

**Paysera Bank Georgia JSC**

**Pillar III Annual Report**

**2023**

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## 1. Introduction

### 1.1. Management Statement

This report is prepared in accordance with the "Rule on the Disclosure of Information under Pillar 3 by Commercial Banks" approved by the Order No. 92/04 of the President of the National Bank of Georgia of April 2017 and other rules established by the National Bank of Georgia. The Bank's Board confirms that this Pillar 3 annual report has been prepared in full compliance with the internal control processes agreed with the Supervisory Board and all data and information contained therein are reliable and accurate.

### 1.2. Bank's History, Existing Services and Strategic Plans

On November 17, 2022, the National Bank of Georgia issued a banking license to JSC "Paysera Bank Georgia" (I/N 402204841), taking into account the principles of digital bank licensing.

By the order of the National Bank of Georgia dated January 12, 2024, JSC "Paysera Bank Georgia" (hereinafter the "Bank") was granted the right to issue loans and provide virtual asset services, in particular, the right to exchange. Currently, JSC "Paysera Bank Georgia" has the right to fully carry out the activities permitted for commercial banks.

Since 2022, the Bank has joined the Paysera partner network, which includes partners operating in various European countries, having the right to carry out financial services. One of these partners is a fintech company based in Lithuania that has been operating in the market for 19 years worldwide.

The Bank's target segment includes the corporate, micro, small, medium and retail sectors.

The Bank offers innovative banking products to its customers, such as:

- European IBAN- opening both Georgian IBAN format accounts and European IBAN accounts for the customer, which are managed by the customer remotely, through a mobile application or internet banking.
- SEPA payments - providing the customers with the ability to settle in the Single Euro Payments Area (SEPA and SEPA Instant). The availability of this payment area simplifies trade relations with the European economic area, and for Georgian citizens - provides the opportunity to use simplified, fast and affordable services.
- API interface-based services - the Bank offers legal entities easily integrable API functionalities - data exchange and management, real-time payment acceptance and QR code payment acceptance software solutions.

The Bank's strategic goals include offering customers products such as:

- Various loan products, both for individuals and legal entities, will focus on creating a healthy, diversified loan portfolio and stable growth.
- providing streamlined methods for businesses to accept e-commerce payments, aligning with global standards and aiming to lower costs for customers.

- Issuance and maintenance of cards.

The Bank is committed to delivering innovative and dependable financial solutions, offering convenient and secure banking products and services that adhere to European standards for both individuals and legal entities. Moreover, the Bank operates with a focus on Environmental, Social, and Governance (ESG) principles, ensuring proper consideration of environmental and social factors, promoting environmentally and socially justifiable, and fostering sustainable development in all its endeavors.

## 2. Bank's Ownership Structure and Corporate Governance

### 2.1. Bank's Shareholders

As of December 31, 2023, the Bank's shares are distributed among the following shareholders:

Shareholders	Dimitry Kumsishvili	Irakli Vekua	Ivane Tevdorashvili	Mindia Sabanadze	Zaza Buadze
Share	27.03%	27.03%	27.03%	10.14%	8.77%

### 2.2. Corporate Governance

The corporate governance bodies of the Bank are the General Meeting of Shareholders, the Supervisory Board, and the Board of Directors, which act within their own responsibilities and powers defined by the legislation of Georgia and the charter of the Bank. The General Meeting of Shareholders is the highest governing body of the Bank, it elects the members of the Supervisory Board, who are responsible for the corporate governance of the Bank and the supervision of the Board of Directors. The Supervisory Board, in turn, appoints the members of the Board of Directors, which is the executive governing body responsible for the daily activities of the Bank.

#### 2.2.1. Shareholders and General Meeting of Shareholders

The shareholders of the Bank are the persons who own shares of the Bank in accordance with the established rules and regulations and are registered in the Bank's register of shareholders. They have the right to attend and participate in the General Meeting of Shareholders, receive dividends proportional to the number of shares they own, and dispose of their shares in accordance with the current legislation and the Bank's charter.

The General Meeting of Shareholders is the Bank's highest governing body, which is convened and held in accordance with the Bank's charter. The General Meeting of Shareholders makes decisions on the issues listed in the charter and/or other issues stipulated by the Bank's charter and/or the current legislation of Georgia, including: approves and amends the Bank's charter, makes decisions on transformation, merger, division or liquidation of the Bank, on the election and removal of members of the Supervisory Board in accordance with the procedure established by the charter, approval or rejection of the reports of the Supervisory Board and the Board of Directors, approval of the annual report, on the selection, appointment and dismissal of an independent auditor, on the increase or decrease of the Bank's authorized capital or on the redemption of own shares.

