b>	<b>79,277,163</b>	<b>319,705,999</b>	<b>398,983,162</b>
					<b>Total value according to NBG's methodology* (with limits)</b>			<b>Total value according to Basel methodology (with limits)</b>		
13	Total HQLA				414,948,417	442,984,457	857,932,874	407,353,988	130,760,646	538,114,634
14	Net cash outflow				394,295,274	210,566,851	604,862,125	232,309,364	28,469,829	106,366,460
<b>15</b>	<b>Liquidity coverage ratio (%)</b>				<b>105.24%</b>	<b>210.38%</b>	<b>141.84%</b>	<b>175.35%</b>	<b>459.30%</b>	<b>505.91%</b>

\* Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustrative purposes.

Table 12: Differences between accounting and regulatory scopes of consolidation

	Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Note	Reconciliation with standardized regulatory reporting format														
						1	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12	
						Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repurchased Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets	TOTAL ASSETS	
1	Cash and cash equivalents	641,615	641,617,400	643,724,218	1	269,082,422	43,646,906	330,994,892												643,724,220
2	Amounts due from credit institutions	87,656	87,656,333	71,066,408			71,066,408													71,066,408
3	Loans to customers	1,879,721	1,879,720,586	1,868,780,722	2					1,975,000,866	-140,334,062	1,834,666,804	34,113,919							1,868,780,722
4	Investment securities	239,654	239,654,140	233,393,540						233,393,540										233,393,540
5	Property and equipment	148,071	147,878,895	150,137,439													150,137,439			150,137,439
6	Intangible assets	55,893	55,893,270	56,702,089													56,702,089			56,702,089
7	Right Of Use Asset	32,964	32,963,693	32,963,695													32,963,695			32,963,695
8	Prepayments	4,689	4,688,611	42,064,223	3													42,064,223		42,064,223
9	Current income tax assets	3,552	3,551,650	3,551,650															3,551,650	3,551,650
10	Other assets	17,895	18,931,444	8,964,091	4										116,954	106,733		8,740,404	8,964,091	
11	<b>Total Assets</b>	<b>3,111,710</b>	<b>3,112,556,022</b>	<b>3,111,348,075</b>		<b>269,082,422</b>	<b>114,713,313</b>	<b>330,994,892</b>		<b>233,393,540</b>	<b>1,975,000,866</b>	<b>-140,334,062</b>	<b>1,834,666,804</b>	<b>34,113,919</b>	<b>116,954</b>	<b>106,733</b>	<b>239,803,223</b>	<b>54,356,277</b>	<b>3,111,348,077</b>	

(1) Difference is reasoned by netting of cash and cash equivalents to liabilities per IFRS

(2) Difference is mainly reasoned by the different methodologies of provisioning/expected credit loss, fee deferral and overdue accrued interest recognition between NBG and IFRS

(3) Difference is mainly reasoned by the different methodologies and classification of loan accrued interest between IFRS and the NBG

(4) Difference is reasoned by offsetting specific financial assets and liabilities per IFRS and NBG vs IFRS provisioning policy differences

	Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Note	Reconciliation with standardized regulatory reporting format											
						13	14	15	16	17	18	19	20	21	22		
						Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities		
12	Amounts due to credit institutions	349,727	349,727,470	358,967,740		5,012,984					344,496,233	6,811	9,451,713		358,967,740		
13	Amounts due to customers	2,233,668	2,233,649,724	2,237,519,952			1,020,542,249	271,101,336	931,068,043			11,131,778	3,676,546		2,237,519,952		
14	Current income tax liabilities	0	0	1,693,997	1								1,693,997		1,693,997		
15	Deferred income tax liabilities	835	835,104	11,306,991	1							1,374,781	9,932,209		11,306,991		
16	Other liabilities	66,023	66,042,112	50,182,949									50,182,949		50,182,949		
17	Subordinated debt	112,460	112,459,889	112,015,236										112,015,236	112,015,236		
18	<b>Total liabilities</b>	<b>2,762,713</b>	<b>2,762,714,299</b>	<b>2,771,686,865</b>		<b>5,012,984</b>	<b>1,020,542,249</b>	<b>271,101,336</b>	<b>931,068,043</b>	<b>0</b>	<b>344,496,233</b>	<b>12,513,371</b>	<b>74,937,413</b>	<b>112,015,236</b>	<b>2,771,686,865</b>		

