



**LIBERTY**

**JSC LIBERTY BANK**

**PILLAR 3 REPORT 2023**

**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 4,099 million as of 31 December 2023. 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+	Positive	24-April-24
	Short-term	B	-	
Support Rating		WD	-	
Support Rating Floor		WD	-	

Moody's		Rating	Outlook	Date
Bank Deposits (Foreign)	Long-term	Ba3	Stable	28-March-24
Bank Deposits (Domestic)		Ba3		
Counterparty Risk Rating (Foreign)	Long-term	Ba2	-	
Counterparty Risk Rating (Domestic)		Ba2	-	

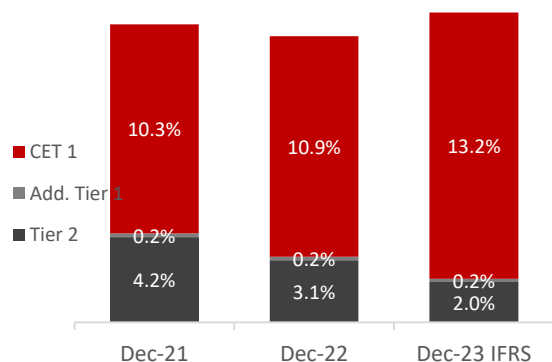
In 2024, Moody’s Investor Service (“Moody’s”) changed Georgian Banking Sector outlook from negative to stable, because of improved macroeconomic environment. Liberty Bank can use this situation as an advantage to strengthen its internal capital accumulation .

Fitch’s Positive Outlook of Georgian Banking Sector reflects expectation that Georgia's improving operating environment and high Economic growth will strengthen Banks's financial profile, namely asset quality, profitability and funding.

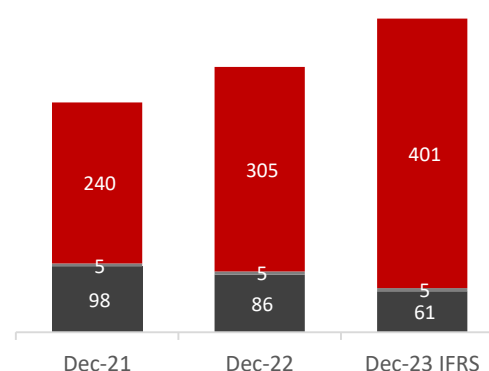
During 2023, the Bank maintained its capital base in compliance with lowered capital requirements by the NBG. The bank increases Tier 1 through internal generation and Tier 2 is raised mainly from external investors.

Risk-weighted exposures (“RWE”) grew to GEL 3043 million, driven by growth in total assets, Credit Risk-weighted exposures increased by GEL 158 million. Operational risks increased by GEL 99 million, while market risk decreased by GEL 3 million.

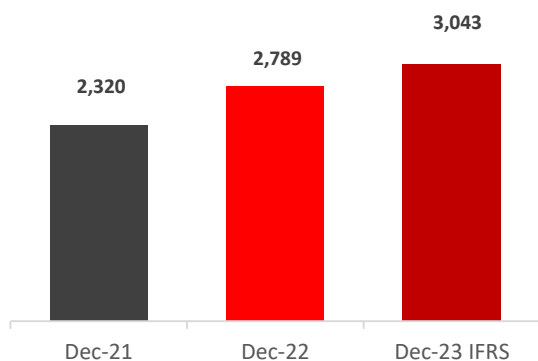
#### Regulatory Capital Ratios



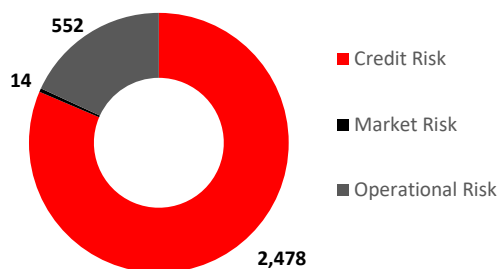
#### Regulatory capital, mln GEL



**RWE, GEL mln**

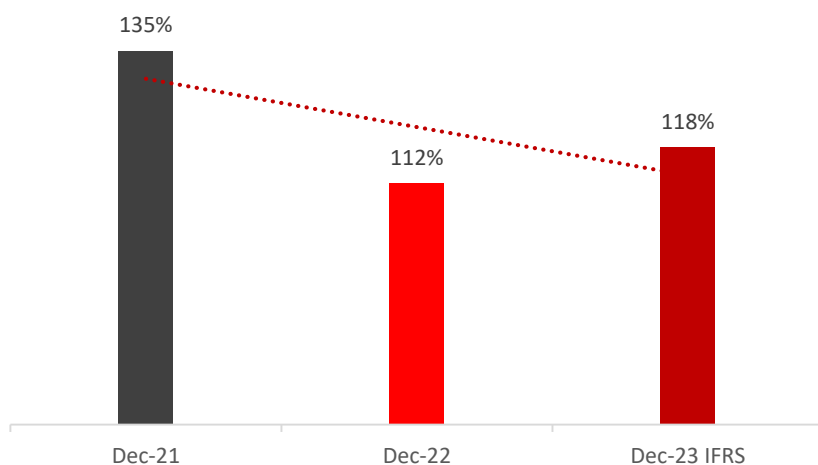


**Distribution of RWE by risk type, GEL mln**



In 2023, the bank continued to use its liquid assets more effectively and use its liquid funds to finance lending, as a result, liquidity position decreased during the year. As of YE 2023, total Liquidity Coverage Ratio (per NBG) stood at 118%.

**Liquidity Coverage Ratio**



The Bank reported net income (per NBG) of GEL 81.2 million in 2023. The increase is mainly due to increased interest income. As of 31 December 2023, the Bank's total assets amounted at GEL 4,099 million (14.8% y-o-y Increased), and total shareholders' equity amounted to GEL 495 million (23.1% y-o-y increased).

## 2.2 Key Indicators and Financial Statements of the Bank

**Table 2.2.1 Key Indicators**

Regulatory capital (amounts, GEL)	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Common Equity Tier 1 (CET1)	401,458,490	384,960,812	362,755,876	339,091,387	318,182,648
Tier 1	406,023,874	389,526,196	367,321,260	343,656,771	322,748,032
Total regulatory Capital	467,158,556	453,121,387	430,902,274	410,327,315	379,786,204
Risk-weighted assets (RWA)	401,458,490	384,960,812	362,755,876	339,091,387	318,182,648

Capital ratios as a percentage of RWA	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Common equity Tier 1 ratio	13.19%	13.52%	13.32%	12.51%	12.19%
Tier 1 ratio	13.34%	13.68%	13.48%	12.68%	12.37%
Total regulatory capital ratio	15.35%	15.91%	15.82%	15.14%	14.55%

Income	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Total Interest Income/Average Annual Assets	13.69%	13.76%	13.68%	13.39%	13.27%
Total Interest Expense/Average Annual Assets	6.15%	6.18%	6.11%	5.90%	5.78%
Earnings from Operations/Average Annual Assets	3.55%	3.60%	3.48%	3.04%	3.20%
Net Interest Margin	7.53%	7.58%	7.57%	7.49%	7.49%
Return on Average Assets (ROAA)	2.12%	2.27%	2.16%	2.37%	1.70%
Return on Average Equity (ROAE)	17.50%	19.15%	18.54%	20.93%	14.79%

Asset Quality	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Non-Performed Loans/Total Loans	4.10%	4.11%	4.21%	3.92%	3.77%
LLR/Total Loans	4.50%	4.63%	4.74%	4.67%	4.65%
FX Loans/Total Loans	19.42%	19.40%	17.58%	18.37%	20.15%
FX Assets/Total Assets	22.06%	21.86%	20.94%	23.50%	23.68%
Loan Growth-YTD	13.93%	12.30%	7.17%	3.38%	25.31%

Liquidity	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Liquid Assets/Total Assets	21.31%	21.31%	19.67%	19.80%	0.00%
FX Liabilities/Total Liabilities	25.93%	26.38%	25.89%	27.98%	30.33%
Current & Demand Deposits/Total Assets	31.09%	35.41%	33.47%	34.37%	38.13%

Liquidity Coverage Ratio*	4Q-2023	3Q-2023	2Q-2023	1Q-2023	4Q-2022
Total HQLA	850,792,641	837,435,511	734,978,241	736,552,742	
Net Cash outflow	706,157,570	669,862,744	623,121,546	622,311,276	
LCR ratio (%)	120.48%	125.02%	117.95%	118.36%	

**Table 2.2.2 Balance Sheet\***

<b>GEL</b>	<b>31/12/2023 IFRS</b>	<b>31/12/2022 IFRS</b>
<b>ASSETS</b>		
Cash on hand	317,461,158	259,419,801
Cash balances with National bank of Georgia	89,698,759	114,833,639
Cash balances with other banks	160,845,092	308,632,619
Non-trading financial assets mandatorily at fair value through profit or loss	1,455	883,097
Debt securities	346,704,475	259,249,975
Loans and advances	<b>2,857,976,031</b>	<b>2,329,617,281</b>
Investments in subsidiaries, joint ventures and associates	106,733	106,733
Property, Plant and Equipment	183,714,092	183,319,836
Investment property	2,044,719	3,490,995
Other intangible assets	61,406,330	56,337,139
Current tax assets	2,176,711	1,982,361
Other assets	76,533,126	51,400,896
<b>TOTAL ASSETS</b>	<b>4,098,668,679</b>	<b>3,569,274,371</b>
<b>LIABILITIES</b>		
Financial liabilities held for trading	30,153,109	32,185,041
Financial liabilities designated at fair value through profit or loss	18,545,012	22,299,580
Deposits	<b>3,039,673,409</b>	<b>2,668,631,040</b>
Borrowings	352,339,225	289,607,999
Provisions	1,018,058	1,317,511
Current tax liabilities	16,553,267	3,150,000
Deferred tax liabilities	13,662,320	1,799,801
Subordinated liabilities	93,588,340	103,210,026
Other liabilities	38,560,381	45,299,927
<b>TOTAL LIABILITIES</b>	<b>3,604,093,121</b>	<b>3,167,500,925</b>
<b>Equity</b>		
Share capital	44,490,459	54,628,743
preference share	45,654	61,391
Share premium	41,370,267	41,370,267
(-) Treasury shares	0	-10,154,020
revaluation reserve	24,001,621	22,084,149
Retained earnings	384,667,557	293,782,915
<b>TOTAL EQUITY</b>	<b>494,575,559</b>	<b>401,773,444</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>	<b>4,098,668,679</b>	<b>3,569,274,369</b>

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



**Table 2.2.3 Income Statement**

<b>GEL</b>	<b>31/12/2023 IFRS</b>	<b>31/12/2022 IFRS</b>
<b>Interest income</b>	<b>522,905,476</b>	<b>322,953,469</b>
Financial assets at amortised cost	509,972,239	314,298,703
Other assets	12,933,237	8,654,766
<b>(Interest expenses)</b>	<b>-235,106,383</b>	<b>-140,149,601</b>
(Financial liabilities measured at amortised cost)	-233,754,810	-139,000,267
(Other liabilities)	-1,351,573	-1,149,334
<b>Fee and commission income</b>	<b>51,266,625</b>	<b>32,176,081</b>
<b>(Fee and commission expenses)</b>	<b>-23,120,540</b>	<b>-12,655,421</b>
<b>Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net</b>	<b>242,470</b>	<b>363,701</b>
<b>Other operating income</b>	<b>3,048,822</b>	<b>16,588,437</b>
<b>(Other operating expenses)</b>	<b>-32,065,771</b>	<b>-23,161,535</b>
<b>(Administrative expenses)</b>	<b>-126,361,763</b>	<b>-82,502,905</b>
(Staff expenses)	-116,674,029	-74,269,160
(Other administrative expenses)	-9,687,735	-8,233,745
<b>(Depreciation and amortisation)</b>	<b>-34,954,250</b>	<b>-25,904,152</b>
<b>(Provisions or (-) reversal of provisions)</b>	<b>-563,154</b>	<b>-739,383</b>
(Commitments and guarantees given)	629,113	460,642
(Other provisions)	-1,192,267	-1,200,026
<b>(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)</b>	<b>-27,914,774</b>	<b>-29,642,218</b>
(Financial assets at fair value through other comprehensive income)	10,649,007	-13,716,697
(Financial assets at amortised cost)	-38,563,781	-15,925,521
<b>PROFIT OR (-) LOSS BEFORE TAX</b>	<b>97,376,756</b>	<b>57,326,473</b>
<b>(Tax expense or (-) income</b>	<b>16,214,422</b>	<b>4,114,697</b>
<b>Profit or (-) loss after tax</b>	<b>81,162,334</b>	<b>53,211,775</b>

## 2.3 Business Strategy

2021-2022 were the years of execution and implementation of the updated strategy for Liberty Bank. The direct 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 Bank has the broadest physical distribution network in Georgia, which includes full-service branches, service centres, smaller-scale sales objects, as well as the outlets located at various third-party businesses.

From 2022, the Bank was devoted 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 customized and quick service.

### 2024 and future plans:

- To advance in the MSME sector and strengthen market share positions;
- To Strengthen positions in the direction of retail banking products;
- 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.