## 2.2.2. Supervisory Board

The activities of the Bank are supervised by the Supervisory Board. It is also responsible for the corporate governance of the Bank and any member of the Bank's management structure has the right to address the Supervisory Board on significant problematic issues related to corporate governance.

The Supervisory Board and each voting shareholder are authorized to nominate candidates for election to the Supervisory Board. In accordance with the Bank's charter, the number of members of the Supervisory Board cannot be less than 3 (three) members, and when completing the Supervisory Board, a balance of diversity of opinions must be considered and maintained, which means completing the Supervisory Board with persons with different skills, qualifications, and experience. Other issues of completing the Supervisory Board are determined in accordance with the Bank's charter and legislative requirements. As of December 31, 2023, the Bank's Supervisory Board comprises three members, two of whom are independent. Notably, one of these independent members is a female representative.

Meetings of the Supervisory Board should be held at least once a quarter in compliance with the requirements of the Bank's charter and legislation. The Supervisory Board is deemed authorized when at least two-thirds of its members are present or represented at the meeting (quorum). If, based on a conflict of interest, a member of the Supervisory Board does not have the right to participate in the voting on an issue defined by the agenda of the meeting, a quorum is present if more than half of the members of the Supervisory Board without a conflict of interest are present at the meeting.

The meeting of the Supervisory Board is convened, held, and documented in accordance with the requirements established by the Bank's charter and legislation. Each member present at the meeting of the Supervisory Board has one vote, except when the agenda includes an issue in respect of which such a member has a conflict of interest - in such a case, the member of the Supervisory Board does not have the right to participate in the discussion and voting process of this issue.

The tasks and competencies of the Supervisory Board include:

- Determination, approval and change of the organizational structure of the Bank;
- Approval of accounting policies;
- Approval and amendment of policies within the competence of the Supervisory Board;
- Supervision of compliance with corporate governance of the Bank and requirements established by the current legislation of Georgia and relevant regulations in relation to corporate governance;
- Supervision of the activities of the Board of Directors;
- Appointment and dismissal of members of the Board of Directors, including the determination of their scope of authority;
- Inspection of the Bank's financial documentation, accounting books and assets, which without any restrictions includes the inspection of cash, securities, and other assets of the Bank personally, through individual members or an invited expert (the cost of hiring such an expert will be covered by the Bank);
- Requesting a report from the Board of Directors on the Bank's activities (including activities with subsidiaries and affiliates) and reviewing information on internal audits or external inspections;
- Convening an extraordinary meeting of shareholders;

- Reviewing the annual report and the profit distribution proposal submitted by the Board of Directors;
- Approval of the annual budget;
- Appointment and dismissal of members of the Audit Committee and other committees existing with the Supervisory Board;
- Creation of temporary and/or permanent committees with the Board of Directors, determination of their functions, rights, and obligations;
- Creation, closure of branches and service centers of the Bank, approval of their charters;
- Creation of temporary and/or permanent committees with the Board of Directors, determination of their functions, rights and obligations;
- Determination of the limits of treasury operations to be carried out by the Bank. The Supervisory Board is authorized to delegate this authority to the relevant committee existing with the Board of Directors;
- Making decisions on issues attributed to the competence of the Supervisory Board by the charter of the Bank and issues defined by the current legislation of Georgia and normative acts of the National Bank of Georgia.

#### **Information on the professional experience of the members of the Supervisory Board**

As of December 31, 2023, the members of the Supervisory Board are:

- ❖ Lasha Kakhishvili - joined the Bank in August 2022

##### Positions held

- Chairman of the Supervisory Board;
- Member of the Audit Committee;
- Member of the Risk Committee.

##### Education

- Bachelor's degree in Business Administration - 2011 - "Caucasus Business School"  
Caucasus University
- Master's degree in Public Administration - 2023 (ongoing) University of Administrative Sciences of Speyer
- Master's degree in Global Business Administration - 2023 (ongoing) - IE University - Business School

##### Experience

- Member of the Supervisory Board - "IG Development Georgia" LLC (I/N 404851503) - 11/2021 - present
- Financial Director of "IG Development Georgia" LLC (I/N 404851503) - 09/2015 - January 1, 2024
- Director - "12 Round" LLC (I/N 405414948) - 01/10/2020 - July 13, 2022
- Director - "Greenville" LLC (I/N 405176036) -- 15/11/2016 - 06/05/2019
- Financial Analyst - "West Invest" LLC (I/N 202311104) - 02/2014 - 09/2015
- Deputy Director - "West Invest" LLC (I/N 202311104) - 09/2015 January 1, 2024.

