

# JSC Silk Bank

Pilar 3 Annual Report

2022

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## **1. Introduction**

The main purpose of this report is to comply the Pillar 3 requirements regarding as defined by the National Bank of Georgia in line with the Basel III framework. The disclosure of Bank's basic information is mandatory for all commercial banks and leads to increased transparency and confidence of the risks facing the Bank and adequacy of supervisory capital.

## **2. Management Statement**

The Bank's Board of Directors confirm the accuracy and the authenticity of all the data and information outlined within this the Pillar 3 Annual Report. The document is prepared in full compliance with the internal processes agreed with the Supervisory Board. It is in line with all the requirements of "Rule for disclosure of information by commercial banks within the framework of Pillar 3" approved by the Order #92/04 of the President of the National Bank of Georgia, on 22 June, 2017 and other rules and norms established by the National Bank of Georgia.

## **3. Strategy**

The target markets of the Bank are MSME and retail segments. Over the next 3 years, the Bank plans to achieve rapid and stable growth, facilitating the development of digital channels and products which will be mainly reflected in the increase of the loan portfolio and the number of customers. Risks associated with the rapid growth will be considered and mitigated.

The Bank's strategic goals for the next three years are mainly focused on high quality assets, development of new products and information technology infrastructure, enhancing of human resources and technical capabilities, adhere the prudent banking practices, improving and strengthening the risk management perspectives.

The Bank will invest in different sectors and industries in terms to avoid the losses caused by industry crashes, therefore the diversified sector sourcing will allow the Bank to gain maximum possible profits with minimum possible losses.

The Bank's strategy is to create a high standard of banking services in the MSME and retail sector. To be the preferred bank and reliable partner of entrepreneurs, their employees and their customers. Active player in the banking sector.

#### 4. Regulatory Capital Main Indicators

The Bank's regulatory capital consists of the following elements: Tier 1 and Tier 2 capital. The Bank's Tier 1 capital is comprised by the following:

| Minimum requirements                  | 2022              |               | 2021              |               |
|---------------------------------------|-------------------|---------------|-------------------|---------------|
|                                       | Amount            | Requirement   | Amount            | Requirement   |
| <b>Pillar 1 requirements</b>          |                   |               |                   |               |
| CET 1                                 | 2,575,808         | 4.50%         | 2,991,602         | 4.50%         |
| Tier 1                                | 3,434,410         | 6.00%         | 3,988,802         | 6.00%         |
| <b>Total regulatory capital ratio</b> | <b>4,579,214</b>  | <b>8.00%</b>  | <b>5,318,403</b>  | <b>8.00%</b>  |
| <b>Combined buffer</b>                |                   |               |                   |               |
| Conservation buffer                   | -                 | 0.00%         | -                 | 0.00%         |
| Countercyclical capital buffer        | -                 | 0.00%         | -                 | 0.00%         |
| Systemic risk buffers                 | -                 | 0.00%         | -                 | 0.00%         |
| <b>Pillar 2 requirements</b>          |                   |               |                   |               |
| CET 1                                 | 3,859,693         | 6.74%         | 2,807,093         | 4.22%         |
| Tier 1                                | 5,146,757         | 8.99%         | 3,743,026         | 5.63%         |
| <b>Total regulatory capital ratio</b> | <b>8,540,473</b>  | <b>14.92%</b> | <b>9,295,918</b>  | <b>13.98%</b> |
| <b>Total requirements</b>             |                   |               |                   |               |
| CET 1                                 | 6,435,501         | 11.24%        | 5,798,695         | 8.72%         |
| Tier 1                                | 8,581,167         | 14.99%        | 7,731,828         | 11.63%        |
| <b>Total regulatory capital ratio</b> | <b>13,119,687</b> | <b>22.92%</b> | <b>14,614,321</b> | <b>21.98%</b> |

#### Regulatory capital by the year end

|                                 | 2022              | 2021              |
|---------------------------------|-------------------|-------------------|
| Tier 1 capital                  | 48,511,185        | 49,632,390        |
| Supplementary capital           | 3,295,150         | 2,863,095         |
| <b>Total regulatory capital</b> | <b>51,806,334</b> | <b>52,495,486</b> |
| Risk weighted assets            | 57,240,173        | 66,480,040        |
| <b>Regulatory capital ratio</b> | <b>90.51%</b>     | <b>78.96%</b>     |

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the National Bank of Georgia ("NBG") in supervising the Bank.

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and to monitor mentioned on a monthly basis with the reports outlining the calculations that are later reviewed and subsequently submitted to the NBG.

The Bank manages its capital structure and makes adjustments to it in the light of changes in the economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may reassess its business strategy or adjust the amount of return capital to shareholders or issue capital securities. Compared to previous years, the development of digital channels and products has become a high priority in the bank's goals.

As at 31 December 2022, the Bank had to maintain the currency induced credit risk (CICR) buffer of 0.26% (2020: 0.11%), Risk buffer for credit portfolio concentration of 5.36% (2021: 4.68%) Under total Basel III requirements the Bank was required to maintain a minimum regulatory capital ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio of 22.9%, 14.99% and 11.24%, respectively (2021: 21.98%, 11.63% and 8.72%, respectively)

As at 31 December 2022, share capital of the Bank comprised 629,464 of authorized fully paid shares with nominal value GEL 100 each (2021: 611,464 authorized fully paid shares with the nominal value 100 GEL each).