While focusing on delivering strong performance as a universal bank, Liberty Bank will also concentrate on developing innovative products, simplifying 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 excellent digital user experience through its mobile and internet banking platforms.

The Bank also aims to simplify and accelerate its on-boarding 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.

### Funding

Liberty Bank intends to further optimize its funding structure and tape 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;
- Free financial and computer science education for 60+;
- Internal Fund for employees "With Heart, for one another" created during the pandemic to help their family members in case of deterioration of health conditions.

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

<b>Profitability</b>	<b>31-Dec-23</b>	<b>31-Dec-22</b>
ROAA %	2.24%	2.00%
ROAE %	17.98%	16.56%
Interest Income/Average Interest Earning Assets %	14.62%	14.25%
Cost of Funds %	6.68%	6.09%

<b>Asset Quality</b>	<b>31-Dec-23</b>	<b>31-Dec-22</b>
NPLs/Gross Loans,%	2.45%	3.91%
Cost of Risk	1.37%	1.13%

<b>amounts are in GEL thousands</b>	<b>31-Dec-23</b>	<b>31-Dec-22</b>
Gross Loans	2,992,709	2,541,577
Private companies	1,119,052	859,682

## 3 OWNERSHIP AND GROUP STRUCTURE

### 3.1 Ownership Structure

As of 31 December 2023 and 2022, 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 as of 31 December 2022*

Shareholder	31-Dec-22	
	Ownership Interest, %	Voting Rights, %
Georgian Financial Group B.V.	77.62%	95.99%
Liberty Bank (Treasury Shares)	18.43%	-
Other Minority Shareholders (less than 1%)	3.95%	4.01%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

#### *Ownership Structure as of 31 December 2023*

Shareholder	31-Dec-23	
	Ownership Interest, %	Voting Rights, %
JSC Galt & Taggart (nominee holder)	95.41%	96.28%
Other Minority Shareholders (less than 1%)	4.59%	3.72%
<b>Total</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 4.01% as of 31 December 2023 (As of 31 December 2022, 8.01 %).

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 2023 GFG share in equity interest amounted to 95.99% (same as of 31 December 2022). These shares are owned by GFG though nominee holder JSC Galt & Taggart. Therefore, within the context of Galt and Taggart's voting shares as detailed in the preceding table, GFG holds a significant 95.99%.

In 2023, the Bank voided (cancelled) its treasury shares and issued but not paid-up shares under the Employee Stock Payment Plan (ESOP). In 2023, Annual General Meeting decreased Bank’s authorized capital. Subsequently, the Bank issued 40,636,780 common shares within the authorized capital. These shares are intended only for the purpose of conversion of preferred shares in consideration of common shares (in case of such conversion).

As of December 31, 2023 the ultimate beneficiary owners of the bank holding 5% or more of shares were:

Beneficiary Owners	
Irakli Otar Rukhadze	30.66%
Benjamin Albert Marson-Knight	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 2023, total net investments in these entities amounted to GEL 0.1 million per NBG and GEL 1 million per IFRS.

### *Bank Ownership Interest*

<i>Name</i>	<i>Country of Incorporation</i>	<i>31-Dec-23</i>	<i>31-Dec-22</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
People's fund (Non-Entrepreneurial/Non-Commercial Legal Entity)	Georgia	100%	100%	5-Feb-07	Charitable endeavours

## 4 CORPORATE GOVERNANCE

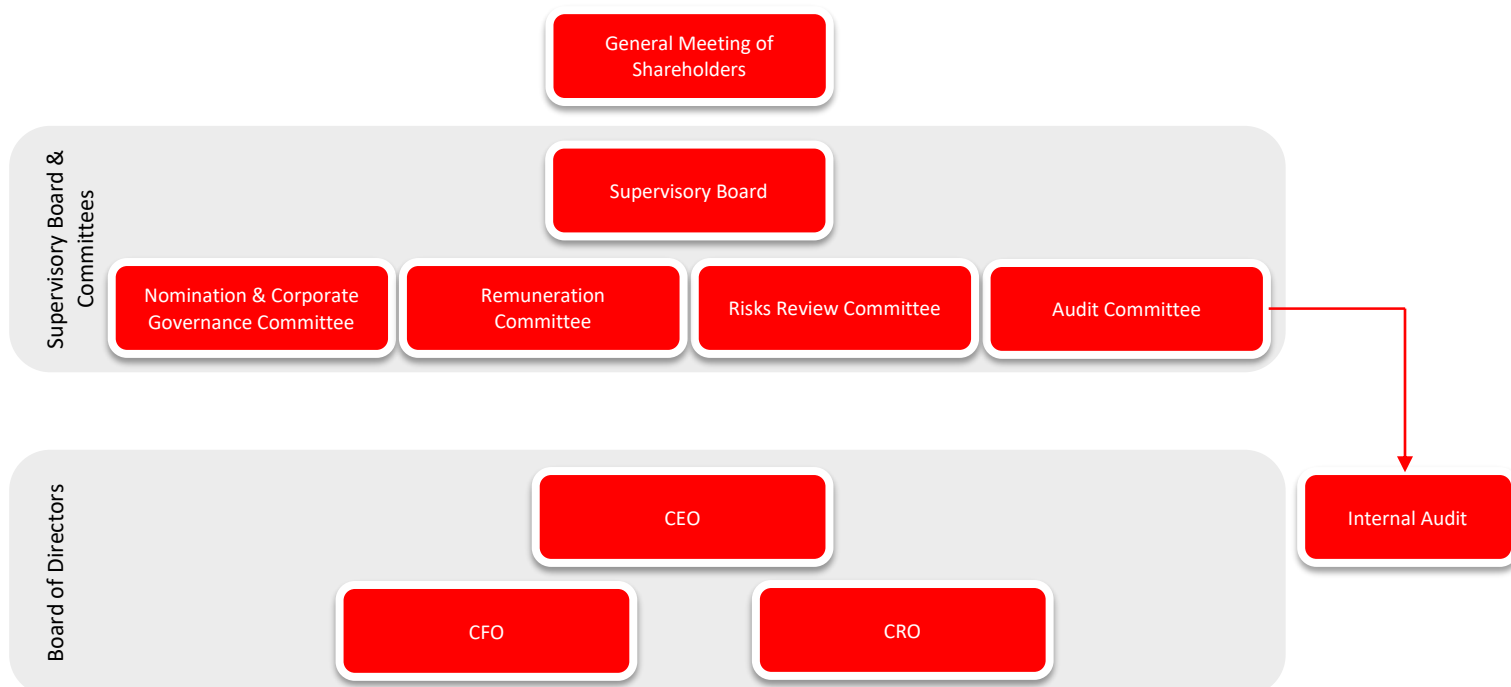
### 4.1 Corporate Governance Framework

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 2023:



## **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.

### **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 or subscribed capital of the Bank;
- granting authorisation of the redemption of shares by 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, disposal, transfer, exchange, (or such related transactions) or other encumbrance by the Bank on such property, asset or right, the value of which is more than 20% of the equity value of the Bank.

### 4.2.3 Shareholder Meetings Held and Resolutions Adopted in 2023

Based on the minutes of the meeting of the board of directors of June 27, 2023, the annual general meeting of shareholders was convened. The decision on convening the general meeting and the agenda of the general meeting were published on the electronic portal of the registering authority in accordance with the law "On Entrepreneurs". The annual general meeting was held on July 20, 2023, and the decision was made on the issues within the competence of the general meeting, including:

#### July 20, 2023

- Approval of audited consolidated financial statements for 2022;
- Approval of dividend payment on preferred shares issued by the bank for the calendar year 2022;
- Re-election of the supervisory board members;
- Approval of the founding agreement and the revised version of the Charter;
- Appointment of the independent external auditor and approval of the agreement executed with it;
- Approval of suitability of the Bank's management bodies and the supervisory board members.

### 4.2.4 Communication and Media Announcement

The time, place and agenda of the annual general meeting and the extraordinary general meeting are published on the authorized user page of the unified electronic portal of the National Public Registry Agency at least 21 days before the date of the meeting. In accordance with the requirements of the legislation, the results of voting on the issues discussed at the general meeting are also published on the bank's website.



## 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;
- Approval annual budget and development strategy of the Bank.

### 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-23	Supervisory Board Members
Chairman (Independent Board member)	Murtaz Kikoria
Board member	Irakli Otar Rukhadze
Independent Board member	Bruno Juan Balvanera
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 selected as the Chairman of the Supervisory Board of JSC Liberty Bank in October 2017, he held this position until 2021. 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 elected as the chairman of the Risks Review Committee of the Supervisory Board. From 2021, he successfully maintains his role as Chairman 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. 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. And From September 2022, she heads the audit 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. From September 2022, he heads the Nomination and Corporate Governance Committee. 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 John Hopkins SAIS.

Until May 11, 2013 he served as Director for the Centre 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.

#### **Bruno Juan Balvanera**



**Skills and experience:** Bruno Juan Balvanera was elected as an independent member of the Supervisory Board of Liberty Bank in August 2022. From September 2022, he successfully holds the position of the chairman of the risk committee. Mr. Bruno Balvanera has more than 35 years of experience in Banking/Investment including 23 years in different positions in the EBRD, based both in HQ/London and in Regional Offices (St. Petersburg, Moscow, Tbilisi, and Nursultan). He was Regional Director for Caucasus, Moldova, and Belarus based in Tbilisi between 2013 and 2018, and then Managing Director for Central Asia until 2020. Mr. Balvanera has a strong commitment to sustainable development based on private sector investments with broad successful expertise in a wide variety of activities, such as investment, risk, compliance, legal, social and environmental standards, inclusion, and renewable energy. Bruno Balvanera has held the position of member of the supervisory board of several companies, at the end of 2020. He was elected as a non-executive director of Asaka Bank (Uzbekistan). More over in August 2022 he was elected as an independent member of the supervisory board of Qishloq Qurilish Bank (QQB) (Uzbekistan) and Chairman of the Nomination and Remuneration Committee. He is currently a private investor into Fintech solutions in addition to being involved in international business, academia and a strategy consultant.

**Education:** Bruno Balvanera holds a Master's Degree in Strategy and Business Administration from the University of Chicago Booth (USA). He also graduated from Mexico's ITAM University in Finance and Universidad Iberoamericana in Political Science.

### **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. Furthermore, to ensure a high standard of independence and impartiality, the committees within the Supervisory Board consist solely of independent members. Each Supervisory Board member occupies and/or has previously occupied senior positions in a broad range of relevant associated industries. This brings valuable external perspective to the Supervisory Board's deliberations through supervisory board members' experience and insight that enable 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 and Regulation on the Suitability Criteria for Administrators of Commercial Banks. In addition, the Bank approved and updated policy concerning the appointment, suitability and diversity of administrators. The policy specifies administrator positions in compliance with the legal provisions, while determining selection principles, criteria, and requirements concerning education, experience, and personal/professional skills and other significant factors.

### 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:

<b>Strategy and Management</b>	<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>
<b>Financial Reporting and Control</b>	<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>
<b>Risks Framework and Appetite</b>	<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>
<b>Internal Controls</b>	<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>
<b>Contracts</b>	<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>
<b>Appointments and Remuneration</b>	<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>
<b>Corporate Governance</b>	<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>
<b>Other</b>	<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> </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 twenty-eight times during 2023 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 2023 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	25	25	100%
Mamuka Tsereteli	28	28	100%
Murtaz Kikoria	28	28	100%
Magda Magradze	27	27	100%
Bruno Juan Balvanera	28	28	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, the Supervisory Board annually evaluates its own activities and the efficiency of committees and individual members of the Board. According to the evaluation policy, every three years an evaluation also will be carried out by an independent evaluator to determine suitability and effectiveness.

In accordance with the mentioned request, PricewaterhouseCoopers (“PwC”), a member of the Big Four, was approved by the Nomination and Corporate Governance Committee of the Supervisory Board in 2022 as the independent evaluator. The effectiveness of the work of the Board and the committees was evaluated in 5 main directions, and according to the results of the assessment in each direction, the bank is in compliance with leading practices and supervisory requirements. In addition, PwC’s recommendations were considered and implemented by the bank successfully. In addition, Supervisory Board also made self-assessment of the activities performed by it, its committees and individual members as of 2022.

In compliance with the Bank’s assessment policy, self-assessment of the Supervisory Board, its committees, and individual Board members was executed for the year 2023 through a detailed questionnaire, the purpose of which

was to evaluate the performance of the Supervisory Board, its committees and its members based on quantitative and qualitative criteria. These included, at least, qualifications, participation in essential processes, awareness, supervision, and control.

Compared to 2022, there was a notable increase in the participation of Supervisory Board members in the self-evaluation process, with all members actively engaging in the assessment for 2023. Additionally, the consistent attendance of Supervisory Board members in meetings was maintained throughout 2023, with full attendance observed in all meetings held (considering the right to attend). The outcomes of the self-assessment revealed that, considering the educational background, skills, and experience of Supervisory Board members, the supervisory board and its committees operated efficiently, transparently, and productively, aligning well with the Bank's objectives. Furthermore, key areas for enhancement were identified, emphasizing the importance of dedicating more time and resources, as highlighted by the supervisory board members.

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. Corporate Governance Committee;
4. Remuneration Committee.