- Insurance Analyst - JSC "Medical Insurance Group Archimedes Global Georgia" (I/N 204543869) - 04/2013 - 01/2014
- Reporting Manager - "Insurance Company IC Group" LLC (I/N 204491344) - 12/2011 - 03/2012

❖ Giorgi Mirotadze - joined the Bank in August 2022

#### Positions held

- Senior Independent Member of the Supervisory Board;
- Member of the Audit Committee;
- Chairman of the Risk Committee.

#### Education

- American Bankers Association Bank Academy Stonier at the University of Pennsylvania (Philadelphia, USA) - June 2010
- Master of Business Administration, Banking and Finance, Frank G. Zarb School of Business, Hofstra University (New York, USA) - December 2001
- Faculty of International Business, Iv. Javakishvili Tbilisi State University - International Operations Accounting, Auditing and Banking - June 1997
- Faculty of Physics, Iv. Javakishvili Tbilisi State University - Microprocessor Systems - July 1996

#### Experience

- Development Director - "Sphere Holding" LLC - 01/05/2023
- Chief Financial Officer - JSC "FINCA Bank Georgia" - September 2007-May 2019
- Member of the Supervisory Board - MFO "FINCA Kosovo" - January 2012-April 2019
- Financial Director - JSC "Cascade Bank Georgia" - January 2006-August 2007
- Director of Resource Management and Strategic Development - JSC "Bank Republic" - July 2003-September 2005
- Project Manager - CERMA - 01/07/2002-01/10/2002
- Invited Lecturer - Corporate Finance, Securities Analysis - International Black Sea University - 01/02/2020-01/02/2021
- Invited Lecturer - Auditing, Investment Portfolio Management - International Black Sea University - 01/09/2002-01/09/2003

❖ Nino Meparishvili - joined the Bank in August 2022

#### Positions held

- Independent Member of the Supervisory Board;
- Chairman of the Audit Committee;
- Member of the Risk Committee.

#### Education

- Master of Finance (with distinction) - Business and Economics - 2018 - Central European University
- ACCA Professional Accountant Program - 2012 - GFPAA Full Member

- FMVA Financial Analyst Program - 2022 - Corp. Finance Institute

#### Experience

- Invited Expert of the Parliamentary Budget Com. Staff - Parliament of Georgia - 06.2023 - 09.2023
- Head of Resolution and Liquidation Division - National Bank of Georgia - 11.2020-05.2022
- Independent Member of the Supervisory Board, Member of the Audit and Risk Committees - Ziraat Bank Georgia - 06.2019-05.2020
- Deputy General Director, Risk Management Direction - JSC Halyk Bank Georgia - 2015-2017
- Head of Risk Management Department - JSC Halyk Bank Georgia - 2011-2015
- Senior Specialist in Financial Reporting - JSC Bank Republic - 05.2007-05.2009
- Senior Supervisor of the Corporate Client Service Department - JSC Bank Republic - 2004-2006
- Expert in Institutional Capacity Development Issues - GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) Georgia Office - 2022-present;
- Expert - GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) Georgia Office - 2020
- Visiting Lecturer - Personal Finance, State Medical University - 2020-present
- Lecturer - IFRS, Business and Technology University - 2019-present,
- Local Consultant - Ecorys NL (Rotterdam-based research and consulting company) - 2018-2020

### **2.2.2.1. Supervisory Board Committees**

At the level of the Supervisory Board in the Bank, in accordance with the requirements of the "Corporate Governance Code for Commercial Banks", an Audit Committee and a Risk Management Committee have been established. The majority of the members of the Audit and Risk Committees, including necessarily the Chairman of the Audit and Risk Committees, are independent members of the Supervisory Board. These committees, in accordance with the Corporate Governance Code, regularly submit reports to the Supervisory Board and the National Bank on decisions and recommendations, in accordance with the established procedure. The functions and powers of the Audit and Risk Committees are determined by the relevant regulations, which are approved by the Supervisory Board.

There is effective communication and coordination between the Risk and Audit Committees, which, among other things, includes the exchange of information, the identification of all types of risks, including newly identified risks, and the introduction of any necessary adjustments to the Bank's risk management framework.

### **2.2.2.2. Audit Committee**

The Audit Committee established with the Supervisory Board, among other functions, is responsible for defining the Bank's approaches to internal control issues and financial reporting policies; monitoring



financial reporting processes and approving financial statements to be published; monitoring and actively cooperating with the Bank's internal and external auditors; assessing the effectiveness of the external auditor, expressing an opinion on the candidacies of external auditors, submitting relevant recommendations to the Supervisory Board or shareholders regarding their candidacies, appointment, remuneration or dismissal; considering and approving the scope and frequency of internal audits to be conducted; receiving reports reflecting the results of individual internal audits and periodic reporting information on activities and ensuring that appropriate measures are taken by the Board of Directors in a timely manner to eliminate control weaknesses, non-compliance with legislation or other deficiencies identified in the audit process or by other control functions; monitoring the formation of the Bank's accounting policies and practices; ensuring the fairness, completeness and compliance of financial reporting policies with relevant legislation and standards; considering the opinions of third parties on the effectiveness and structure of the Bank's overall risk management framework and internal control systems; ensuring the adequacy and independence of the functions of internal and external auditors and their effective cooperation; considering the letter of recommendation prepared by the external auditor and monitoring the implementation of appropriate measures by the directors to eliminate existing deficiencies; The Audit Committee assesses the independence of the Bank's external auditors and, if necessary, gives recommendations to the Supervisory Board and the General Meeting of Shareholders on changing the audit firm.