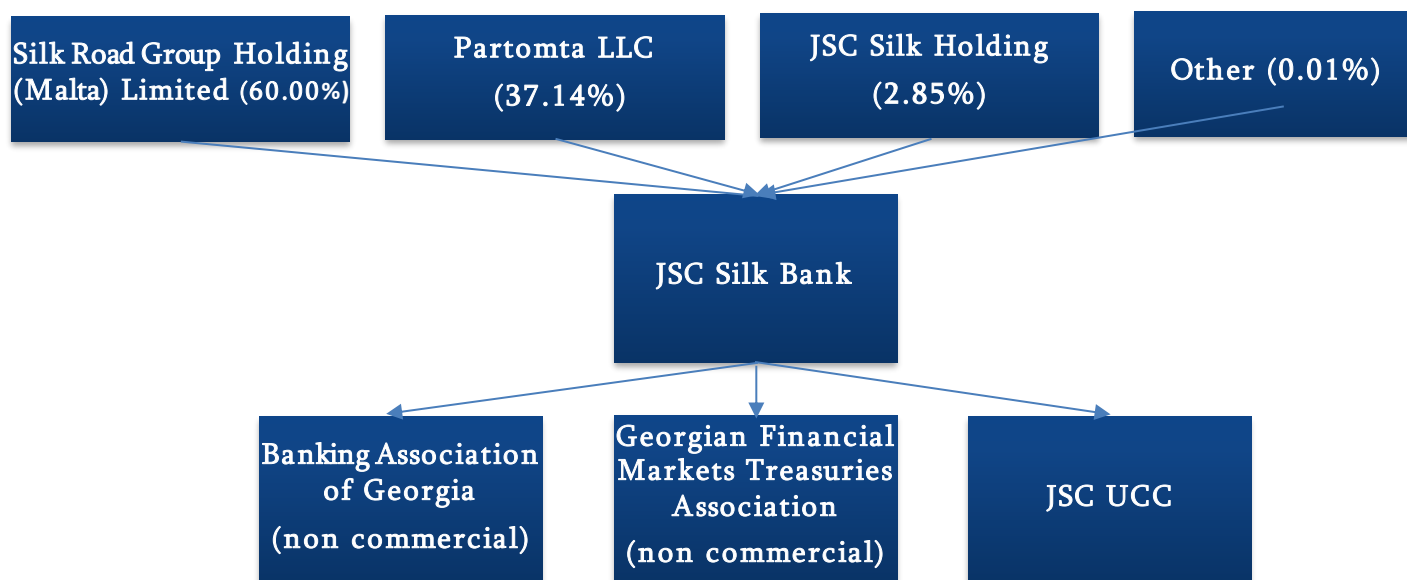
## **5. Ownership and Group Structure**

In 2022, the Bank issued 18,000 ordinary shares with a nominal value of 100 GEL each. The issued shares were fully purchased by Silk Holding JSC (I/N 405496404). Silk Holding JSC became the owner of 2.85% of the Bank's shares.

As at 31 December 2022 the shareholders of the Bank are - Silk Road Group Holding (Malta) Limited (I/N C41521) with 60.00% ownership of the Bank, Partomta LLC (I/N 404580271) - with 37.14% shares, Silk Holding JSC (I/N 405496404) - 2.85%, others - 0.01% (2021: Silk Road Group Holding (Malta) Limited (I/N C41521) – 61.76%, Partomta LLC (I/N 404580271) - 38.23%, Other - 0.01%).

The Bank's beneficiary owners are Giorgi Ramishvili, Yerkin Tatishev, Aleksii Topuria and David Franz Borger.

The structure of the shareholders' is the following:



## 6. Corporate Governance

The Bank's corporate structure consists by the Shareholders' General Meeting, Supervisory Board and the Board of Directors, each has its own responsibility and authority in accordance with the Georgian legislation and the Bank's Charter. Key objectives in designing the corporate governance structure of the Bank are to warrant the highest degree of transparency and accountability at all levels, and to incentivize agents (directors) to act in conformity with the objectives of the business and its shareholders. The governance structure was designed so as to warrant a clear distinction between the functions of the Supervisory Board and the Board of Directors, which assigns to the former the supervision of the management ("decision controlling"), and to the latter the responsibility for the operative business ("decision management").

### The General Meeting of Shareholders

The General Meeting of the Shareholders is the Bank's highest governing body, which elects the supervisory board members, which itself is responsible for supervising the Board of Directors.

#### Rights of the General Meeting of Shareholders:

- Change of the Bank's charter;
- Amendment of the Bank's authorized capital, trade name, legal address
- Reorganization and liquidation of the Bank;
- The decision on merger or division;
- Restriction of preferred share purchase option for shareholders, during additional capital emission;
- Decision making on distribution of net profit;

- Appointment/dismissal of Supervisory Board members;
- Approval of the Management and Supervisory Board reports;
- Determination of remuneration for Supervisory Board members;
- Selection of an independent auditor;
- Approval of Supervisory Board regulation;
- Approval of acquisition/disposal/exchange of property, if its value is more than 50% of the Bank's total assets.