The Bank is compliant with the Code of Corporate Management of Commercial Banks in terms of the number, arrangement and composition of the committees.

#### **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:

- Magda Maghradze (Chairperson);
- Mamuka Tsereteli (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 Bank's annual General Meeting of shareholders, the statutory audit of the financial statements for 2022-2024 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 2023, the Audit Committee formally met three times.

#### **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:

- Mamuka Tsereteli (Chairman);
- Bruno Juan Balvanera (Committee member);
- Magda Maghradze (Committee Member).

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 2023.

#### 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:

- Bruno Juan Balvanera (Chairman);
- Mamuka Tsereteli (Committee Member);
- Murtaz Kikoria (Committee Member);

The committee should consist of at least three members 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 Risk appetite compliance 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 2023, approved the risk appetite compliance report, risk management system, discussed the Bank's liquidity structure and assessed related risks. The committee provided with important information, including market analysis and litigation cases.

#### **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);
- Bruno Juan Balvanera (Committee Member);
- Magda Magradze (Committee Member).

Remuneration committee should consist of at least three members with a sufficient number of independent members of the Supervisory Board. Consequently, the Supervisory board's Remuneration committee fully complies 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 formally meet once in 2023.

#### 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' oversight bodies. Within this framework, the committees 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-23	Management Board Members
Chief Executive Officer	Beka Gogichaishvili
Chief Financial Officer	Vakhtang Babunashvili
Chief Risks Officer	Giorgi Gvazava

## 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.

### 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. On April 29, 2022, Beka left the position of a member of the Supervisory Board, and from June 29, she was appointed as the General Director of the bank.

**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.

### 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.

### Giorgi Gvazava



**Skills and experience:** Giorgi Gvazava replaced Davit Abashidze in the board of directors of the bank. Giorgi is a banking sector professional, his entire professional career has been devoted to the financial and banking sector in particular, where he mainly held various leading positions in the direction of risk management. He has 15 years successful experience of working in leading financial institutions of Georgia. Giorgi started his career as a credit analyst at VTB Bank of Georgia and since then held various managerial and top managerial positions. Before joining the Liberty Bank team, Giorgi Gvazava was the head of the risk department of VTB Bank Georgia and directly managed the credit and operational risks management of VTB Bank Georgia.

**განათლება:** Giorgi Gvazava holds a Masters degree from Edinburgh Business School (EBS) and is a CFA (Level 1) holder.

### 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:

- Convene general meeting of shareholders (annual/extraordinary);
- Provide input to the agenda of the General Meeting of Shareholders;
- Adopt a decision on redemption of the bank's shares based on the authorization granted by the general meeting of shareholders;
- Adopt a decision on the issuance of new shares up to the maximum amount of authorised capital determined by the Charter.
- Provide the Supervisory Board with the annual business plan, including the budget, profit & loss forecast and the Bank's investment plan.
- 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 2023, the Board of Directors met eleven times and resolved various issues, in particular: changes were made to the organizational framework of the bank, encompassing detailed structural arrangements and workforce optimization measures. Moreover, the revised structure, composition, and authority mandates of the credit committees were officially approved. Moreover, the Board of Directors made significant decisions regarding the bank's corporate governance, including determining the agenda for the annual general meeting of shareholders and convening the general meeting of shareholders as per the minutes of the management board meeting held on 27 June, 2023.

#### **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, 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. In addition, when making a decision by the credit committees of which the Chief Executive Officer of the Bank is a member, along with the consent of the representative of the risk management function, his (CEO) consent is mandatory for a positive resolution of the issue.

In 2023, the board of directors updated the decision-making mechanism of the bank's credit committee, specifying their authorities and delineating their scope in detail.

##### **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 analyses 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 Ethics and Professional conduct

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 2023 the Supervisory Board approved the revised versions of Remuneration system and 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), and 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.

Approval of the updated Remuneration system and Remuneration policy relies on the recommendations provided by the Remuneration Committee to the Supervisory Board concerning specific amendments. Taking into account the mentioned recommendations, the Supervisory Board approved the updated list of material risk takers and the remuneration system of the bank's directors and material risk takers, which, taking into account the requirements defined by the Corporate Management Code of Commercial Banks, regulates the rules and principles of issuing variable remuneration to material risk takers, the method of assigning variable remuneration and Forms, deadlines and grounds for adjustment.

#### **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

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 Management System and revised version of Environmental and social policy in December 2022, 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. Following the aforementioned, the Supervisory Board made a decision in 2023 to revise the bank's internal conflict of interest management regulation. This amendment included a redefinition of the bank's administrator role and enhancement to the process for identifying and documenting related parties. These changes were made to ensure the practices in line with established procedures within the Bank, including the identification and specification of functions for different structural units involved in the processes.

Moreover, at the end of 2023, the National Bank of Georgia amended the Order #26/04, issued by the President of the National Bank of Georgia, concerning the approval of the conflict of interest management regulation. Considering the foregoing, the Bank intends to update the internal conflict of interest management regulation within the prescribed period, ensuring compliance with the order and incorporating all crucial and material alterations introduced therein, including enhancements to the related party identification process, transaction limits, collateral requirements, and other pertinent aspects.

#### **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, in 2023 Liberty Bank approved revised versions of Business continuity policy, anti-fraud policy, operational risks management policy and outsourcing service management policy, also updated version of Remuneration policy.

#### **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 August 2023, the Supervisory Board approved a revised policy of selection, suitability and diversity of administrators, which sets out, among other things, defined administrator positions, criteria and requirements related to administrator's education, experience, personal/professional qualities and skills and other important issues.

#### **4.6.10. Compliance with the Law on Entrepreneurs and the updated regulations on the suitability of administrators and significant shareholders of commercial banks**

With the implementation of the updated Law "On Entrepreneurs" ("the Law") effective from January 01, 2022, all previously registered enterprises are required to achieve compliance by April 01, 2025. Considering this requirement, the Bank approved founding agreement and revised version of charter ("the Charter"), thoroughly meticulously ensuring alignment with legal requirements. The Charter determined authorities of management bodies, issues related to convene of general meeting of shareholders, capital, shares and organizational management. Since August 8, 2023, the Bank has been fully compliant with the Law.

Following the regulation of the National Bank of Georgia, considering the revised criteria for the suitability criteria for administrators and significant shareholders of the Bank, the designated structural units responsible for appointing/electing Bank administrators have approved the suitability of current administrators. Furthermore, the supervisory board approved revised version of policy of selection, suitability and diversity of administrators.

## 5 REMUNERATION

### 5.1 General Remuneration Framework

The Bank is one of the leading employers in Georgia with over 4,790 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 actively cooperates with vocational schools, in Tbilisi and in the regions. An introductory excursion-visit to Liberty branches was planned for financial services students in order to raise awareness. On-bonding meetings are held for students and they undergo internships in bank branches. After completing the internship, the best ones are employed by the bank. You pay special attention to the interest of technical (IT) students and employment in the bank. In one of the universities, the bank organized a simulation space of a bank branch with the necessary inventory. A similar space has been arranged in two vocational schools. In addition, arrangement of simulation spaces has started in two more vocational schools. After the support of the bank, the financial services program was financed by the state. Also, with the initiative and participation of the bank, we have planned various types of trainings for lecturers and students of vocational schools.

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 employee's knowledge and based on the strategic needs, the bank 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

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:**

<p><b>Front Office Employees</b></p>	<ul style="list-style-type: none"> <li>• Fixed monthly salary and monthly/quarterly variable bonuses;</li> <li>• 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;</li> <li>• Employees of the credit department receive bonuses based on the number, volume and quality of loans issued;</li> <li>• The bonuses of the employees of the operational direction are calculated according to: the performance indicator of the general plan of the service unit; the number of products sold; according to the rating index of the decade/month;</li> <li>• Front office employees' and sale representatives' performance measures are set by the Management Board or the relevant curator.</li> </ul>
<p><b>Back Office Employees</b></p>	<ul style="list-style-type: none"> <li>• Fixed monthly salary; Monthly/quarterly/annually variable bonuses are distributed depending on the position and performance;</li> <li>• 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;</li> <li>• 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.</li> </ul>

**Remuneration Policy for senior management:**

<p><b>Management Board</b></p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• 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.</li> <li>• Fixed remuneration is determined by the remuneration committee based on responsibility, experience and skills and is reflected in top manager's employment contract.</li> <li>• 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.</li> </ul>
<p><b>Supervisory Board</b></p>	<ul style="list-style-type: none"> <li>• 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;</li> </ul>

In 2022, the Remuneration Committee reviewed the existing remuneration policy, as a result of which the Supervisory Board was given a recommendation regarding the implementation of certain changes in the framework of the remuneration of bank directors and other material risk takers. Taking into account the mentioned recommendations, the Supervisory Board approved the updated list of material risk takers and the compensation system for bank directors and other material risk takers, which, taking into account the requirements defined by the Corporate Governance Code of Commercial Banks, regulates the rules and principles of granting variable compensation to material risk takers, the rules for assigning variable compensation and forms, deferral periods and grounds for adjustment.

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

In determining the list of material risk takers, the Supervisory Board and the Remuneration Committee were guided by the requirements of the current legislation and the relevant directives of the European Union, as well as the existing international practice. Taking into account the above, the persons taking the material risk include the directors and members of the supervisory board of the bank, as well as the heads of the control function and the heads of those business units who have managerial authority and whose activities affect the bank's risk profile, taking into account the bank's strategy, concentration and complexity.

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

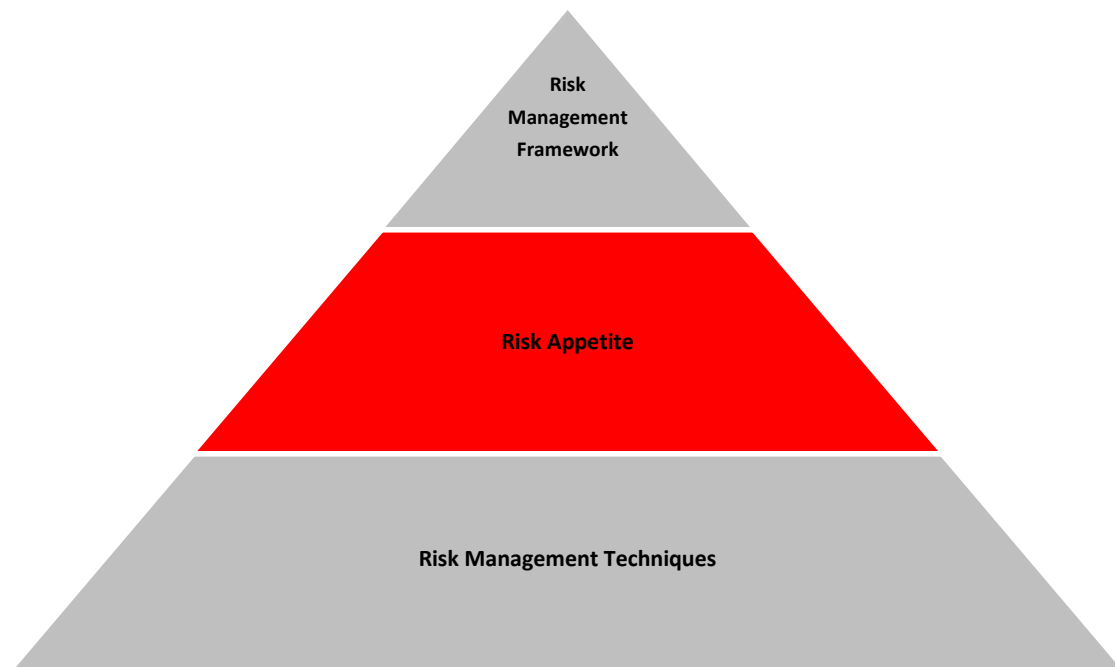
Risk is inherent in the Bank’s activities but managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable 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.