The Audit Committee is composed in compliance with the requirements of the Corporate Governance Code. Its meetings are held at least quarterly, in special cases, a meeting can be convened on the basis of a request from the Supervisory Board. The Audit Committee makes decisions by a simple majority of votes. Attending members do not have the right to abstain from voting. The meetings of the Audit Committee are chaired by the Chairman, who is selected by the Supervisory Board. Members of the Audit Committee always have full access to the Board of Directors, Internal Audit and Risk Management functions.

### **2.2.2.3. Risk Committee**

The functions of the Risk Committee established with the Supervisory Board include discussing risk strategies and providing recommendations to the Supervisory Board, both in terms of aggregate and individual risk, including the Bank's current and future risk appetite; reporting on the risk culture existing in the Bank and reviewing the Bank's risk policies; monitoring the Board of Directors' compliance with the Bank's activities with risk policies in accordance with appropriate procedures; providing recommendations to the Supervisory Board on the effectiveness of risk strategies and policies; monitoring capital and liquidity management strategies, as well as monitoring all types of risks, such as credit, market, operational and reputational risks to ensure compliance with risk appetite; monitoring material financial products and services offered to customers, including their prices, to ensure compliance with the organization's business model and risk strategy. It monitors the Pillar 3 reporting process, including ESG reporting, and approves the annual Pillar 3 report to be published.

The Risk Committee is responsible for assessing the risks associated with the proposed financial products and services and considering the compliance of the prices of these products and services with the profits received from them. It is also responsible for evaluating the recommendations of internal and external auditors and supervising the implementation of appropriate measures in cooperation with the Audit Committee; The Risk Committee is responsible for providing relevant recommendations and opinions to the Board regarding the

Bank's current and future risk appetite. In addition, at least once a year, prepare a corresponding report to the Board on identified material risks and other issues, including the structure, effective functioning, continuity and, in general, the risk culture existing in the Bank.

The Risk Committee constantly cooperates with the Risk Director to ensure the effectiveness and proportionality of the Bank's risk management system to the nature, scale and complexity of the Bank's risks. To ensure this, the Risk Committee invites the Risk Director to all meetings.

### **2.3. Board of Directors**

The daily activities of the Bank are managed and administered by the Board of Directors, appointed by the Supervisory Board, which includes the General Director and directors appointed by the Supervisory Board. The Board of Directors has an important function in implementing and maintaining effective corporate governance, which implies the effective implementation of the policies approved by the Supervisory Board. The Bank's Board of Directors consists of three members who meet the requirements provided for by the current legislation of Georgia for the Bank's director. Decisions within the Board of Directors are made by a majority vote of more than half its members, presided over by the General Director.

Within the scope of its powers, in accordance with the Bank's charter and/or the current legislation of Georgia, the Board of Directors performs the following functions and duties:

- Directs and carries out the daily activities of the Bank;
- Manages the Bank to ensure the profitability and stable functioning of the Bank;
- Within its competence, preliminarily reviews the issues to be included in the agenda of the General Meeting of Shareholders or the meeting of the Supervisory Board, collects the relevant information in full, prepares proposals and recommendations in relation to the agenda items;
- Within one month after the end of the fiscal year, prepares and submits to the Supervisory Board for approval the business plan of the current year. Such a business plan should include a budget, a profit and loss forecast and the Bank's investment plans;
- Directs the Bank's development strategy, coordinates and supervises the activities of business areas, banking network, information security, banking infrastructure and various structural units;
- Ensures the provision of appropriate services by the Bank to customers and supervises other main activities of the Bank;
- Within the organizational structure approved by the Supervisory Board, creates a new substructural unit, defines its rights and obligations, and liquidates it;
- Ensures and supervises the opening and closing of branches and service centers of the Bank and their functioning, as well as the performance of functions by the heads of branches, service centers and other structural units;
- Considers information received from internal audit or external inspection, as well as reports submitted by the heads of the Bank's structural units, branches and service centers and makes relevant decisions based on the listed information;
- Ensures the implementation of decisions made by the General Meeting of Shareholders and the Supervisory Board;
- Within the scope of its competence, develops drafts of relevant documents that are subject to approval by the Supervisory Board, ensures the implementation of policies and documents approved by the