During 2022, four General Meetings of Shareholders were held, where following matters were discussed:

- Results of the Bank's 2021 audited IFRS financial statements;
- Change in Supervisory Board members;
- Change of the Bank's name;
- Selection of an external auditor of the Bank's IFRS financial statements for 2022 and 2023;
- Capital increase, issuance and sale of additional shares to JSC "Silk Holding";
- Amendment of the Bank's charter and its approval;
- Approval of the founding agreement of the Bank.

## **Supervisory Board**

The Supervisory Board consists of six members (none of them are also a member of Board of Directors), of which three (including chairman), are independent members. Supervisory Board members are appointed for 4 (four) years. Re-appointment of Supervisory Board members is unlimited. The authority of the Supervisory Board member continues till the contract expiration or, after the contract expiration till the General meeting of Shareholders, where the new Supervisory Board member is elected.

The Bank's Supervisory Board is actively involved in the Bank's activities and is systematically informed regarding Bank's important operations. During 2022, 30 (thirty) Supervisory Board meetings were held, where the following matters were discussed and approved: issuance of loans and guarantees; changes in the Directorate of the Bank and granting of the corresponding representative rights; acquisition/disposal of fixed assets; approval of policies, procedures and instructions; assessment and approval of activities of the Supervisory Board; approval of the Bank's recovery plan; opening of the Bank's service centers; changes in the staff structure of the Bank; discussion of the candidates for independent member of the Supervisory Board of the Bank and presenting them to the shareholders for further approval; review of the Bank's 2022 results; raising of subordinated loan; making changes in the composition of the audit and risk committee; approval of the Bank's 2023 budget; consideration of the instructions raised by the National Bank of Georgia and the administration's response to the mentioned issues; AML risk appetite approval; and etc.

**Rights of the Supervisory Board:**

- Determination of the Bank's business policy, acceptance and approval of policy guidelines;
- Approval of the strategic and annual plan of the Bank's development, including the budget;
- Preparation of recommendations for the General Meeting of Shareholders and fulfilment of the tasks assigned by the General Meeting of Shareholders;
- Choose/release the members of the Board of Directors (including general director);
- Approval of internal policies and procedures for creating credit, investment, currency, asset and liability management, asset assessment, their classification and adequate coverage of possible losses. Approval of the internal provisions of the Bank's Credit Committee, Directorate, Corporate Secretary and Audit;
- Approval of the amount of minimum and maximum interest rates applicable to the Bank's credit resources and deposits;
- Control the activities of the Bank's Management;
- Decision on acquisition, alienation or loading of the property owned by the Bank;
- Decision regarding Bank financing, either through taking loans, issuing bonds, or other forms of finance;
- Request direct reporting from the auditor;
- Approval of acquisition/disposal/exchange of property, if its value is more than 10% of the Bank's share capital;
- Approval of establishment/liquidation of a subsidiary;
- Approval of starting/terminating of new banking business.

Independence of the Supervisory Board member is determined by the Corporate Governance Code and the Georgian Legislation.

**Supervisory Board Diversity:**

Diversity of skills, backgrounds, knowledge, and experience is important for the Supervisory Board to effectively govern the business. The Bank believes that its size and composition, as well as the size and composition of the Bank's Supervisory Board are appropriate. Each of the Bank's Supervisory Board member occupies, and/or has previously occupied senior positions in a different directions of business, in different countries. When making each decision, all above mentioned, gives the Supervisory Board the opportunity to rely on the personal and varied experience of the Supervisory Board members. The degree of independence of the members of the Supervisory Board, is in full compliance with the relevant requirements of the National Bank of Georgia.

**Supervisory Board members of the Bank**



Irakli Managadze

Chairman of Supervisory Board (Independent member)

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Chairman of Supervisory from February 2019

Education:

1991-Tbilisi State University, Scientific Research Institute of Social Economic and Regional Problems.

Professional Experience:

1991-1992-Attaché of the Ministry of Foreign Affairs of Georgia;

1992-1993-State Committee on Foreign Economic Relations, Chief Expert of Economic Relations Department with America and Western Europe;

1993-1994-Cabinet of Ministers of Georgia, Head of Economic Management Department;

1994-Cabinet of Ministers of Georgia, with relation of International Finance and Economic Organizations, Leading State Adviser;

1994-1996-deputy director of the World Bank (Washington D.C. USA);

1996-1998 - Institutional specialist of the Municipal and Social Infrastructure Department of the Fourth European Department of the World Bank;

1998-2005-President of the National Bank of Georgia;

2005-2015-Senior Policy Advisor, EBRD, Financial Institutions Group, London;

2015-Present-Senior Advisor J. Stern & Co. LLP, London, UK;

2017-present-Consultant, the World Bank Group, Washington D.C. USA;

2018-2019-Member of the Supervisory Board, Liberty Bank JSC, Georgia.

Irakli Managadze has the degree of the candidate for economics sciences.