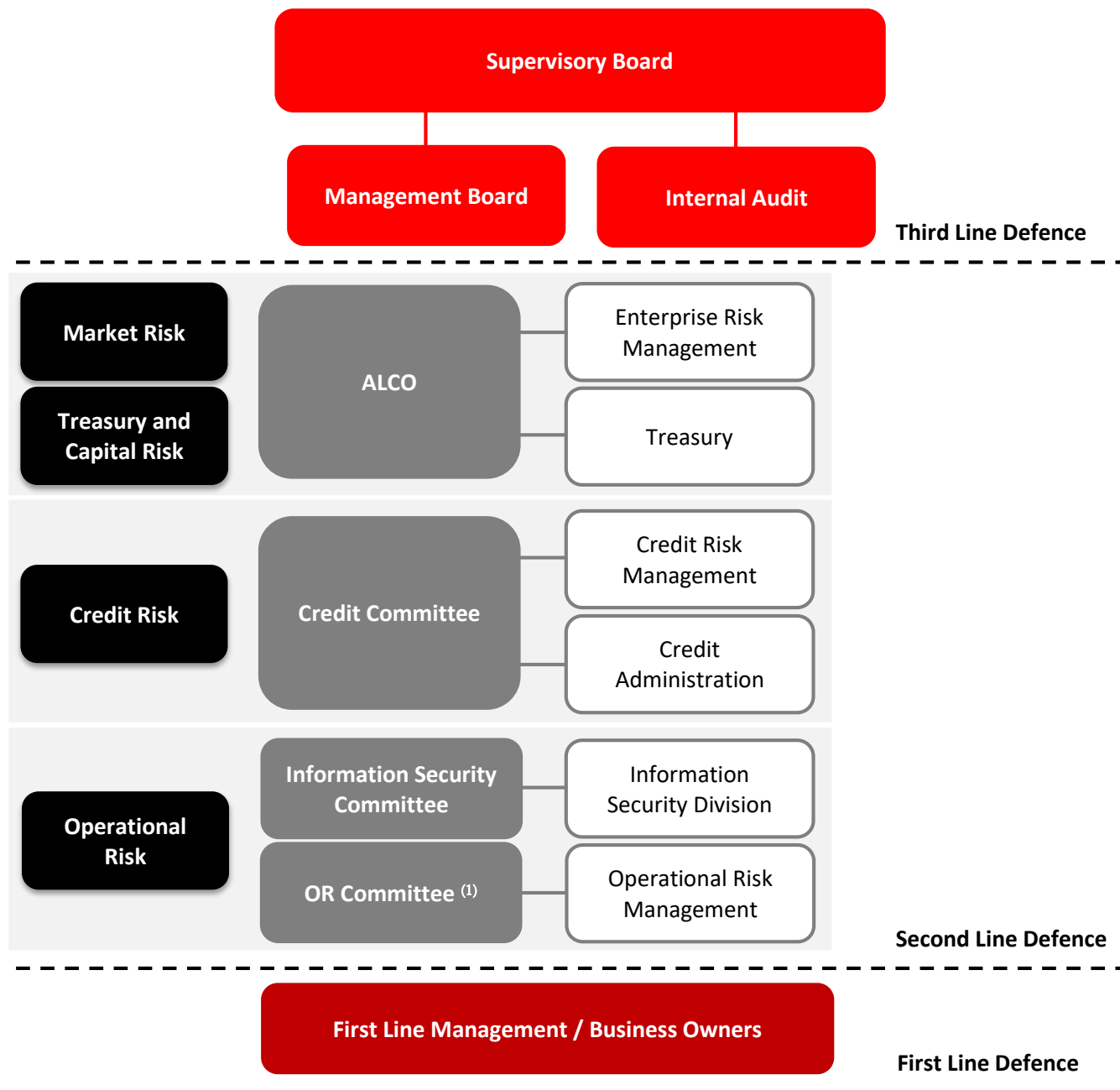
The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The key risks of the Bank are managed by the following committees and units with the active involvement of Management Board:

- 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:



### 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:

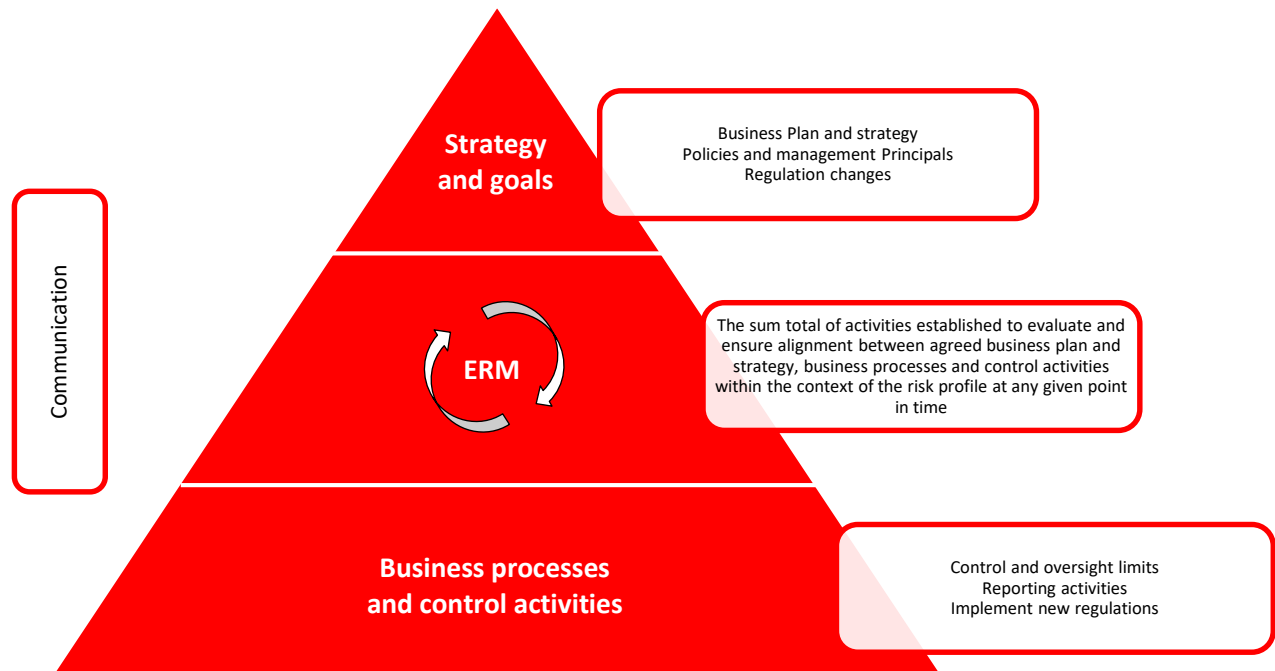
Capital Risk	<ul style="list-style-type: none"> <li>•Manage capital adequacy according to NBS requirement and analyse the capital forecasts;</li> <li>•Manage economic capital and analyse main changes;</li> <li>•Monitor early warning indicators along with quarterly capital stress-tests;</li> </ul>
Liquidity 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.

In addition to the Pillar 1 minimum capital requirements determined by the “Regulation on Capital Adequacy Requirements for Commercial Banks”, banks shall also observe additional capital buffer requirements for those risks that are not covered under Pillar I, including market and credit risks those are not covered under Pillar I, as well as concentration risk, interest rate, liquidity, strategic and reputational risks, etc. As a response to the risks identified through the supervisory review and evaluation, the National Bank of Georgia sets the additional capital buffer requirements:

- Non-hedged currency induced credit risk buffer (CICR) Currency credit risk buffer is determined by the dollarization of loans instead of the existing 75% risk weight requirement. This change took effect on January 1, 2022;
- Loan Portfolio Concentration Risk Buffer (HHI), consisting of nominal concentration and sectoral concentration buffers;
- Net Stress Test Buffer - a buffer set on the basis of regulatory stress tests;
- Credit Risk Adjustment buffer (CRA), which is set due to the transition from the local GAAP to the International Financial Reporting Standards (IFRS). The purpose of establishing a CRA buffer is to reduce the credit risk caused by insufficient expected credit losses set up for assets, and to determine an adequate capital buffer.
- Net GRAPE Buffer - a buffer established by the National Bank of Georgia after reviewing: the risks under the general risk assessment program (GRAPE), and results of the bank's internal capital adequacy assessment process; The purpose of introducing net GRAPE buffer is to determine adequate capital buffers for the risks identified within GRAPE and not covered or inappropriately covered by the Pillar 2 capital buffers.

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.

Additionally, commercial banks are required to have a combined capital buffer consisting of a capital conservation buffer, a countercyclical buffer and a systemic buffer.

Lowered capital requirements by National Bank of Georgia for the commercial banks, which implies Capital Conservation Buffer, mentioned buffer will be recovered fully by Liberty Bank in 2024.

Countercyclical buffer is going to be recovered by 2027 year to 1% by 0.25% steps each year.

As of 31 December 2023, systemic risk buffer is 1%.

## 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.

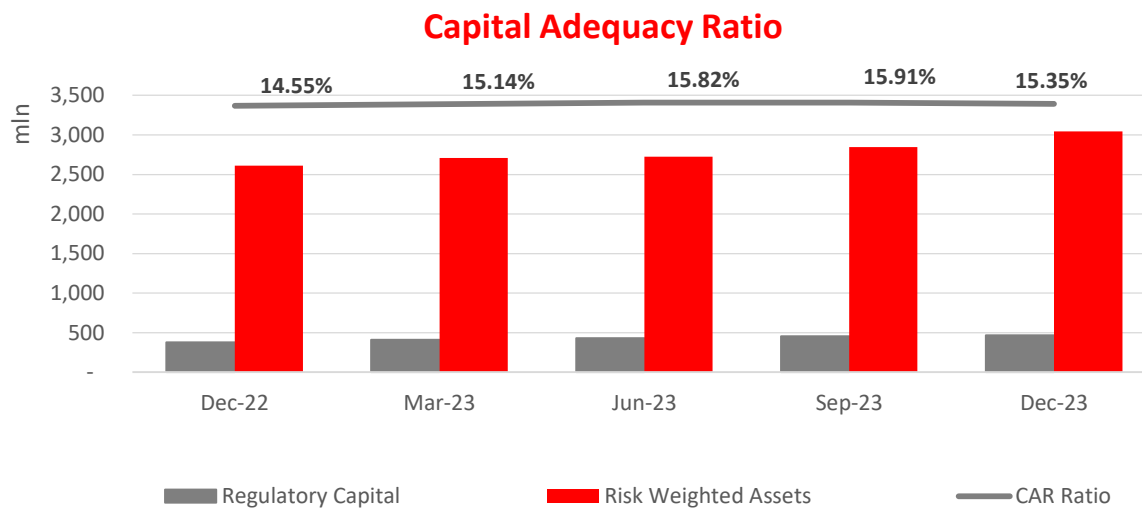
**Table 7.2.1 Regulatory Capital under BASEL III**

GEL '000s, unless otherwise noted	31-Dec-23	31-Dec-22	Change
<b>Common Equity Tier 1 capital prior to regulatory adjustments</b>	<b>487,910</b>	<b>400,569</b>	<b>22%</b>
Qualifying common share capital	44,490	44,490	0%
Share premium on qualifying common share capital	36,851	36,851	0%
Accumulated other comprehensive income	21,902	22,084	-1%
Other disclosed reserves	-	-	-
Retained earnings	384,668	297,144	29%
<b>Common Equity Tier 1 capital: regulatory adjustments</b>	<b>86,452</b>	<b>82,387</b>	<b>5%</b>
Revaluation reserves on assets	21,902	22,084	-1%
Accumulated unrealised revaluation gains on assets through P&L	3,037	3,037	0%
Intangible assets	61,406	57,159	7%
Investments in subsidiaries/affiliates	107	107	0%
<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>401,458</b>	<b>318,183</b>	<b>26%</b>
<b>Additional Tier 1 Capital</b>	<b>4,565</b>	<b>4,565</b>	<b>0%</b>
<b>TIER 1 CAPITAL</b>	<b>406,024</b>	<b>322,748</b>	<b>26%</b>
<b>TIER 2 CAPITAL</b>	<b>61,135</b>	<b>57,038</b>	<b>7%</b>
Subordinated debt	61,135	57,038	7%
General reserves	-	-	-
<b>REGULATORY CAPITAL</b>	<b>467,159</b>	<b>379,786</b>	<b>23%</b>

In 2023 total Regulatory Capital increased by 23%, GEL 87.9 million, compared to 2022. The main changes resulted from increase in RE by GEL 85.7 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 2023, risk-weighted exposures in the amount of GEL 3043 million by type of risk break down as follows: credit risk accounted for 81.4% of RWE, market risk accounted for 0.4% of RWE and operational risk accounted for 16.2% of RWE.

By IFRS standards, the high supervisory high risk class 9 was cancelled, this decreased the risk-weighted assets compared to reporting under NBG. Between 31 December 2023 and 31 December 2022, RWE for credit risk increased by GEL 158 million, RWE for operational risk increased by GEL 99 million and RWE for market risk decreased by GEL 3 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-23		31-Dec-22 NBG		Change(1)
	RWE	Capital Requirement	RWE	Capital Requirement	
<b>Credit Risk</b>	<b>2,478.0</b>	<b>364.3</b>	<b>2,319.6</b>	<b>310.2</b>	<b>6.8%</b>
<b>Balance sheet items</b>	<b>2,433.3</b>	<b>357.7</b>	<b>2,275.3</b>	<b>304.2</b>	<b>6.9%</b>
Central governments or central banks	78.8	11.6	75.5	10.1	4.3%
International Organisations	7.1	1.0	-	-	-
Commercial banks	43.2	6.3	53.2	7.1	-18.9%
Corporates	547.7	80.5	466.6	62.4	17.4%
Retail	1,367.3	201.0	998.1	133.5	37.0%
Exposures secured by residential property	175.5	25.8	128.4	17.2	36.7%
Past due items	25.4	3.7	5.3	0.7	375.3%
High-risk category	5.1	0.8	390.9	52.3	-98.7%
Other items	183.1	26.9	157.3	21.0	16.4%
<b>Off-balance sheet items</b>	<b>38.5</b>	<b>5.7</b>	<b>33.5</b>	<b>4.5</b>	<b>14.9%</b>
<b>Counterparty credit risk</b>	<b>6.2</b>	<b>0.9</b>	<b>10.8</b>	<b>1.4</b>	<b>-42.6%</b>
<b>Market Risk</b>	<b>13.7</b>	<b>2.0</b>	<b>17.0</b>	<b>2.3</b>	<b>-19.3%</b>
<b>Operational Risk</b>	<b>551.6</b>	<b>81.1</b>	<b>452.8</b>	<b>60.5</b>	<b>21.8%</b>
<b>TOTAL</b>	<b>3,043.3</b>	<b>447.4</b>	<b>2,789.4</b>	<b>373.0</b>	<b>9.1%</b>

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 9.95% and 8.53% as of 31 December 2023 and 31 December 2022, respectively.