(1) The difference in current income and deferred income tax liabilities are caused by different tax recognition methodologies used in IFRS and the NBG reporting

	Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Note	Reconciliation with standardized regulatory reporting format								
						23	24	25	26	27	28	29	30	
						Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital	
19	Share capital	54,629	54,628,743	54,628,741		54,628,741							54,628,741	
20	Additional paid-in capital	36,851	35,557,785	35,132,256					35,132,256				35,132,256	
21	Treasury shares	-10,138	-10,138,283	-10,138,283				-10,138,283					-10,138,283	
22	Convertible preferred shares	4,565	4,565,384	4,565,384			61,391	-15,737	4,519,730				4,565,384	
23	Retained earnings	240,950	243,087,808	220,194,614	1					1,694,028	218,500,586		220,194,614	
24	Other reserves	22,140	22,140,287	35,278,498								35,278,498	35,278,498	
25	<b>Total equity</b>	<b>348,997</b>	<b>349,841,723</b>	<b>339,661,210</b>		<b>54,628,741</b>	<b>61,391</b>	<b>-10,154,020</b>	<b>39,651,986</b>	<b>1,694,028</b>	<b>218,500,586</b>	<b>35,278,498</b>	<b>339,661,210</b>	

(1) The difference in retained earnings is due to the aggregate historically accumulated differences in IFRS and the NBG reporting standards



**Table 13: Consolidation by entities**

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	„Smartex" LTD	Equity Method		x			Early-stage VC investments
2	„Busstop" LTD	Full Consolidation	x				Outdoor Advertising

**Table 14: Information about historical operational losses**

	2021	2020	2019
Total amount of losses	7,011,385	5,882,866	1,951,554
Total amount of losses, exceeding GEL 10,000	5,145,720	4,601,925	783,897
Number of events with losses exceeding GEL 10,000	64	41	25
Total amount of 5 biggest losses	4,105,234	3,959,269	415,334

**Table 15: Remuneration awarded during the reporting period**

		Board of Directors	Supervisory Board	Other material risk takers
Fixed remuneration	<b>Number of employees</b>	<b>7</b>	<b>4</b>	<b>13</b>
	<b>Total fixed remuneration</b>	<b>1,702,016</b>	<b>831,926</b>	<b>1,777,725</b>
	Of which cash-based	1,702,016	831,926	1,777,725
	Of which: deferred	-	-	-
	Of which: shares or other share-linked instruments	-	-	-
	Of which deferred	-	-	-
	Of which other forms	-	-	-
	Of which deferred	-	-	-
Variable remuneration	<b>Number of employees</b>	<b>6</b>	<b>-</b>	<b>12</b>
	<b>Total variable remuneration</b>	<b>31,136</b>	<b>-</b>	<b>251,817</b>
	Of which cash-based	31,136	-	251,817
	Of which: deferred	-	-	-
	Of which shares or other share-linked instruments	-	-	-
	Of which deferred	-	-	-
	Of which other forms	-	-	-
	Of which deferred	-	-	-
<b>Total remuneration</b>		<b>1,733,152</b>	<b>831,926</b>	<b>2,029,542</b>

**Table 16: Shares owned by senior management**

	Amount of shares at the beginning of the reporting period			Changes during the reporting period							Amount of shares at the end of the reporting period		
	Unvested	Vested	Total	Awarded during the period		Vesting	Reduction during the period		Other Changes		Unvested	Vested	Total
				Of which: Unvested	Of which: Vested		Unvested	Vested	Purchase	Sell			
<b>Senior management</b>													
<b>Total amount:</b>	-	1,364,465,546	1,364,465,546	-	-	-	-	-	-	-	-	1,364,465,546	1,364,465,546
Irakli Otar Rukhadze - common shares	-	1,364,157,493	1,364,157,493	-	-	-	-	-	-	-	-	1,364,157,493	1,364,157,493
Irakli Otar Rukhadze - preferred shares	-	228,053	228,053	-	-	-	-	-	-	-	-	228,053	228,053
Beka Gogichaishvili - preferred shares	-	80,000	80,000	-	-	-	-	-	-	-	-	80,000	80,000
<b>Other material risk takers</b>	-	-	-	-	-	-	-	-	-	-	-	-	-