Vasil Kenkishvili

Deputy Chairman / Co-Chairman of Supervisory Board

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Co-Chairman of Supervisory Board from 2018

Education:

1995-2000- I.Javakhishvili Tbilisi State University, Law Faculty, Tbilisi, Georgia, Lawyer;

2000-2003-Institute of State and Law of the Academy of Sciences of Georgia, Tbilisi Georgia, Aspirant;

2003-2004-American University, Washington College Of Law, Washington D.C. USA, LLM/Master of International Legal Studies.

Professional Experience:

2005-Georgian International Oil Corporation (GIOC) Tbilisi, Georgia, Legal Consultant;

2004-2006-JSC Georgian Railway, Head of the Department of Legal Support of Restructuring;

2010-2011-SRG Investments Limited, Director;

2011-2018-JSC Silk Bank, Chairman of the Supervisory Board;

2011-Present, SRG Investments Limited, General Director.

David Franz Borger

Member of Supervisory Board

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Supervisory Board member from 2014

Education:

1985-1987-Berufsakademie, Mannheim, Germany, Studied in Applied Information Technology, Degree: Wirtschaftsassistent;

1990-1995-Witten/Herdecke University, Germany, Studied in Business Economics, Degree: Diplom-Ökonom;

1996-2000-London School of Economics, United Kingdom, Research in the financial evaluation of risk and the accounting of financial instruments, University Degree: PhD in Accounting and Finance

Professional Experience:

1993-1996-International Trade Center (ITC UNCTAD/WTO), Geneva, Switzerland Consultant, project-based,

1996-2000-London School of Economics, United Kingdom, Tutorial Fellow and Lecturer,

2000-2003-Boston Consulting Group, Munich, Germany, Project Leader,

2008-2009-Terracotta Group Ltd., Board member, Business Development,

2005-Present-Silk Road Services GmbH, Managing Director.

Mzia Kokuashvili

Member of Supervisory Board (Independent member)

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Supervisory Board member from 2018

Education:

1986-1992-I. Javakhishvili state University of Georgia, Construction Economics and Management Economics, Bachelor's Degree;

1999-2001-Georgian Federation of professional accountants and audits, Certificate of Professional accountant.

Professional Experience:

2005-2007-Lomisi LTD, Chief Accountant;

2007-2009-Interplast LTD, Chief Accountant;

2009-2010-Barambo LTD, Chief Accountant;

2010-Present-Financial Management Group LTD, Auditor;

2010-Present-FMG Consultant LTD, Managing Partner, Director.

Mamuka Shurgaia

Member of Supervisory Board

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Supervisory Board member from 2014

Education:

2002-2006-Caucasus Business School, Finance.

Professional Experience:

2006-JSC TBC Bank Deposits Manager;

2006-2011-Ernst & Young Tbilisi Office, Senior Auditor;

2011-2012-SRG Investments Limited, Deputy Director, Finance;

2012-Present-SRG Investments Limited, Financial Director.

Nana Chkhobadze

Member of Supervisory Board (Independent member)

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Supervisory Board member from 2022

Education:

2005-2009 – Caucasus Business School, Finance.

2010-2014 – ACCA Member.

Professional Experience:

2007 – JSC Bank of Georgia, Credit Card Operator;

2008-Present – LLC PricewaterhouseCoopers Georgia , Audit Manager.

## **Evaluation of the Supervisory Board, its committees and members.**

In order to increase its effectiveness, the Bank's Supervisory Board uses the annual evaluation process, which is an important tool for achieving the stated goal. 2022 performance was evaluated by Grant Thornton. The main areas of assessment were the composition of the board and committees, diversity of members, competence of members, Board charter, Board's work processes, strategic governance, monitoring of systems and processes, implementation of strategic goals, access to information, communication with the directorate, participation in meetings, role of the chairman of the supervisory board, frequency of meetings, risk level management, implementation of control systems, existence of a whistleblowing mechanism and implementation of transactions with related parties.

The assessment of each activity was based on the information received from the Bank, in accordance with the documents, procedures and statutes, and it was determined to what extent the current situation corresponds to the effective functioning of the Supervisory Board.

As a result of the assessment, areas were identified in which the Supervisory Board performed its role and functions well, and it was determined that the activities of the Board are generally effective and in compliance with existing regulations. The Supervisory Board is actively working to improve recommendations received as a result of evaluation.

## **Board of Directors**

The Bank`s day-to-day activities are carried out by the Board of Directors. Its members (directors) are appointed by the supervisory board for the term not exceeding 4 (four) years, their re-appointment is unlimited.

The representation power of the Bank is granted to the member of the Board of Directors – directors, who are registered in the entrepreneurial register.

The Board of Directors is authorized to take decisions if the meeting is attended by more than half of the members.

The Board of Directors consists of at least three (3) members, including General Director, and decision is made by a majority of votes. Each member has one voting right. In case of equal distribution of votes, the vote of the General Director is decisive.