### 7.4.1 Leverage Ratio

<i>GEL millions, unless otherwise noted</i>	<i>31-Dec-23</i>	<i>31-Dec-22</i>	<i>Change</i>
<b>On-balance sheet exposures</b>	<b>4,012.2</b>	<b>3,640.4</b>	<b>10.2%</b>
On-balance sheet items	4,098.7	3,722.8	10.1%
(Asset amounts deducted in determining Tier 1 capital)	-86.5	-82.4	4.9%
<b>Off-balance sheet exposures</b>	<b>62.9</b>	<b>49.0</b>	<b>28.5%</b>
Off-balance sheet exposures at gross notional amount	228.5	161.9	41.1%
(Adjustments for conversion to credit equivalent amounts)	-165.6	-113.0	46.6%
<b>Derivative exposures</b>	<b>6.2</b>	<b>10.8</b>	<b>-42.3%</b>
<b>Total leverage ratio exposures</b>	<b>4,081.4</b>	<b>3,700.1</b>	<b>10.3%</b>
<b>Tier 1 capital</b>	<b>406.0</b>	<b>322.7</b>	<b>25.8%</b>
<b>Leverage Ratio</b>	<b>9.95%</b>	<b>8.53%</b>	<b>1.4%</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 assesses the risk of default of counterparties in terms of separate homogeneous groups using sophisticated approaches that take into account the historical behaviour of the Bank's clients and expected macroeconomic changes in the country. For many years, the bank has been guided by the principles of Spanish dynamic provisioning, according to which the risk of loans should be measured not only by actual loan losses, but also by showing prudence, because "bad loans" are issued at "good times". As a result, the level of possible loan losses becomes less variable over time.

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.

The area of credit risk can be expanded by concentration risk, which arises in the event of a significant increase of exposure for a single borrower, a group of related borrowers, a separate industry, region or product. The bank pays special attention to the concentration of risk exposures in the so-called in pro-cyclical sectors. In accordance with the business lending strategy, the Bank assigns the pro-cyclical status to following sectors of the economy:

- Real estate development,
- Real estate management,
- Construction (non-development) companies,
- Acquisition, production and trade of construction materials,
- Production and trade of durable goods.

For the mentioned five sectors, during 2018-2019, the Bank created an appropriate pro-cyclical buffer in the form of a common provision, the materialization of which in 2020-2021, with relatively less credit losses, transferred the shocks caused by the COVID 19 crisis. Based on a detailed risk analysis after the end of the COVID pandemic, the Bank partially softened its approach to pro-cyclical sectors, although these risk positions still remain as relatively high credit risk category assets.

### 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 2023 4,069.5 million, up 12.1% 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**

GEL '000s, unless otherwise noted	31-Dec-22	31-Dec-21	Change
Central governments or central banks	414,450	503,360	-18%
Multilateral development banks	-	-	-
International Organisations	24,179	-	-
Commercial banks	162,143	115,960	40%
Corporates	549,001	508,360	8%
Retail	1,840,419	1,352,865	36%
Claims secured by mortgages	502,613	367,279	37%
Past due items	26,672	5,386	395%
High-risk category	2,045	295,399	-99%
Other items	493,732	430,116	15%
<b>Balance Sheet Items</b>	<b>4,015,254</b>	<b>3,578,725</b>	<b>12%</b>
Off-balance sheet items	48,043	41,947	15%
Counterparty credit risk	6,214	10,824	-43%
<b>TOTAL EXPOSURE TO CREDIT RISK</b>	<b>4,069,511</b>	<b>3,631,497</b>	<b>12.1%</b>

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, procedures, and the decision-making process for its three major segments:

- Corporate and Medium business borrowers,
- Micro and Small business borrowers,
- Retail business borrowers.

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

Corporate/MSME 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 and Medium Loan Credit Committee,
- Micro and Small 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 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.

### **8.2.3 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. 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.

## 8.2.4 Impairment

### 8.2.4.1 Expected Credit Loss Assessment Framework

Since 2023, the bank estimates the expected credit loss in accordance with the requirements of the "Rules for determining the risk categories and the expected credit losses of financial instruments" (approved by the order #192/04 of the President of the National Bank of Georgia on December 29, 2022) and international financial accounting standards (IFRS 9). The bank uses a unified provisioning methodology both for supervisory and internal reporting purposes.

For provisioning purposes, Bank's methodological framework is divided into two parts:

- Methodology of Individually Significant Risk Exposures (ISRE) provisioning and
- Methodology of Collectively Assessed Risk Exposures (CARE) provisioning.

The estimation of loan loss provisions in accordance with the IFRS-9 approach is based on the Expected Credit Losses accounting model rather than the incurred loss model. The Bank's revised IFRS 9 provisioning framework includes the following key fundamental principles:

- Bank categorizes financial instruments according to credit risk by the impairment stages, in particular:
  - Stage 1 financial instruments include exposures with standard credit risk profile that are not impaired or for which credit risk has not significantly increased since the origination.
  - Stage 2 financial instruments represent exposures for which the credit risk has significantly increased since the origination.
  - Stage 3 financial instruments are totally credit impaired or defaulted exposures.
- For collectively assessed risk exposures within homogenous groups triggers for significant increases in credit risk (SICR) depend on days past due and DSCR & PTI & LTV ratios.
- Contamination principle is in place within the exposures of a single borrower, according to which a significant increase of the credit risk or default of the borrower's one financial instruments leads to a significant increase of the credit risk or default of other financial instruments of the same borrower, regardless of whether these instruments fall into one homogeneous group or different ones.
- Improvement of impairment stage is based on financial analysis of borrowers as well as on the history of 3, 6, or 12 consecutive demonstrative payments.
- Special approaches for reclassification and provisioning are employed for significantly modified financial instruments (SMFI), repeated restructurings and refinanced loans.
- Estimation of the expected credit losses for the collectively assessed off-balance exposures, the concept of Credit Conversion Factor (CCF) is used, which is based on the practice adopted by the Basel Committee on Banking Supervision.

### 8.2.4.2 Individually Significant Risk Exposures

The bank assesses expected credit losses for each individually significant risk exposure on individual basis. Individually significant risk positions according to the Bank's provisioning framework include:

Financial instruments issued to borrowers of the Corporate and Medium segment, when the total amount of the obligation within the group of related borrowers exceeds GEL 500 thousand,

Wholesale gold pawn loans regardless of amount and

Individually significant financial instruments determined as such by the bank's management.

For the assessment of each individual risk exposure or group of exposures, the bank employs the methodologies developed by S&P Global, which includes the following models according to the sectors of the economy: PD Scorecard - a rating system that determines the probability of a borrower's default, LGD Scorecard - determining the loss given default and IFRS Macroeconomic Overlay - the impact of macroeconomic forecasting parameters on the probability of borrower default.

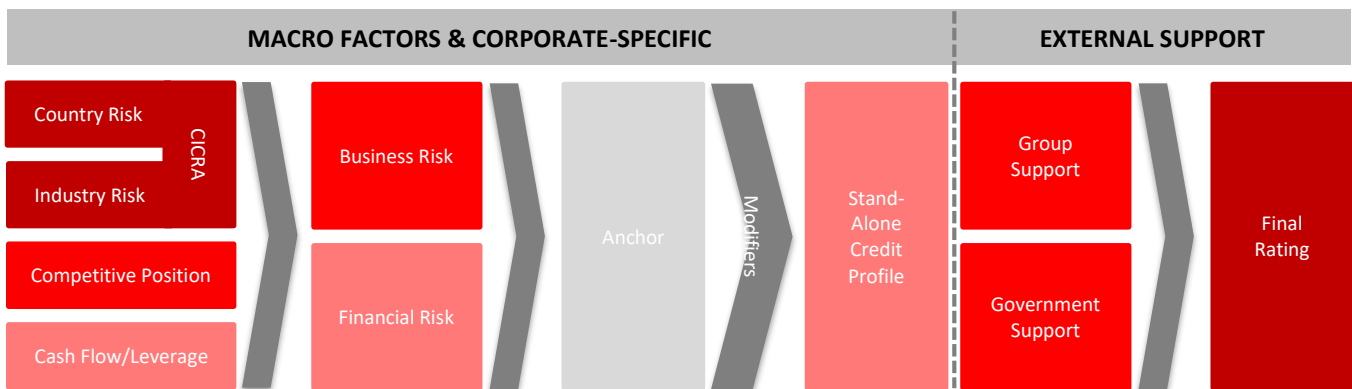
Company risk profile assessment (PD Scorecard) is a strategy for determining individual credit risk profile and final rating for non-financial corporate borrowers. This rating reflects the companies' business risk profile, financial risk profile and other factors that significantly affect the company's individual credit rating.

The company's business risk (BR) profile consists of:

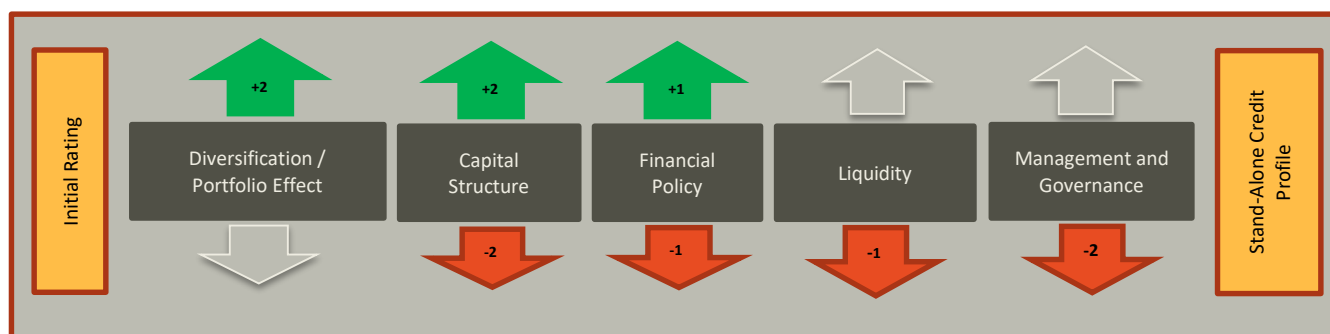
- risks and potential incomes for the company in the markets of its operation,
- competitive environments in these markets,
- country risk in these markets and directly from the company's comparative advantages and weaknesses.

The assessment of the business risk profile of the company includes the sum of the weighted scores of industry and country risk, competitive environment and business performance, which are obtained based on the assessment of the riskiness of the economic sectors.

The financial risk (FR) profile is the result of decisions made by management in the context of business risk profile and financial risk tolerance, which reflect alternative ways of obtaining financing by management and cash flow dependencies based on the company's financial obligations. The financial risk score includes only one dimension of risk ("cash flows/leverage"), which is further broken down into risk factors and typically weighted statistically.



The PD Scorecard combines a borrower's combined Business Risk (BR) and Financial Risk (FR) scores to determine the Company's Initial Rating (Anchor). additional rating modifiers have the ability to influence the initial rating either negatively or positively. They can improve/worse by one or more points the company's initial rating. These corrective factors are: "diversification / portfolio effect", "capital structure", "financial policy", "liquidity" and "management and governance".



To assess the loss given default (LGD) value of a company, the Bank uses LGD Scorecards, which are based on expectations of general economic conditions. Three scenarios are considered - positive, neutral, negative. The loss given default (LGD) is calculated as the interest rate weighted average of these three scenarios.

CCPO - Credit Cycle Projection Overlay based on forecasts of the future economic situation converts average default probability rates into expected default probability using macroeconomic variables. To calculate the expected probability of default (PD), the bank uses the macroeconomic forecast scenarios proposed by the National Bank of Georgia. The forecast covers three years, and the scenarios are updated twice a year. These scenarios describe the macroeconomic situations in the country and include all important macroeconomic variables. However, it is not necessary to take into account all variables in the model for estimating the expected credit loss.

To calculate the final expected credit losses (for individually significant risk exposures), the bank assigns 50% probability to the base scenario, and 25% probability to the optimistic and adverse scenarios.

### 8.2.4.3 Collectively Assessed Risk Exposures

Expected credit loss calculations for collectively assessed exposures are performed in terms of homogeneous products.

**Formation of homogeneous groups** - means that financial instruments/products evaluated collectively in the bank are grouped according to similar credit risk characteristics. These groups are sufficiently large in the number of financial instruments and sufficiently small in terms of the variety of types to provide reliable statistical analysis relevant to the group.

The model for provisioning collectively assessed exposures is built on the observation of borrowers' behaviour. Based on the observation of the client, all borrowers within the product are assigned their respective MOB and AGE values.

MOB (Month on Book) - refers to the duration of continuous months of observation of the client in a specific homogeneous group while AGE - refers to the number of months that have passed since the date of default (if any) of the borrower in a specific homogeneous group.