Supervisory Board and gives recommendations to the Supervisory Board regarding changes to be made to these documents;

- Develops, approves the regulations of the Bank's structural units, internal labor regulations;
- Approves business processes, credit and operational activities regulating and/or procedures related to the daily management of the Bank, terms of the Bank's products and/or services, instructions, manuals;
- Decides on joining or refusing to join various associations, associations (including non-entrepreneurial/non-commercial legal entities) of the Bank;
- Decides on the conditions of employment in the Bank, which includes any employee incentive plan and a decision on new employment conditions for employees and the introduction of new incentive plans, unless the current legislation of Georgia and/or supervisory regulations attribute this to the authority of the Supervisory Board or the Supervisory Board Committee;
- Decides on the issue that the Supervisory Board and/or the General Meeting of Shareholders will assign to the Board of Directors;
- Complies with the requirements established by this charter and the current legislation of Georgia.

### **Information on the professional experience of the members of the Board of Directors**

#### **❖ Dimitri Kumsishvili**

Position held- General Director

#### Education

- Accounting, Control, Auditing - Faculty of Economics - Ivane Javakhishvili Tbilisi State University - 1992-1998

#### Experience

- Chairman of the Supervisory Board - JSC "Green Insurance Georgia" (I/N 404990435) 02/2020-10/2022
- First Vice Prime Minister of Georgia / Minister of Economy and Sustainable Development of Georgia - Ministry of Economy and Sustainable Development of Georgia - 11/2017-06/2018
- Minister of Finance of Georgia / First Vice Prime Minister of Georgia - Ministry of Finance of Georgia - 11/2016-11/2017
- Vice Prime Minister of Georgia - Ministry of Economy and Sustainable Development of Georgia - 09/2015 - 11/2016
- Deputy Mayor of Tbilisi - Tbilisi City Hall - 03/2015-08/2015
- First Deputy Minister of Economy and Sustainable Development / Chairman of the LEPL "National Agency of State Property" - Ministry of Economy and Sustainable Development of Georgia - 11/2012-03/2015
- Director/ Co-founder - Early Stage and Innovation Investment Fund (I/N 404933113) - 02/2012-11/2012
- Member of the Supervisory Board - JSC "Tbilisi Interbank Currency Exchange" (I/N 203824406) -- 2000-2011
- First Deputy General Director - JSC "Bank Cartu" (I/N 204891652) - 12/1999-10/2011
- Treasury Department Manager - JSC "Bank Cartu" (I/N 204891652) - 06/1997-12/1999

❖ **Tamara Metivishvili**

Position held - Financial Director

Education

- Master's Diploma in Business and Management - General Management - September 28, 2010 -Tbilisi Free University, Georgia
- Bachelor's Diploma in Business Management - Business Management - June 20, 2002 - European School of Management ESM, Tbilisi, Georgia
- ACCA Candidate for Membership - Accounting and Reporting - Starting Date June 1, 2005
- Association of Certified Chartered Accountants (ACCA), United Kingdom

Experience

- Director - Redmedi LLC (I/N 405341465) -- 04.2021-02.2023
- Associated Partner - Moore ABC LLC (I/N 206331691) -- 01.2020-12.2021
- Deputy Financial Director - JSC "TBC Bank" -- 03.2017-08.2019
- Head of Financial Reporting Department - JSC "TBC Bank" -- 01.2016-02.2017
- Head of IFRS Reporting Division - JSC "TBC Bank" -- 05.2011-12.2015
- Deputy Head of Financial Accounting and Reporting Division - JSC "TBC Bank" - 11.2008-04.2011
- Financial Director - JSC Galt & Taggart Securities (ID number 211359206) -- 08.2007-10.2008
- Audit Manager - PricewaterhouseCoopers Central Asia and the Caucasus B.V. Georgia Branch I/N 204482577) -- 08.2025-07.2007
- Consultant - Ernst & Young Audit LLC (I/N 204441158) -- 12.2002-07.2005

❖ **Tatiana Gorgadze**

Position held - Risk Director

Education

- Master's Diploma in Business and Management (with distinction) - General Management - 2012 -- 2015 - Grenoble Graduate School of Business, France

Experience

- 2021-2023, UPSWOT, Inc Wilmington, Delaware DE, USA, Product owner
- 2017-2021, CC Continental City Capital LTD, Nicosia, Cyprus, Risk Management Director
- 2022-2023, "Microfinance Organization Continental City Credit" LLC, Member of the Supervisory Board
- "CC Loan" LLC (I/N 405060213), "Microfinance Organization Continental City Credit" LLC (I/N 404932891) Risk Manager
- 2017-2017 "Infinite Holding" LLC (I/N 404407619) Risk Manager
- 2011-2016 Bank Republic Group "Société Générale", Deputy Head of the Retail Credit Risk Assessment Department
- 2007-2011 Bank Republic Group "Société Générale", Head of the Portfolio Monitoring Department
- 2006-2006 BTA Silk Road Bank, Corporate Relationship Officer