Rights of the Board of Directors:

- Supervise lending, financing, cash services, accounting and reporting, internal controls, security, and other majority activities of the Bank to ensure that the Bank provides proper service to the customers;
- Deal with any other matters assigned to the Board of Directors (or its individual members) by the supervisory board and/or the general meeting of shareholders;
- Develop the policy, normative and other regulatory documents approved by the Supervisory Board and ensure respective compliance with such documents;
- Preparation and presentation of Bank`s business plan for approval to the Supervisory Board;
- Appointment/dismissal of employees, including determination of respective reimbursement;
- Invitation of extraordinary General Meeting of Shareholders (upon necessity);
- Approval of the Bank's internal regulations;
- Approval of regulations on for each internal unit of the Bank;
- Develop policies, rules and regulations, which is subsequently approved by the Supervisory Board and ensure enforcement of each regulation.

Qualifications of the Members of the Board of Directors

Aleksi Khoroshvili  
Chief Executive Officer

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Education:

2000-2004 - Bachelor of Business Administration, Finance and Accounting, Caucasus University, Georgia.

2002-2003 - Bachelor of Business Administration, Finance and Accounting, University of North Dakota, USA;

2019 - MIT Sloan & MIT CSAIL, An executive course on artificial intellect and its impact on business strategy.

Professional Experience:

2003 – JSC Bank of Georgia, SME loan Officer;

2003-2006 - LLC Ernst & Young, Senior Auditor, Tbilisi, Georgia;

2006-2008 - LLP Ernst & Young, Senior Auditor, New York, USA;

2008-2009 - LLC Ernst & Young, Audit Manager, Tbilisi Georgia;

2009-2015 - JSC Liberty Bank, Chairman of the Audit committee (executive);

2015-2017 - JSC Liberty Bank, CEO;

2018 - Ilia State University, member of the Business School Dean's Advisory Council;

2019 - Batumi Georgian-American School, member of the Supervisory Board;

2020-2021 - Independent member of the Supervisory Board of TBS Leasing JSC;

2018-Present- JSC Nexus, executive founder;

2022-Present – JSC Silk Bank, CEO.

Archil Lursmanashvili  
First Deputy Chief Executive Officer

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Departments/Units under control:

Human Resource Management unit; Administration Unit; Security Unit; AML Department; Information Security Unit

Education:

2005-2009-Bachelor of Business Administration, Caucasus University, Georgia.

Professional Experience:

2009-2012-PwC Georgia LLC, Financial Audit Consultant / Senior Financial Audit Consultant;

2012-2014-SRG Investments LLC, Financial Manager;

2014-2021-SRG Investments LLC, Deputy CFO;

2021-2022- JSC Silk Bank, Chief Executive Officer;

2022-Present – JSC Silk Bank, First Deputy Chief Executive Officer.

George Gibradze  
Chief Legal Officer

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Departments/Units under control:

Legal Unit; Court - Enforcement Support Unit

Education:

1993-1997, Tbilisi secular university „GAENATI“, Humanitarian and Social faculty, Academic degree of Master of Laws.

Professional Experience:

2005-Head of Legal Department of JSC Kakheti Energy Distribution;

2005-Senior Specialist of JSC People’s Bank of Georgia Legal Department;

2005-2021-Head of the Legal Department, Risk Director at JSC Silk Bank;

2021-Present- Chief Legal Officer at JSC Silk Bank.

Giorgi Kaloiani  
Chief Risk Officer

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Departments/Units under control:

Risk Management Department

Education:

1991-1995 – Tbilisi State Institute of Economic Relations, Bachelor of International Economics;

2000-2004 – Leopold-Franzens University, International Economics Study Program, Austria;

2009-2010 – George Washington University, School of Business, Master of Project Management;

Professional Experience:

2008-2009 – JSC People’s Bank SME and Corporate Credit Risk Department Head;

2009-2013 – Co-head of the Credit Risk Management Department of JSC Liberty Bank;

2013-2018 – Head of Credit Risk Management and Reporting Department of JSC Liberty Bank;

2018-2019 – Boyport Financial Services, Credit Process Optimization Consultant, Accra, Republic of Ghana;

2022 – JSC Nexus, Product Owner;

2022-Present – Silk Technology JSC, Product Owner;

2022-Present – JSC Silk Bank, Chief Risk Officer.

Davit Nikolaishvili  
Chief Commercial Officer

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Departments under control:

Credit Department; Branch network Management Department; Customer Support (call center) Unit

Education:

2018-2020 – Free University of Georgia, MBA

2003-2005 – Ivane Javakhishvili State University The Minory Faculty of Law, BA

2001-2005 – Ivane Javakhishvili State University Faculty of Economic, BA.

Professional Experience:

2018 – Present – Head of SME Business Department Silk Bank JSC;

2012-2018 - JSC BasisBank Head of Corporate Lending Division;

2012 – MFO Continental City Credit Branch Manager;

2010-2012 – JSC Procredit Bank Georgia Small Business Coordinator;

2009-2010 -JSC Procredit Bank Georgia Credit Manager (Gori Branch);

2008-2009 – JSC Procredit Bank Georgia Credit Manager;

2007-2008 – JSC Procredit Bank Georgia Senior Loan Officer;

2004-2007 – JSC Procredit Bank Georgia Loan Officer;

2022-Present – JSC Silk Bank, Chief Commercial Officer.