In order to estimate the probability of default, the Bank uses the Marginal Mortality Rate (MMR) to determine the probability of default for the separate credit products outlook, according to their historical observation period.

Moreover, in order to take into account future forecast information, relationship between business cycles and default rates of standard/non-standard portfolios is modelled. For this purpose, various macroeconomic variables are used, namely: GDP, unemployment rate, inflation rate, monetary policy rate, currency exchange rate and others. Part of the forecast scenarios of macroeconomic indicators included in the model is published twice a year by the National Bank of Georgia, while the rest of the variables are forecasted using time series statistical methods.

## 8.2.5 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 2023	0%	20%	35%	50%	75%	100%	150%	250%	Credit RWE before CRM	CRM	Credit RWE after CRM
Central governments or central banks	335,642	-	-	-	-	78,808	-	-	78,808	-	78,808
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
International Organizations	-	-	-	-	-	24,179	-	-	24,179	17,108	7,071
Commercial banks	-	131,201	-	28,049	-	2,893	-	-	43,157	-	43,157
Corporates	-	-	-	-	-	549,001	-	-	549,001	1,319	547,682
Retail <sup>(1)</sup>	-	-	-	-	1,840,419	-	-	-	1,380,314	12,974	1,367,340
Claims secured by mortgages	-	-	502,613	-	-	-	-	-	175,915	371	175,544
Past due items	-	-	-	4,114	-	20,734	1,825	-	25,528	122	25,406
High-risk category <sup>(2)</sup>	-	-	-	-	-	-	-	2,045	5,112	-	5,112
Other items	283,121	34,343	-	-	-	176,268	-	-	183,137	-	183,137
<b>Balance Sheet Items</b>	<b>618,764</b>	<b>165,544</b>	<b>502,613</b>	<b>32,162</b>	<b>1,840,419</b>	<b>851,882</b>	<b>1,825</b>	<b>2,045</b>	<b>2,465,150</b>	<b>31,893</b>	<b>2,433,257</b>
Off-balance sheet items	-	-	-	-	17,113	30,930	-	-	43,765	5,261	38,504
Counterparty credit risk	-	-	-	-	-	6,214	-	-	6,214	-	6,214
<b>TOTAL</b>	<b>618,764</b>	<b>165,544</b>	<b>502,613</b>	<b>32,162</b>	<b>1,857,532</b>	<b>889,027</b>	<b>1,825</b>	<b>2,045</b>	<b>2,515,129</b>	<b>37,154</b>	<b>2,477,975</b>

As of 31 December 2022										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	427,826	-	-	-	-	75,534	-	-		75,534	-	75,534
Multilateral development banks	-	-	-	-	-	-	-	-		-	-	-
International Organizations	-	-	-	-	-	-	-	-		-	-	-
Commercial banks	-	28,840	-	79,411	-	7,709	-	-		53,182	-	53,182
Corporates	-	-	-	-	-	508,360	-	-		508,360	41,744	466,616
Retail <sup>(1)</sup>	-	-	-	-	1,352,865	-	-	-		1,014,649	16,557	998,092
Claims secured by mortgages	-	-	367,279	-	-	-	-	-		128,548	153	128,395
Past due items	-	-	-	904	-	3,659	823	-		5,345	-	5,345
High-risk category <sup>(2)</sup>	-	-	-	-	-	108,670	184,616	2,113		390,876	-	390,876
Other items	272,484	450	-	-	-	157,183	-	-		157,273	-	157,273
<b>Balance Sheet Items</b>	<b>700,310</b>	<b>29,290</b>	<b>367,279</b>	<b>80,316</b>	<b>1,352,865</b>	<b>861,114</b>	<b>185,439</b>	<b>2,113</b>		<b>2,333,766</b>	<b>58,454</b>	<b>2,275,312</b>
Off-balance sheet items	-	-	-	-	23,119	18,828	-	-		36,167	2,671	33,496
Counterparty credit risk	-	-	-	-	-	10,824	-	-		10,824	-	10,824
<b>TOTAL</b>	<b>700,310</b>	<b>29,290</b>	<b>367,279</b>	<b>80,316</b>	<b>1,375,984</b>	<b>890,766</b>	<b>185,439</b>	<b>2,113</b>		<b>2,380,757</b>	<b>61,125</b>	<b>2,319,632</b>

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 2022, the RWE for the market risk amounted to 17 million GEL with the total capital requirement of 2.4 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.

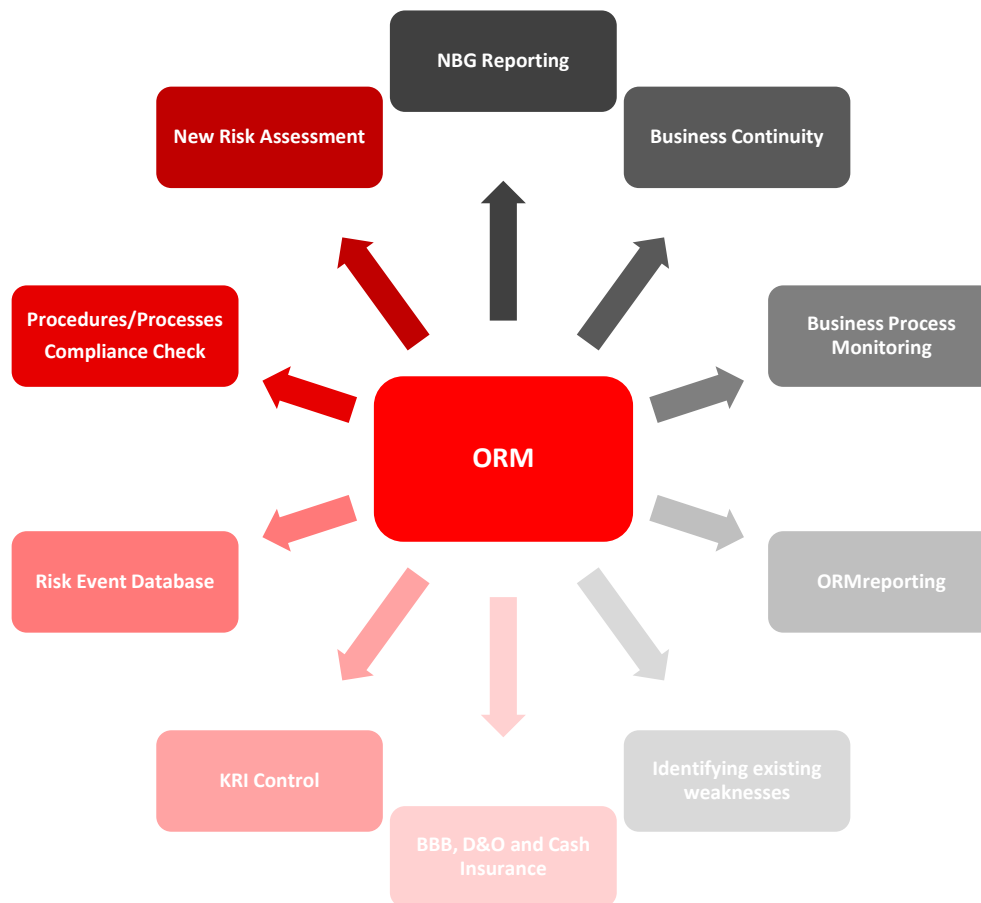
### 10.1 Operational Risk Management Structure

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.

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 and was valid during 2022. 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. In 2023 the process of creating/updating/optimizing methodologies continued for each business line. Automation methods has been developed.

In order to be in compliance with the requirements of the “Strong Customer Authentication rule”, the bank created a monitoring system for operations carried out by digital channels (Internet/Mobile Bank), which according to the predetermined scenarios provides an opportunity to identify unauthorized and fraudulent operations, unusual behavioral features of customers, other suspicious actions based on risk analysis.

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:

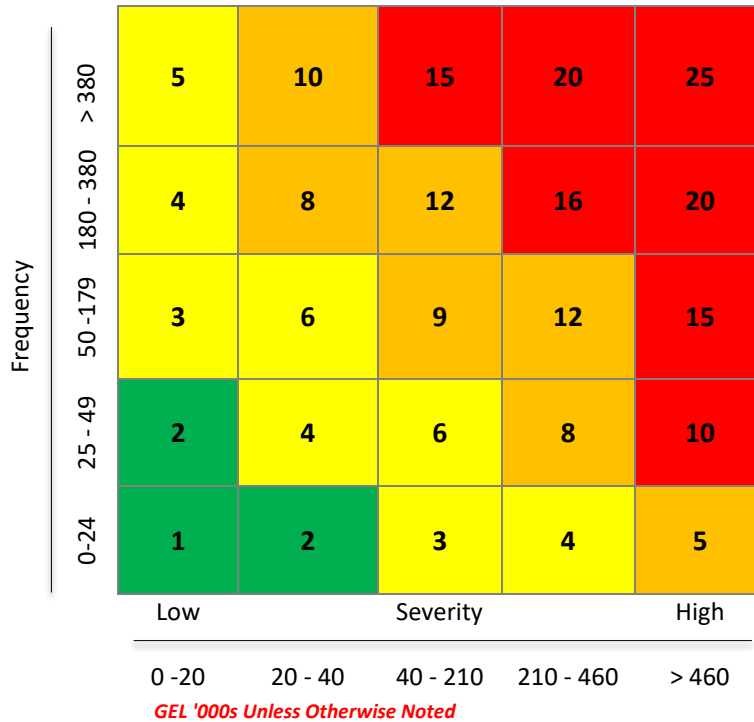
- Description of business processes and process risk analysis;
- Operational Risk Event Database (RED);
- New risk approval (NRA);
- Risk indicators.

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 14.6 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>	2023	2022	2021
Total amount of losses	3.6	4.0	7.0
Total amount of losses, exceeding GEL 10,000	2.1	2.1	5.1
Number of events with losses exceeding GEL 10,000	75	90	64
Total amount of 5 biggest losses	0.6	0.5	4.1

### 10.3.2 Capital Requirement

The Bank uses the basic indicator approach to calculate the RWE for Operation Risk. As of December 2023, the RWE for Operational Risk amounted to GEL 551.6 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**

	2023	2022	2021	Average of sums of net interest and net non-interest income during last three years	Risk Weighted Asset (RWA)
Net Interest Income	287,799,093	249,130,263	205,685,171		
Total Non-Interest Income	57,984,460	48,817,059	34,303,680		
Less: Income (loss) from selling property	470,224	436,704	253,941		
<b>Total Income</b>	<b>345,313,330</b>	<b>297,510,619</b>	<b>239,734,910</b>	<b>294,186,286</b>	<b>551,599,286</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 750,000 per claim. The Bank believes that based on its historical loss data, 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

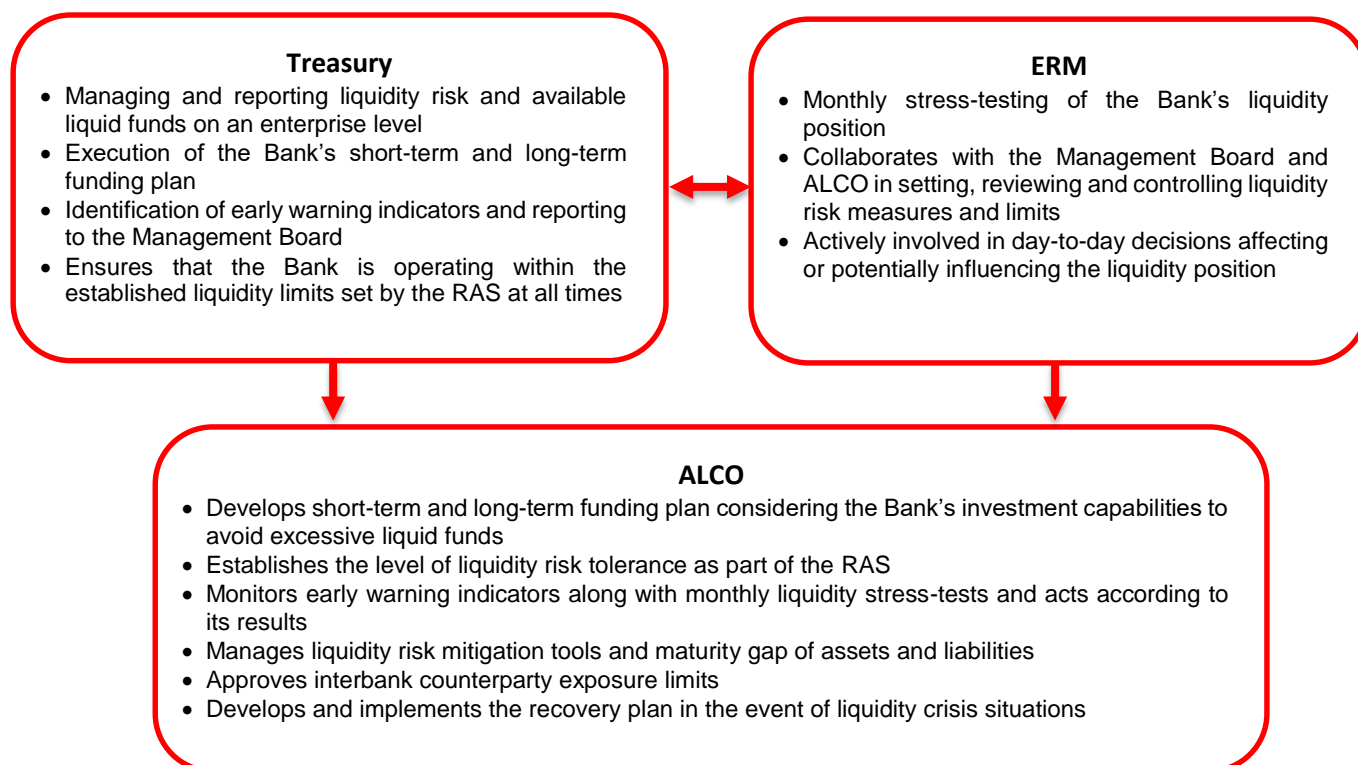
Liquidity risk corresponds to the risk of the Bank being unable to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. Liquidity risk is inherent in all banking operations and can be affected by a range of the Bank-specific and market-wide 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 NBS, 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 2023, in accordance with July 2021 regulation of NBG “Minimum Reserve Requirements Rule by Commercial Banks” the minimum reserve requirement for foreign currency attracted funds is determined individually for a particular commercial bank, according to the dollarization of deposits.