### 2.3.1. Board of Directors Committee

#### Asset and Liability Management Committee

In order to effectively manage the Bank's assets and liabilities, maximize the profitability of banking operations in compliance with supervisory and prudential norms and requirements, there is an Asset and Liability Management Committee with the Board of Directors. The Asset and Liability Management Committee is involved in market risk, liquidity risk, interest rate risk management and supervision. The Asset and Liability Management Committee sets and supervises internal and external liquidity indicators, plans projected cash flows, sets limits for managing interest rate risks, foreign exchange risks, and market risks. The chairman of the committee is the general director, and the members are the members of the board of directors and the heads of finance, treasury, and organizational risk management units. Meetings of the Asset and Liability Management Committee are held monthly or at any time when deemed necessary.

## 3. Risk Management

Risk management is the cornerstone of banking operations. Our Bank's risk management policy is designed to thoroughly identify, analyze, manage, and monitor risks. This includes setting appropriate risk limits and ensuring consistent oversight to maintain these thresholds.

It is important to note that in the short term, the Bank plans moderate growth, which in turn will create the need to further strengthen the risk management function, create and review existing approaches and practices, develop, and implement new tools to facilitate risk management, and select and staff the risk management direction with professional personnel.

In the medium and long term, the above-mentioned improvements in risk management practice will allow the Bank to prepare for more aggressive growth and at the same time ensure timely and effective risk management. The Bank's risk management framework is designed to promote stakeholder confidence through systematic, consistent and transparent processes that will contribute to the achievement of the Bank's strategic goals and stable growth. This framework also presents risk management as a competitive advantage for the Bank, which is a tool to assist in the implementation of the Bank's strategic plan.

Structurally, the risk management direction is accountable to the general director, but in the process of work, it has sufficient autonomy to maintain independence and oversight to ensure the successful achievement of the Bank's strategic goals.

The Bank has identified and manages the following risks<sup>1</sup>:

- Operational risk - implies the risk of loss that the Bank may incur due to inadequate or malfunctioning internal processes, system failures/inactivity, human errors, fraud or other external influences, including the risk of cyber-attacks, etc.

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<sup>1</sup> Since the bank did not sell credit products during 2023, credit risk is not explained in this part of the document.

- Liquidity risk - arises from maturity mismatches between assets and liabilities. Due to this discrepancy, there may be a risk of insufficient financial resources when withdrawing a deposit and fulfilling other financial obligations related to financial instruments.
- Market risk - arises from fluctuations in the fair value or cash flows of a financial instrument due to the influence of market prices. Market risk consists of currency risk, interest rate risk and other price risks. Market risk arises from an open position in a financial instrument that is associated with general and specific changes in the market, changes in the level of market price volatility and exchange rate fluctuations.
  - Currency risk - the Bank is aware of the risk of loss caused by the revaluation of assets and liabilities due to changes in the exchange rate. The Bank's strategy with respect to foreign exchange risk is not to engage in speculative activities through an open foreign exchange position.
  - Interest rate risk - the Bank faces the traditional interest rate risk caused by banking activities, which is associated with possible mismatches of assets and liabilities in terms of revaluation.
- Compliance risk - represents the risk that the Bank does not/cannot act in accordance with the applicable regulations, laws, and contracts and as a result may incur financial losses.
- Macroeconomic risk - represents the risk that negative events developed at the country, regional or global level (for example, a decrease in GDP, an increase in unemployment, etc.) may have a negative impact on the Bank's financial indicators.

At the Bank level, the Supervisory Board is the structure that bears overall responsibility for the risk management framework and associated processes, oversight of key risks, risk management policies and procedures. Monitoring of this direction is carried out regularly, within the framework of quarterly meetings, where the main processes and changes in guiding documents existing in the direction of risk management are discussed and initiated, as well as risk indicators are presented. The Supervisory Board relies on and uses the internal audit process to oversee the implementation of the risk management framework and relevant policies and procedures.

The Board of Directors is responsible for implementing an overall risk culture throughout the Bank, monitoring risk mitigation measures and ensuring that the Bank operates within established risk parameters. The Board of Directors submits to the Supervisory Board, or within the scope of its authority, approves policies and procedures related to risk management. The Board of Directors is responsible for aligning the risk strategy with the Bank's overall strategy. The Board of Directors oversees risk-related issues through various reports and committees where achieved indicators and risk-related issues are discussed.