David Ninidze  
Chief Product and Innovations Officer

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Departments under control:

Product and Innovations Department

Education:

2001-2005 – Caucasus University, Bachelor in Finance.

Professional Experience:

2005-2007 – JSC Bank Republic, internal auditor;

2007-2010 – JSC Bank Republic, Deputy Head of Retail Banking Department;

2010-2014 – JSC Liberty Bank, Head of Projects Department;

2014-2018 – JSC Liberty Bank, head of the alternative channel, deputy executive director;

2018-Present – JSC Nexus, Director of Products and Innovations;

2022-Present – JSC Silk Bank, Chief Product and Innovations Officer.

Natia Merabishvili  
Chief Operating Officer

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Departments under control:  
Operations Management Department; Logistic Unit

Education:  
1987-1992-Tbilisi I.Javakhishvili State University, Macroeconomics;  
1993-1994-University of Ferrara, Macroeconomics, Italy;  
2010-2012-Association of Chartered Certified Accountants (ACCA) .

Professional Experience:  
1992-1993-National Bank of Georgia, economist of cash circulation department;  
1993-1994-National Bank of Georgia, Chief Economist of the Foreign Currency Exchange Department;  
1994-1999-National Bank of Georgia, Head of Licensing Division;  
1999-2007-National Bank of Georgia, Head / Deputy of Head of Monetary Operation Department;  
2007-2009-JSC Silk Bank Head of Administration of Interbank Operations;  
2009-2010- JSC Silk Bank, Head of Department of Service Center Management,  
2010-2011 – JSC Silk Bank, Head of Operational Department;  
2011-2021-CFO at JSC Silk Bank;  
2021-Present-COO at JSC Silk Bank.

Irakli Bendeliani  
Chief Technology Officer

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Departments under control:  
Software development Unit, Infrastructure Management Unit, Services&Support Unit

Education:  
2004-2008-Ivane Javakhishvili Tbilisi State University, Faculty of Exact and Natural Sciences, Physical Informatics.

Professional Experience:  
2008-2010- Programmer JSC BTA Bank;  
2010-2015-Head of Software Department, JSC BTA Bank;  
2015-2021- Head of Information Technology Department, JSC „Silk Bank“;  
2021-present- Chief Technology Officer, JSC „Silk Bank“.



Beka Kvezereli  
Chief Financial Officer

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Departments under control:

Accounting, Reporting and Budgeting Department, Treasury Unit

Education:

2008-2012-Grigol Robakidze University, BBA;

2012-Duale Hochschule Baden Wuttemberg, Germany, Internaitonal Business;

2014-2017-Association of Chartered Certified Accountants (ACCA), Member;

2018-Present-Chartered Financial Analyst Institute (CFA), Level I and Level 2.

Professional Experience:

2015-2017-KPMG Georgia LLC, Auditor;

2017-2019-KPMG Georgia LLC, Senior Auditor;

2019-Present-Deputy CEO, Finance at JSC Silk Bank;

2021-Present-CFO at JSC Silk Bank.

## **Audit Committee**

The Committee is a permanent collegial body and is fully accountable to the Supervisory Board. The Audit Committee is a significant element of the Bank's corporate governance system. The Audit Committee supervises the activities of the Internal Audit Department, develops appropriate recommendations for this service and protects the interests of shareholders in terms of the reliability of financial statements. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

During 2022, five audit Committee meetings were held. Issues discussed and approved included: audit results of AML department; the status of implementation of the recommendations issued by the internal audit as a result of the inspection of the operational activities of the central branch in 2021; approval of 2021 IFRS Financial Statements; consideration of the selection of an external auditor for the audit of the IFRS financial statements of the Bank for the years 2022 and 2023; review of the internal audit report and corresponding recommendations; approval of the 2023 annual plan of internal audit; and etc.

The Audit Committee is comprised by five members, including chairwoman as independent member. The rights and responsibilities of the board of the Audit Committee are:

- Supervise the compliance of the Bank with the applicable laws;
- Approve the regulations governing the Bank's internal audit department and ensure the effective functioning of the internal audit department of the Bank;
- Ensure the independence of the internal audit department from the Bank's Management Board;
- Approve the operation plan of the internal audit department for the following fiscal year;
- Review the reports of the internal audit department, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- Supervise the activities of the internal audit, ensure its compliance with quarterly and annual operation plans;
- Assess the activities carried out by the internal audit department;
- Together with the Bank's Supervisory Board and Management Board ensure the cooperation of the internal audit department with other structural units of the Bank;
- Make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of internal audit department;
- Facilitate the activities of the external auditors; and
- Upon request of the Supervisory Board, prepare and present specific reports to it.

### **Executive level committees**

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

Assets and Liabilities Committee (ALCO) is engaged in managing and supervising market risk, liquidity risk, currency risk, interest rate risk. ALCO sets and monitors compliance with external or internal liquidity requirements, plans future cash flows, sets limits to manage interest rate risk, currency risk, liquidity and solvency risks. ALCO comprises of treasury, financial risk and reporting department employees and Bank's top management. ALCO meetings are held regularly.