In 2023, the Bank continued to use liquid assets effectively and to finance loans with liquid funds, as a result of which the liquidity position decreased during the year. At the end of 2023, the liquidity coverage ratio is 118%.

### Liquidity Coverage Ratio

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
LCR, Total (last day of the month)	111.8%	114.5%	108.7%	125.2%	118.0%
LCR, GEL (last day of the month)	103.8%	95.3%	96.9%	119.8%	104.7%
LCR, FX (last day of the month)	124.2%	146.3%	136.2%	137.8%	138.2%

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 2023.

**Table 11.2.1 Net Stable Funding Ratio**

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Available amount of stable funding	2,401,282,834	2,467,493,940	2,534,523,176	2,681,906,835	2,703,362,130
Required amount of stable funding	1,845,372,131	1,960,963,020	1,992,478,760	2,078,238,398	2,163,085,075
<b>Net Stable Funding Ratio</b>	<b>130.12%</b>	<b>125.83%</b>	<b>127.20%</b>	<b>129.05%</b>	<b>124.98%</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 2022 and all numbers are reported in GEL, unless otherwise noted.

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

N	ბალანსგარეშე ანგარიშგების უწყისი	31/12/2023			31/12/2022		
		ლარი	უცვალუტა	სულ	ლარი	უცვალუტა	სულ
1	<b>Loan commitments received</b>	-	-	-	-	-	-
2	<b>Guarantees received as security for liabilities of the bank</b>	-	-	-	-	-	-
3	<b>Guarantees received as security for receivables of the bank</b>	475,806,600	16,998,788,777	17,474,595,377	475,488,091	17,068,334,953	17,543,823,044
3.1	Surety, joint liability	-	-	-	-	-	-
3.2	Guarantees	475,806,600	16,998,788,777	17,474,595,377	475,488,091	17,068,334,953	17,543,823,044
4	<b>Assets pledged as security for liabilities of the bank</b>	321,665,000	-	321,665,000	247,088,000	-	247,088,000
4.1	Financial assets of the bank	321,665,000	-	321,665,000	247,088,000	-	247,088,000
4.2	Non-financial assets of the bank	-	-	-	-	-	-
5	<b>Assets pledged as security for receivables of the bank</b>	206,797,895	5,278,375,606	5,485,173,501	207,995,374	5,305,310,490	5,513,305,865
5.1	Cash	34,943,949	8,100,494	43,044,443	34,974,837	8,078,445	43,053,282
5.2	Precious metals and stones	82,174,149	106,032,548	188,206,697	83,340,740	111,561,348	194,902,087
5.3	Real Estate:	1,531,900	3,288,972,900	3,290,504,800	1,531,900	3,304,379,467	3,305,911,367
5.3.1	Residential Property	-	27,306,906	27,306,906	96,000	921,925,740	922,021,740
5.3.2	Commercial Property	264,000	1,340,202,720	1,340,466,720	299,000	929,690,609	929,989,609
5.3.3	Complex Real Estate	-	280,150,619	280,150,619	-	308,110,543	308,110,543
5.3.4	Land Parcel	1,216,900	1,520,173,791	1,521,390,691	1,085,900	1,026,136,634	1,027,222,534
5.3.5	Other	51,000	121,138,865	121,189,865	51,000	118,515,940	118,566,940
5.4	Movable Property	2,760,542	431,074,635	433,835,177	2,760,542	433,094,246	435,854,788
5.5	Shares Pledged	13,625,000	594,132,462	607,757,462	13,625,000	596,857,238	610,482,238
5.6	Securities	19,000,010	497,020,505	516,020,515	19,000,010	497,566,805	516,566,815
5.7	Other	52,762,345	353,042,062	405,804,407	52,762,345	353,772,942	406,535,287
6	<b>Loan commitments given</b>	59,348,894	116,471,253	175,820,147	61,870,958	63,246,148	125,117,106
7	<b>guarantees given</b>	35,394,518	18,344,511	53,739,029	30,600,338	8,177,864	38,778,201
8	<b>Letters of credit Issued</b>	-	-	-	-	-	-
9	<b>Derivatives</b>	63,205,302	52,438,733	115,644,035	176,112,344	286,870,980	462,983,324
9.1	Receivables through FX contracts (except options)	-	48,272,955	48,272,955	5,564,042	208,046,843	213,610,885
9.2	Payables through FX contracts (except options)	63,205,302	4,165,778	67,371,080	170,548,302	78,824,137	249,372,439
9.3	Principal of interest rate contracts (except options)	-	-	-	-	-	-
9.4	Options sold	-	-	-	-	-	-
9.5	Options purchased	-	-	-	-	-	-
9.6	Nominal value of potential receivables through other derivatives	-	-	-	-	-	-
9.7	Nominal value of potential payables through other derivatives	-	-	-	-	-	-
10	<b>Receivables not recognized on-balance</b>	148,461,495	2,597,860	151,059,355	166,222,656	3,388,033	169,610,688
10.1	Principal of receivables derecognized during last 3 month	9,706,399	-	9,706,399	3,996,971	847,407	4,844,378
10.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	-	-	-	-	-	-
10.3	Principal of receivables derecognized during 5 years month (including last 3 month)	138,755,097	2,597,860	141,352,956	162,225,685	2,540,625	164,766,310
10.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	-	-	-	-	-	-
11	<b>Capital expenditure commitment</b>	614,668	172,815	787,483	281,794	2,035,902	2,317,696

**Table 2: Regulatory capital**

	ლარიში
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>487,910,056</b>
Common shares that comply with the criteria for Common Equity Tier 1	44,490,459
Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	36,850,537
Accumulated other comprehensive income	21,901,503
Other disclosed reserves	-
Retained earnings (loss)	384,667,557
<b>Regulatory Adjustments of Common Equity Tier 1 capital</b>	<b>86,451,566</b>
Revaluation reserves on assets	21,901,503
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
Intangible assets	61,406,330
Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	106,733
<b>Common Equity Tier 1</b>	<b>401,458,490</b>
Additional tier 1 capital before regulatory adjustments	4,565,384
Instruments that comply with the criteria for Additional tier 1 capital	45,654
Including: instruments classified as equity under the relevant accounting standards	45,654
Including: instruments classified as liabilities under the relevant accounting standards	-
<b>Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital</b>	<b>4,519,730</b>
Regulatory Adjustments of Additional Tier 1 capital	-
Investments in own Additional Tier 1 instruments	-
Reciprocal cross-holdings in Additional Tier 1 instruments	-
Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
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>Additional Tier 1 Capital</b>	<b>4,565,384</b>
Tier 2 capital before regulatory adjustments	61,134,682
Instruments that comply with the criteria for Tier 2 capital	61,134,682
Stock surplus (share premium) that meet the criteria for Tier 2 capital	-
General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	-
<b>Regulatory Adjustments of Tier 2 Capital</b>	<b>-</b>
Investments in own shares that meet the criteria for Tier 2 capital	-
Reciprocal cross-holdings in Tier 2 capital	-
Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
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>Tier 2 Capital</b>	<b>61,134,682</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 IFRS	linkage to capital table
1	Cash, Cash balances with National Bank of Georgia and other banks	568,005,009	
1.1	Cash on hand	317,461,158	
1.2	Casha balances with National bank of Georgia	89,698,759	
1.3	Cash balances with other banks	160,845,092	
2	Financial assets held for trading		
2.1	of which: derivatives		
3	<i>Non-trading financial assets mandatorily at fair value through profit or loss</i>		
4	<i>Financial assets designated at fair value through profit or loss</i>		
5	<i>Financial assets at fair value through other comprehensive income</i>	118,259,272	
5.1	Equity instruments		
5.2	Debt securities	118,259,272	
5.3	Loans and advances		
6	Financial assets at amortised cost	3,086,421,234	
6.1	<i>Debt securities</i>	228,445,203	
6.2	<i>Loans and advances</i>	2,857,976,031	
7	<i>Investments in subsidiaries, joint ventures and associates</i>	106,733	
8.0	Non-current assets and disposal groups classified as held for sale		
9.0	<i>Tangible assets</i>	185,890,802	
9.1	<i>Property, Plant and Equipment</i>	183,714,092	
9.2	<i>Investment property</i>	2,176,711	
10.0	<i>Intangible assets</i>	61,406,330	Table 9 (Capital), N10
10.1	Goodwill		
10.2	Other intangible assets	61,406,330	
11.0	Tax assets	2,044,719	
11.1	Current tax assets	2,044,719	
11.2	Deferred tax assets		
13	Other assets	76,534,580	
13.1	of which: repossessed collateral		
13.2	of which: dividends receivable		
<b>14</b>	<b>TOTAL ASSETS</b>	<b>4,098,668,679</b>	
	<b>LIABILITIES</b>		
15	Financial liabilities held for trading		
16	Financial liabilities designated at fair value through profit or loss	18,545,012	
17	Financial liabilities measured at amortised cost	3,422,165,743	
17.1	Deposits	3,039,673,409	
17.2	borrowings	352,339,225	
17.3	Debt securities issued		
17.4	Other financial liabilities	30,153,109	
18	Provisions	1,018,058	
19.0	Tax liabilities	30,215,587	
19.1	Current tax liabilities	16,553,267	
19.2	Deferred tax liabilities	13,662,320	
20	Subordinated liabilities	93,588,340	
21	Other liabilities	38,560,381	
21.1	of which: dividends payable	93,479	
<b>22</b>	<b>TOTAL LIABILITIES</b>	<b>3,604,093,121</b>	
	<b>Equity</b>		
23	Share capital	44,490,460	
24	preference share	45,654	
25.0	Share premium	41,370,267	
26.0	(-) Treasury shares		
27.0	Equity instruments issued other than capital	-	
28.0	Share-based payment reserve		
29.0	Accumulated other comprehensive income	24,001,621	
29.1	revaluation reserve	24,001,621	
29.2	Fair value changes of equity instruments measured at fair value through other comprehensive income		
29.3	Fair value changes of debt instruments measured at fair value through other comprehensive income		
30	<i>Retained earnings</i>	384,667,557	
<b>31</b>	<b>TOTAL EQUITY</b>	<b>494,575,559</b>	
<b>32</b>	<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>	<b>4,098,668,680</b>	