The Risk Director oversees risk management, ensuring the establishment and execution of standardized approaches for identifying, assessing, mitigating, and reporting both financial and non-financial risks. Directly reporting to the General Director, the Risk Director holds this critical responsibility.

### **3.1. Code of Ethics (Means of Communicating, Mitigating and Enforcing Risk Culture)**

A Code of Ethics is implemented throughout the Bank, which is primarily intended for the Bank's employees and regulates relationships both within the Bank and outside it. The Code of Ethics is based on generally accepted standards and business ethics. It is based on the Bank's core values. The Code of Ethics explains the personal responsibilities of each employee, as well as all the main issues that may arise during daily activities.

The document emphasizes the importance of maintaining high ethical standards and the harm that unethical behavior can cause to the Bank, such as damage to the Bank's reputation, undesirable litigation, etc. This may hinder the Bank's development, growth and profitability prospects, reduce confidence in the financial sector and, in some cases, have a negative impact on economic growth across the country.

The Code of Ethics is part of the Bank's professional, conscientious and fair policy, which is in line with the Bank's corporate culture, current laws and the Bank's internal regulations. By adhering to the Code of Ethics, the Bank ensures that it establishes equal and non-discriminatory relations with employees, customers and third parties, regardless of their race, nationality, religion, citizenship, marital status, gender, sexual orientation, age and/or disabilities. The Code of Ethics requires the Bank's employees to maintain high professional standards. They are obliged to be familiar with the laws, the Bank's internal rules and regulations that relate to the relevant structural unit. Every employee is obliged to take care of creating a healthy work environment that will be free from violence, discrimination and unethical actions.

The Bank is aware of the individuality of each employee and strives to create equal opportunities for them. The Bank respects the personal life, social status and religion of the employee. Ensuring strict compliance with the rules defined by the Code of Ethics is the prerogative of the human resources management direction. In case of violation of the Bank's Code of Ethics by an employee, disciplinary measures may be taken against him, including dismissal.

#### 4. Capital Key Performance Indicators

The Bank's regulatory capital consists of core Tier 1 and Tier 1 capital. The attached table shows the minimum requirements for the Bank in accordance with Basel 3:

Minimum Requirements	2023		2022	
	Amounts (GEL)	Ratios	Amounts (GEL)	Ratios
<b>Pillar 1 Requirements</b>				
CET 1 Capital	202 425	4.50%	155 154	4.50%
Tier 1 Capital	269 901	6.00%	206 873	6.00%
Regulatory Capital	359 867	8.00%	275 830	8.00%
<b>Combined Buffer</b>	123 704	2.75%	86 197	2.50%
Capital Conservation Buffer *	112 459	2.50%	86 197	2.50%
Countercyclical Buffer	11 246	0.25%	0	0.00%
Systemic Risk Buffer	0	0.00%	0	0.00%
<b>Pillar 2 Requirements</b>				
CET1 Pillar 2 Requirement	326 130	7.25%	241 351	7.00%
Tier 1 Pillar2 Requirement	393 605	8.75%	293 069	8.50%
Regulatory capital Pillar 2 Requirement	483 572	10.75%	362 027	10.50%

Regulatory capital at the end of the year:

Current indicators (in GEL)	2023	2022
CET1	1 754 934	2 820 116
Tier 1	7 769 584	6 820 654
Total regulatory Capital	7 769 584	6 820 654
Risk Weighted Assets	4 498 343	3 447 876
Regulatory Capital to Risk Weighted Assets ratio	177.29%	197.82%



In 2023, the Bank's strategy was to maintain sustainable capital indicators. At this stage, due to the absence of loan products, the foreign exchange credit risk (CICR) and credit portfolio concentration risk coefficients are irrelevant. The management of other coefficients required by Basel 3 and regulatory capital in general was maintained at a high level.

By decision No. 57/04 of March 15, 2023, the National Bank set the countercyclical capital buffer rate at 1%, and by decision No. 359/04 of December 8, 2023, banks were required to meet the concentration risk of 0.25% by March 15, 2024. Paysera Bank Georgia maintained a high amount of capital in both buffer cases. For 2023, the systemic risk and GRAPE buffers for JSC "Paysera Bank Georgia" were set by the National Bank at 0%.