#### **Composition of ALCO**

- Chief Financial Officer – Chairman of the Committee;
- Chief Executive Officer – Member;
- First Deputy Chief Executive Officer - Member;
- Chief Risk Officer – Member;
- Head of Treasury Unit – Member.

#### **Responsibilities of ALCO:**

- Efficient management of the Bank's assets and liabilities.
- Review of current and prospective liquidity positions and funding sources;
- Management of financial risks in order to achieve optimal ratio between risks and yield;
- Development of parameters for the pricing and maturity distributions of deposits, loans and investments;
- Monitoring of financial risks (liquidity, interest and currency risk).

## Credit Committee

Credit Committee is engaged in supervising, managing and approving credit exposures to Bank's retail, MSME, corporate and private banking clients.

The Bank has a two level credit committee, which has separate maximum limits.

Credit committee is held, if at least two voting right members are attending the meeting.

Credit officer / senior credit officer participates in the Credit Committee with a voting rights if loans are  $\leq 5,000$  GEL. For loans over GEL 5,000 credit officer / senior credit officer do not have voting rights.

For loans above GEL 5,000, Credit Committee should include at least one Risk Management Officer and Credit Officer with voting rights.

Loan application is initiated at branch / front office level and then sent to appropriate level of committee for approval.

Composition of Credit Committee:

### I level committee

- First Deputy Chief Executive Officer - Chairman of the Committee;
- Chief Risk Officer – Member;
- Chief Commercial Officer – Member.

### II level committee

- Credit officer (without voting rights for loans amounting  $>5,000$  GEL);
- Retail Loans Department (Head of Retail Loans Department; Head of Business Loans Department);
- Risk Management Department (senior specialist of credit risk management department; SME credit risk manager).

Responsibilities of Credit Committee:

- The decision on credit service;
- Management of different lending process;
- Set up specific action plans related to credit products;
- Decision making over the issues discussed during the committee, and respective control over the execution.

## The Methodological Committee

The objective of the Committee is to organize, structure, and optimize ongoing business process through creation/updating of internal regulations in conjunction with Board of Directors.



The Methodological Committee composition:

- Chief Operating Officer - Chairman of the Committee;
- Chief Information Officer – Member/Chairman of the Committee;
- Head of Legal Unit - Member;
- Quality Assurance Manager – Member;
- Head of Operations Management Department – Member;
- Head of Credit Management Unit – Member;
- Senior specialist of operational risk management department – Member;
- Deputy Manager of the Central Service Center, Batumi Service Center and Tbilisi Division Service Center – Member.

## **7. Risk Management**

Management of risk is fundamental to the business of banking and forms an essential element of Bank's operations. Risk management policies aim to identify, analyze and manage risks faced by Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

It should be also mentioned that in the short term, the Bank intends to continue moderate growth, but plans to strengthen risk management function, which is going to be reflected in a detailed review of existing risk management strategies, introduction of necessary risk management systems and staffing of risk management functions. Changes in risk management function in the medium and long term will allow the bank to be more growth-oriented and at the same time ensure timely and effective risk management.

The risk management process should provide transparent risk management process and confidence from stakeholders, promote the sustainable growth, continuous operations and presenting risk management as a competitive advantage for the Bank.

Daily risk management is supervised by the Risk Director, who itself is under the control of General Director.

Bank identifies and manages following risks related to its business:

**Credit risk** - the most material risk type for the Bank and arises from the possibility that counterparty to a financial instrument may fail to meet its contractual obligation and this failure may cause a loss to Bank. The Bank's credit risk control is carried out by the Credit Risk Department and the decisions are made on different levels of Credit Committee, which is composed by the employees of risk management department at all levels. Highest level of Credit Committee members also includes Directors of the Bank. Certain credit decisions are made by the Supervisory Board in accordance with internal policies and the National Bank's Risk Policy.

Collateral plays an important role in mitigation of the credit risk. Collateral is valued in accordance with NBG regulations and registered in public register.

Total collateral value on credit portfolio by the end of 2022 amounted GEL 45 mln and has following structure:

Types of collateral:

|                                                     |       |
|-----------------------------------------------------|-------|
| - Real Estate                                       | 58.6% |
| - Third party guarantee                             | 24.3% |
| - Shares and other securities                       | 6.1%  |
| - Furniture, computer equipment and other inventory | 1.5%  |
| - Other                                             | 9.5%  |

The Bank currently has an internal credit model agreed with the National Bank of Georgia for one type of retail credit product, but it is not used actively by the Bank. Credit-Info Georgia credit ratings are used in the loan approval process when reviewing all types of borrowers and credit products.

The bank has also introduced limits on related parties. These limits are set by the Supervisory Board.

From 2018 Bank has adopted new loan provisioning policy which meets requirements of IFRS 9 standards. New model was developed with the help of external consultants (KPMG Georgia LLC). The new model is more sophisticated compared to previous model. Bank calculated Expected Credit Loss by incorporating following components into calculations: Probability of Default, Exposure at Default, Loss Given Default. The new model also allows to incorporate macroeconomic scenarios into Expected Credit Loss calculations.