**Table 4: Risk Weighted Assets**

N	In GEL	4Q-2023 IFRS	3Q-2023 IFRS	2Q-2023 IFRS	1Q-2023 IFRS	4Q-2022 NBG
1	Risk Weighted Assets for Credit Risk	2,477,974,864	2,384,614,505	2,268,079,471	2,242,914,613	2,319,632,464
1.1	Balance sheet items *	2,433,257,022	2,329,859,176	2,213,201,648	2,198,431,159	2,275,311,777
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-	-
1.2	Off-balance sheet items	38,503,504	45,282,527	44,114,198	33,719,829	33,496,203
1.3	Counterparty credit risk	6,214,338	9,472,802	10,763,625	10,763,625	10,824,484
<b>2</b>	<b>Risk Weighted Assets for Market Risk</b>	<b>13,685,314</b>	<b>11,775,438</b>	<b>4,467,292</b>	<b>15,507,878</b>	<b>16,964,316</b>
<b>3</b>	<b>Risk Weighted Assets for Operational Risk</b>	<b>551,599,286</b>	<b>451,569,289</b>	<b>451,569,289</b>	<b>451,569,289</b>	<b>452,774,511</b>
<b>4</b>	<b>Total Risk Weighted Assets</b>	<b>3,043,259,464</b>	<b>2,847,959,232</b>	<b>2,724,116,052</b>	<b>2,709,991,780</b>	<b>2,789,371,291</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 IFRS	Carrying values of items	
			Not subject to capital requirements or subject to deduction from capital	Subject to credit risk weighting
1	Cash, Cash balances with National Bank of Georgia and other banks	568,005,009	-	568,005,009
1.1	Cash, Cash balances with National Bank of Georgia and other banks	317,461,158		317,461,158
1.2	Cash on hand	89,698,759		89,698,759
1.3	Cash balances with National bank of Georgia	160,845,092		160,845,092
2	Cash balances with other banks			-
3	of which: derivatives			-
4	<i>Non-trading financial assets mandatorily at fair value through profit or loss</i>			-
5	Financial assets designated at fair value through profit or loss	118,259,272	-	118,259,272
5.1	Financial assets at fair value through other comprehensive income			-
5.2	Equity instruments	118,259,272		118,259,272
6	Loans and advances	3,086,421,234	-	3,086,421,234
6.1	Financial assets at amortised cost	228,445,203		228,445,203
6.2	Debt securities	2,857,976,031		2,857,976,031
7	Loans and advances	106,733	106,733	-
8	Investments in subsidiaries, joint ventures and associates			-
9	Non-current assets and disposal groups classified as held for sale	185,758,811	21,901,503	163,857,308
9.1	Tangible assets	183,714,092	21,901,503	161,812,589
9.2	Property, Plant and Equipment	2,044,719		2,044,719
10	<i>Investment property</i>	61,406,330	61,406,330	-
10.1	Intangible assets			-
10.2	Goodwill	61,406,330	61,406,330	-
11	Other intangible assets	2,176,711	-	2,176,711
11.1	Tax assets	2,176,711		2,176,711
13	Deferred tax assets	76,534,580		76,534,580
	<b>Total exposures subject to credit risk weighting before adjustments</b>	<b>4,098,668,679</b>	<b>83,414,565</b>	<b>4,015,254,114</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>4,015,254,114</b>
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	228,541,118
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	62,129,502
<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>4,305,924,734</b>
4	Effect of provisioning rules used for capital adequacy purposes	
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(180,498,130)
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	(55,915,164)
6	Effect of other adjustments	
<b>7</b>	<b>Total exposures subject to credit risk weighting</b>	<b>4,069,511,440</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	335,642,451	-	-	-	-	-	-	-	-	-	78,807,770	-	-	-	-	-	78,807,770
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	-	-	-	-	-	-	-	-	-	-	24,178,699	-	-	-	-	-	24,178,699
6	Claims or contingent claims on commercial banks	-	-	131,201,400	-	-	-	28,048,859	-	-	-	2,892,748	-	-	-	-	-	43,157,457
7	Claims or contingent claims on corporates	-	-	-	-	-	-	-	-	-	-	549,000,989	30,929,843	-	-	-	-	579,930,832
8	Retail claims or contingent retail claims	-	-	-	-	-	-	-	1,840,418,617	17,113,145	-	-	-	-	-	-	-	1,393,148,822
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	502,613,224	-	-	-	-	-	-	-	-	-	-	-	175,914,628
10	Past due items	-	-	-	-	-	-	4,113,524	-	-	-	20,733,880	-	1,824,758	-	-	-	25,527,779
11	Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,044,719	-	5,111,798
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Other items	283,121,346	-	34,342,791	-	-	-	-	-	-	-	176,268,340	-	-	-	-	-	183,136,898
<b>Total</b>		<b>618,763,796</b>	<b>-</b>	<b>165,544,191</b>	<b>-</b>	<b>502,613,224</b>	<b>-</b>	<b>32,162,383</b>	<b>-</b>	<b>1,840,418,617</b>	<b>17,113,145</b>	<b>851,882,426</b>	<b>30,929,843</b>	<b>1,824,758</b>	<b>-</b>	<b>2,044,719</b>	<b>-</b>	<b>2,508,914,683</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	17,108,100	-	17,108,100		-
6	Claims or contingent claims on commercial banks	-	-	-		-
7	Claims or contingent claims on corporates	5,223,557	-	1,318,730	3,904,826	1,318,730
8	Retail claims or contingent retail claims	14,330,118	-	12,973,747	1,356,372	14,330,118
9	Claims or contingent claims secured by mortgages on residential property	370,832	-	370,832		370,832
10	Past due items	121,549	-	121,549		-
11	Items belonging to regulatory high-risk categories		-			-
12	Short-term claims on commercial banks and corporates		-			-
13	Claims in the form of collective investment undertakings		-			-
14	Other items		-			-
	<b>Total</b>	<b>37,154,157</b>	<b>-</b>	<b>31,892,959</b>	<b>5,261,198</b>	<b>37,154,157</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	414,450,221			78,807,770	78,807,770	19%
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	24,178,699			24,178,699	7,070,599	29%
6	Claims or contingent claims on commercial banks	162,143,007			43,157,457	43,157,457	27%
7	Claims or contingent claims on corporates	549,000,989	175,199,560	30,929,843	579,930,832	574,707,275	99%
8	Retail claims or contingent retail claims	1,840,418,617	53,341,558	17,113,145	1,393,148,822	1,378,818,703	74%
9	Claims or contingent claims secured by mortgages on residential property	502,613,224			175,914,628	175,543,796	35%
10	Past due items	26,672,162			25,527,779	25,406,230	95%
11	Items belonging to regulatory high-risk categories	2,044,719			5,111,798	5,111,798	250%
12	Short-term claims on commercial banks and corporates						
13	Claims in the form of collective investment undertakings ('CIU')						
14	Other items	577,147,042			183,136,898	183,136,898	32%
	<b>Total</b>	<b>4,098,668,679</b>	<b>228,541,118</b>	<b>48,042,988</b>	<b>2,508,914,683</b>	<b>2,471,760,526</b>	<b>60%</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</b>	<b>FX contracts</b>	62,129,502		6,214,338	-	-	-	-	-	6,214,338	-	-	6,214,338
1.1	Maturity less than 1 year	-	2.00%	-						-			-
1.2	Maturity from 1 year up to 2 years	-	5.00%	-						-			-
1.3	Maturity from 2 years up to 3 years	20,663,575	8.00%	1,653,086						1,653,086			1,653,086
1.4	Maturity from 3 years up to 4 years	41,465,927	11.00%	4,561,252						4,561,252			4,561,252
1.5	Maturity from 4 years up to 5 years	-	14.00%	-						-			-
1.6	Maturity over 5 years	-		-						-			-
<b>2</b>	<b>Interest rate contracts</b>	-		-	-	-	-	-	-	-	-	-	-
2.1	Maturity less than 1 year		0.50%	-									-
2.2	Maturity from 1 year up to 2 years		1.00%	-									-
2.3	Maturity from 2 years up to 3 years		2.00%	-									-
2.4	Maturity from 3 years up to 4 years		3.00%	-									-
2.5	Maturity from 4 years up to 5 years		4.00%	-									-
2.6	Maturity over 5 years			-									-
	<b>Total</b>	<b>62,129,502</b>		<b>6,214,338</b>	-	-	-	-	-	<b>6,214,338</b>	-	-	<b>6,214,338</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				579,151,220	271,641,421	850,792,641	576,054,697	145,546,236	721,600,933
<b>Cash outflows</b>										
2	Retail deposits	1,063,882,761	472,398,131	1,536,280,892	162,981,651	103,120,818	266,102,470	42,409,085	28,218,861	70,627,946
3	Unsecured wholesale funding	1,109,003,281	380,185,649	1,489,188,930	366,522,218	107,401,282	473,923,500	314,400,569	93,028,257	407,428,826
4	Secured wholesale funding		-							
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	(181,748)	-	(181,748)	(181,748)	-	(181,748)	(181,748)	-	(181,748)
6	Other contractual funding obligations	47,317,401	16,635,441	63,952,842	19,129,461	25,338,129	44,467,590	6,312,601	8,897,277	15,209,879
7	Other contingent funding obligations	172,617,479	50,262,150	222,879,628	55,051,509	7,316,260	62,367,769	52,965,832	7,908,856	60,874,688
<b>8</b>	<b>TOTAL CASH OUTFLOWS</b>	<b>2,392,639,174</b>	<b>919,481,371</b>	<b>3,312,120,544</b>	<b>603,503,091</b>	<b>243,176,489</b>	<b>846,679,580</b>	<b>415,906,339</b>	<b>138,053,252</b>	<b>553,959,591</b>
<b>Cash inflows</b>										
9	Secured lending (eg reverse repos)	6,750,000	-	6,750,000	-	-	-	-	-	-
10	Inflows from fully performing exposures	2,065,938,376	630,180,935	2,696,119,311	112,896,106	25,513,319	138,409,425	115,992,630	154,894,448	270,887,078
11	Other cash inflows	47,117,421	7,630,983	54,748,404	2,112,585	-	2,112,585	2,112,585	-	2,112,585
<b>12</b>	<b>TOTAL CASH INFLOWS</b>	<b>2,119,805,797</b>	<b>637,811,918</b>	<b>2,757,617,715</b>	<b>115,008,692</b>	<b>25,513,319</b>	<b>140,522,010</b>	<b>118,105,215</b>	<b>154,894,448</b>	<b>272,999,663</b>
					Total value according to NBG's methodology* (with limits)			Total value according to NBG's methodology* (with limits)		
13	Total HQLA				579,151,220	271,641,421	850,792,641	576,054,697	145,546,236	721,600,933
14	Net cash outflow				488,494,400	217,663,170	706,157,570	297,801,124	34,513,313	280,959,927
<b>15</b>	<b>Liquidity coverage ratio (%)</b>				<b>118.56%</b>	<b>124.80%</b>	<b>120.48%</b>	<b>193.44%</b>	<b>421.71%</b>	<b>256.83%</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)	Note
1	Cash and cash equivalents	494,770,806	487,599,973	1
2	Amounts due from credit institutions	99,722,635	100,703,230	1
3	Loans to customers	2,857,976,031	2,857,976,031	
4	Investment securities	346,704,477	346,704,475	
5	Property and equipment	152,989,616	183,714,092	
6	Intangible assets	61,406,325	61,406,330	
7	Right Of Use Asset	30,724,476		
8	Prepayments	6,728,129	7,410,677	2
9	Current income tax assets	0	0	
10	Other assets	43,545,133	49,052,826	1 and 2
	<b>Total Assets</b>	<b>4,094,567,628</b>	<b>4,094,567,632</b>	

1. Difference is reasoned by reclassification from other assets, prepayments and Amounts due from credit institutions to Cash and cash equivalents

2. Difference is reasoned by reclassification from prepayments to other assets

	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)	Note
12	Amounts due to credit institutions	363,573,955	362,548,889	3
13	Amounts due to customers	3,033,492,483	3,015,129,554	3
14	Current income tax liabilities	11,770,844	11,770,845	
15	Deferred income tax liabilities	17,219,789	17,219,789	
16	Lease Liability	30,113,647	30,153,109	
17	Other liabilities	50,088,210	69,436,743	3
18	Subordinated debt	93,588,341	93,588,340	
	<b>Total liabilities</b>	<b>3,599,847,269</b>	<b>3,599,847,271</b>	

3. Difference is reasoned by reclassification from other liabilities to Amounts due to customers

	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)	Note
20	Share capital	44,490,459	44,490,459	
21	Additional paid-in capital	36,850,537	41,415,921	
22	Treasury shares	0	0	
23	Convertible preferred shares	4,565,384	0	
24	Retained earnings	384,581,146	384,581,148	
25	Fair value reserve of investment securities measured at fair	2,331,331	24,232,833	
26	Property revaluation reserves	21,901,502	0	
	<b>Total equity</b>	<b>494,720,359</b>	<b>494,720,362</b>	

4. 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				Authorized representative of Public Registry Services
2	"Public Fund "Non-entrepreneurial (non-commercial) legal entity	Full Consolidation	x				Non-commercial

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

	2023	2022	2021
Total amount of losses	3,559,865	3,950,179	7,011,385
Total amount of losses, exceeding GEL 10,000	2,055,150	2,098,564	5,145,720
Number of events with losses exceeding GEL 10,000	75	90	64
Total amount of 5 biggest losses	646,064	497,955	4,105,234

**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>3</b>	<b>4</b>	<b>16</b>
	<b>Total fixed remuneration</b>	<b>1,172,909</b>	<b>782,471</b>	<b>2,521,598</b>
	Of which cash-based	1,172,909	782,471	2,521,598
	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>16</b>
	<b>Total variable remuneration</b>	<b>2,646,360</b>	-	<b>1,978,750</b>
	Of which cash-based	2,646,360	-	677,625
	Of which: deferred	-	-	-
	Of which shares or other share-linked instruments	-	-	1,301,125
	Of which deferred	-	-	743,500
	Of which other forms	-	-	-
Of which deferred	-	-	-	
<b>Total remuneration</b>		<b>3,819,269</b>	<b>782,471</b>	<b>4,500,348</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>	-	1,364,636,066	1,364,636,066	-	-	-	-	-	-	-	-	1,364,636,066	1,364,636,066
Irakli Otar Rukhadze (common shares)	-	1,364,337,500	1,364,337,500	-	-	-	-	-	-	-	-	1,364,337,500	1,364,337,500
Irakli Otar Rukhadze (preferred shares)	-	218,566	218,566	-	-	-	-	-	-	-	-	218,566	218,566
Beka Gogichaishvili (preferred shares)	-	80,000	80,000	-	-	-	-	-	-	-	-	80,000	80,000
<b>Other material risk takers</b>													
Tornike Kordzaia (Common shares)	-	-	-	-	-	-	-	-	1,101,050	-	-	1,101,050	1,101,050
<b>Total amount:</b>	-	-	-	-	-	-	-	-	1,101,050	-	-	1,101,050	1,101,050