## **5. Remuneration Policy**

The primary goals of the Bank's employee management approach are to cultivate enduring relationships with its staff and foster a culture of individual accountability among employees. The Bank's compensation structure encompasses various forms of compensation, including fixed pay, variable pay (bonuses), and supplementary benefits. These additional benefits may comprise, but are not restricted to, allowances stipulated by prevailing laws/internal policies, pension contributions, business travel support, professional growth opportunities, health coverage, as well as other material incentives and perks. The compensation system aligns with the Bank's sustainable business and risk strategy. The approach to remuneration at the Bank is designed to:

- Attract and retain employees and managers with the necessary qualifications and skills;
- Encourage employees to take on the responsibilities necessary to manage the Bank's activities;
- Promote the establishment and maintenance of long-term labor relations;
- Ensure transparency and fairness of remuneration;

The main aspect of transparency and fairness of remuneration is the fixed salary component, since the remuneration of employees in the Bank includes a fixed salary, except for specific positions, and the elements of variable remuneration are strictly limited. Fixed salaries represent the right approach to ensuring sustainable growth. Alongside fixed salaries, to incentivize employees and promote sound work practices, the Bank may provide periodic incentive compensation and an annual bonus tied to yearly performance results.

The inclusion of the variable part of the remuneration in the remuneration structure is carried out taking into account the following factors - the variable element is higher in positions that are directly involved in serving the Bank's customers and generating income (business line - Front Office).

Remuneration for most employees is the current average market prices, and in the case of managers - their remuneration cannot be directly compared to the current market prices, since the remuneration of other banks' managers is mostly issued with variable elements of salaries. Remuneration is determined based on a person's position, responsibilities assumed and labor intensity, which ensures that positions of comparable responsibility in the Bank are remunerated according to the same principles.

Along with remuneration, the Bank offers employees training and professional development opportunities. To avoid all kinds of discrimination and any kind of unequal treatment, the Bank treats all employees equally, regardless of race, gender or any other characteristics. All employees in the Bank are given equal opportunities to work in a position corresponding to their qualifications.



The Bank's Board of Directors, to review the professional development of employees and the Bank's remuneration practices, annually submits a report to the Bank's Supervisory Board on the structure of remuneration. The salary structure tailored to the Bank is similarly subject to annual review. The Bank's Board of Directors considers, and the Supervisory Board approves the salary structure.

The remuneration of the members of the Bank's Supervisory Board corresponds to their involvement, assigned responsibilities, efforts made and time resources. The remuneration of the members of the Supervisory Board includes only fixed remuneration, the amount of which is determined by the General Meeting of Shareholders. The fixed remuneration of the independent members of the Bank's Supervisory Board and the Bank's employees is subject to annual review.

The Bank's Supervisory Board determines, approves and controls the implementation of the Bank's remuneration policy. It also reviews and approves the Bank's staffing schedule. The Supervisory Board approves the remuneration scheme of the Bank's Board of Directors and the Bank's remuneration fund. The remuneration system of the Bank's Board of Directors consists of fixed remuneration, which corresponds to their professional experience and organizational responsibility, assigned duties and the specifics of the work.

The Bank's Board of Directors ensures the implementation of the remuneration policy and defines incentive models for the Bank's employees (except for directors). The Board of Directors approves the Bank's salary scheme within the remuneration fund approved by the Supervisory Board, and also considers and approves proposals for improving the remuneration system and other motivation models, considers the assessment and reports of the structures implementing the monitoring of the remuneration system (both internal and external), etc.

### **Company's Employment Policy**

The company's employment policy is based on the following main principles:

- Fairness - the company, both in the pre-contractual relationship with the candidate and during the employment relationship with the employees, excludes any discrimination. Ensures objectivity and impartiality.
- Equality - (ensuring equal opportunities) - the company puts employees in equal conditions regardless of age, gender, ethnic, religious or racial affiliation, social origin, political beliefs or other opinions.

All employees of the company enjoy equal rights in the company and have equal opportunities for career advancement at all levels of the professional hierarchy, regardless of the field of activity. The company's employment policies and procedures are transparent and accessible to everyone.

## **6. Organizational Culture and Values**

The Bank constantly strives to improve management standards and adapt modern approaches. Since organizational culture and values are an important part of employee motivation and engagement, the Bank strives in every way to create and offer values to employees, which helps us achieve the best results.

The Bank consistently strives to adhere to Georgian legislation and actively considers and implements initiatives from the Supervisory Board aimed at fostering best practices in corporate governance. To achieve optimal outcomes, we enhance our capabilities, continuously refine our processes, and bolster organizational effectiveness. Transparency underpins our operations, and we operate in strict adherence to ethical principles and the law. Collaboration is fundamental to our culture; we support one another, exchange ideas and knowledge, thereby driving the organization's success. Our organizational ethos centers on teamwork and mutual respect. We firmly believe that innovation is key to our team's success; thus, we encourage new ideas, value employee initiatives, and endeavor to lead the market in innovation.

## **7. Environmental, Social and Governance (ESG) Issues**

During 2023, given the scale and activities of the Bank, it did not introduce any loan products. Nonetheless, in line with the Bank's growth and strategic advancement, it remains committed to adhering to environmental, social, and governance (ESG) standards.