Financial assets on which the expected losses are applied:

- NBG nostro accounts;
- Funds placed in other credit institutions;
- Interbank deposits;
- Investment securities;
- Loans to customers;
- Other financial assets.

**Liquidity risk** - arises from the mismatch of the maturities of liabilities and assets. This mismatch may affect on the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Daily liquidity is managed by the treasury unit. The Bank also complies with short-term Liquidity coverage ratio (LCR) and Nest stable funding (NSFR) coefficients as required by NBG.

Liquid funds are placed only in high liquidity financial instruments such as cash, deposits in the National Bank and local commercial banks; The Bank also actively utilizes Investment Securities.

**Market risk** - is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of currency risk, interest rate risk and other price risks. Market risk mainly arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The Bank does not have a trading portfolio and is not involved in speculative trading. Accordingly, it faces mainly interest and currency risk.

**Interest rate risk** - The Bank faces the interest risk caused by traditional banking activities related to the revaluation of mismatch between interest bearing assets and liabilities. The daily risk management process of interest risks is carried out by treasury unit in accordance with the framework set by Assets and Liability Committee (ALCO).

**Currency risk** - the Bank understands the risk of loss of losses due to the revaluation of the assets and liabilities caused by the exchange rate change. The Bank's strategy towards currency risk is not to get involved in speculative activity through an open currency position. The daily FX Risk management process is carried out by treasury department in accordance with the framework set by ALCO.

**Operational risk** – is the risk of loss arising from systems failure, human error, fraud or external events (such as cyber attack risks, etc). Such events and/or failure may cause damage to Bank's reputation, have regulatory or legal implications, may result in financial losses. Risk management department is responsible for managing the operational risk.

**Compliance risk** – is a risk that Bank may not act in compliance with existing regulations, laws and agreements and may incur financial loss as part of such non-compliance.

Bank has approved risk management policies, procedures and established governance structures to manage these risks.

Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures. Board of Directors is responsible for implementing overall risk culture within the organization, monitoring and implementing risk mitigation measures, and ensuring that Bank operates within established risk parameters. Board of Directors presents to the supervisory board or approves independently, within its delegated authorities, risk related policies and procedures. Board of Directors is responsible for aligning risk strategy with Bank's overall strategy. Board of Directors controls risk related issues via various reports and committee meetings where risk related topics and performances are related.

## **Stress Testing**

Stress Test, i.e. simulation of crisis is an instrument allowing to assess impact of potential unforeseen development on the Bank as a whole, as well as on particular fields of its activity. Those are used to enable Bank adequately assess and manage risk, evaluate capital adequacy and create buffer necessary to maintain capital adequacy, if needed.

Hence, stress-testing is a significant instrument for assessing sustainability and risk-profile of the Bank.

Stress test results are considered in terms of:

- Profit and Loss - one year projection is made, taking into account stress test effects;
- Interest Rate Risk – one year effect is calculated considering increased interest rates;
- Capital Adequacy - Supervisory capital is calculated by taking into account stress test effect both on supervisory capital elements itself and effects coming from post stress corrections.

## **8. Remuneration**

Remuneration system involves certain forms of remuneration in compliance with the occupation, including the fixed remuneration, variable remuneration (bonus) and additional benefit (including and not limited to: the additions defined under the applicable legislation/internal regulations, pension contribution, business trip, professional development, health insurance, other forms of material incentive and other types of benefits).

The fixed part of remuneration is salary, while variable part includes bonuses (monthly, quarterly, one time) and other motivational payments.

The ratio of fixed and variable parts in the pay structure varies depending on the following factors:

- Variable parts of remuneration are higher on positions, which are directly involved in bank customer service (Front Office), such as: Credit Officers; Treasury Unit employees.
- The fixed remuneration is the main part back office employees. They may be granted for promotional pay as well as annual bonuses based on the performance results of the Bank.

Remuneration for the Supervisory Board members complies with their involvement, assigned responsibilities, efforts made and time resource. Remuneration for the Supervisory Board members includes fixed remuneration, the amount of which is fixed by the general meeting of shareholders.

The remuneration of members of the Supervisory Board and Bank employees is subject to annual review. The Bank's Supervisory Board defines, approves and controls the Bank's remuneration policy, including remuneration of Board of Directors. The Supervisory Board approves the remuneration scheme of the Bank's Board of Directors and the Bank's remuneration fund.

The remuneration of the Bank's Board of Directors consists of a fixed remuneration corresponding to their professional experience and organizational responsibility, assigned obligations and job specificity.



The Bank's Board of Directors ensures the implementation of the remuneration policy and determines the systems and motivation models for the Bank's employees (except directors). The Directorate approves the salary scheme of the Bank within the framework of the remuneration fund approved by the Supervisory Board, reviews and approves proposals pertaining improvement of remuneration system and other models of motivation, reviews assessments and reports of remuneration system monitoring bodies (both internal and external) and so on.

## **9. Environmental, Social, and Governance (ESG)**

Due to the Bank`s size and volume of operations, by the year 2022 the Bank has not made significant changes in ESG related matters. 2022 ESG report is available on Bank`s web-site: [www.silkbank.ge](http://www.silkbank.ge).