BASISBANK
Hualing Group Member

ANNUAL REPORT

2022

Contents

Introduction

JSC Basisbank's ("BB") Pillar 3 Annual Report is prepared in accordance with the requirements of Decree No. 92/04 of May 22, 2017 of the National Bank of Georgia "On Commercial Banks Disclosure of Information within Pilar 3", and in compliance with the Pillar 3 Disclosure Requirements by Basel Committee for Banking Supervision and the standards established under the European Union Directive N0 575/2013.

Management's Statement

The Management Board confirms that the information provided in the Basisbank's Pillar 3 Annual Report for 2022 is accurate and free of any misstatement. The Basisbank's Pillar 3 Annual Report for 2022 has been approved by the Audit Committee on May 11, 2023.

Unless otherwise stated, all data and information disclosed in the present report is presented according to the local reporting standards as required by the NBG. The present regulation does not require the audit of Pillar 3 disclosures. The report is prepared in full observation of the internal control processes as agreed with the Supervisory Board.

About Basisbank

Founded in the capital of Georgia at the beginning of 90s, with modest capital at hand a very small group of persons has initiated to enter the financial sector which was just in the process of foundation in Georgia.

In 2008, EBRD acquired 15% of Basisbank's shares which kick-started organizational re-modelling processes targeting more agile and efficient structure. A new vision and goal were set, powerful image creation and adaptation of best international practices took place.

In 2012 Hualing group, 1st largest investment Chinese group in Georgia acquired 90% of shares and lately increased the shareholding to 92.770%.

BB's progress on the market since the entrance of Hualing Group was considerable - the main task was to ensure speedy growth, retain sound financials and pre-tax earnings history and achieve these targets with careful risk management practices to retain sustainability of the long-term development path. After the entrance of the new shareholder the bank recorded accelerated growth on the market for several succeeding years.

In 2017, the Bank embarked on a fundamental transformation of re-drawing its business perimeter by reaching those areas, which were not covered by ordinary banking business. To fully encompass the business opportunities and compete in a profitable market, a decision on extension through Insurance and leasing market was made. Being one of the top performers in business financing, providing key segments of the economy with affordable and responsible financial resources and services, the Bank is tasked to be a powerful financial group, encompassing banking, insurance, and leasing. The goal is to gain a significant share in all areas of financial services, well-positioned in its objectives, backed with a strong customer base and healthy shareholding structure.

The Bank managed to put its resources, along with proven stability, strong financial standing, widespread recognition, sound performance, and sustainable development path, to the best composition of its new identity - BasisBank Group.

In 2022 organic growth was successfully boosted by acquisition of VTB Bank portfolios, acquiring loan portfolio of GEL 787mln and Deposit Portfolio of GEL 665mln. As a result, Basisbank became #4 bank on the market, increasing total assets, loan portfolio and customer base by acquiring more than 130 thousand new clients and 24 new locations.

Results Delivered

- 4th LARGEST Financial Institution — From 5th largest
- 4.4% Market Share by Assets — From 3.08%
- 4.6% Market Share by Loan Portfolio — From 2.9%
- OVER 135,000 New Clients
- 24 New Locations
- OVER 350 New Employees

Strong **Portfolio Growth**	Backed up by **Solid Capital**	Efficient **Corporate Governance**	Delivering **High Profitability**
GLP Growth 68%	Capital Growth 29%	Cost of Risk 0.65%	Operating Profit Growth 237%
Deposit Growth 123%	CAR 16.1%	Cost to Income 46.5%	Net Profit Growth 92%
			ROAE 18.5%

Key Drivers

Implementing Strategy
- Increased Client coverage
- Business diversification

Capital Instruments
- GEL 27mln injected by shareholder
- EFSE Sub loan drawn amounting to €15mln
- $10mln Sub Bond issued

Acquisition Portfolio of VTB Bank Georgia
- Loan Portfolio 787mln
- Deposit Portfolio 665mln

By the end of 2022, BasisBank ranks 4th among 15 Georgian banks with its assets of GEL 3.2 billion, equity of GEL 454 million, recorded profit reaching GEL 74 million after taxes.

BB is rated by FITCH: On May 10th, 2023, Fitch Ratings has revised the Outlook on the Long-Term Issuer Default Rating (IDR) of JSC Basisbank to Positive from Stable and affirmed the IDR at 'B+'. The Viability Rating (VR) has been affirmed at 'b+'.

Strategic Priorities reaffirmed

GROWTH
- Grow market share in core businesses;
- Become #3 Bank by Assets

DIGITALIZATION
- Excel digital solutions

EFFICIENCY
- Integrated Core Banking System
- Profound data analytics

CUSTOMER EXPERIENCE
- Take customer experience to next level, increase NPS
- Become top of mind bank, increase Brand Awareness

BB in 3 Years

- ✓ #3 Bank by Assets, #3 Bank by Profitability
- ✓ #1 Non-systemic Bank
- ✓ Financial Supermarket - Single window concept for Banking, Insurance and Leasing online services
- ✓ Top of mind Bank, among top 3 Banks by Customer Experience
- ✓ Data Driven Digitalized Financial Services Provider
- ✓ ROE over 15%
- ✓ Market Share 10%
- ✓ Strong focus on ESG

Core Competences to enable Strategy

Human Capital
- Top performing management
- Highly qualified team with deep Industry/sector knowledge

- Client centric business model
- Long-term operating focus
- Profound data analytics
- Holistic risk management approach
- Multi-channel distribution platform
- Focus on Green and Sustainable Incentives
- Investing in Team Professional Development

The Group Structure

Joint Stock Company Basisbank was established on August 16, 1993, registered by the National Bank of Georgia on November 4, 1993, in accordance with the Law of Georgia on Entrepreneurs. In accordance with the current legislation, the bank holds a license issued by the National Bank of Georgia for banking activities (November 4, 1993, license No. 173. The bank's legal address is: 1, Ketevan Tsamebuli Avenue 0103 Tbilisi, Georgia.

The bank is a universal banking institution with a core in banking and financial services in accordance with the applicable law.

The Bank's Shareholders

JSC Basisbank is a member of Chinese conglomerate “Hualing group” - a Chinese private enterprise group with broadly diversified businesses in China and extending overseas businesses. Xinjiang Hualing Industry and Trade Group Co. (“Hualing Group”) is in an ownership of BB since 2012.

Being a major shareholder of the bank, keeping controlling stakes of above 90%, Xinjiang Hualing Industry and Trade Group Co. is committed to develop strong financial institution under the umbrella of Basisbank group with emphasis on integrated growth of business franchise and strong advancement on the market.

Hualing Group is a Chinese private enterprise group established by Mr. Enhua Mi in Urumqi, Xinjiang region in 1988, Group's Traditional Business is development and management of commodities wholesale and retail markets. Its new Strategic Business Line is Agribusiness. Hualing Group has 40 subsidiaries and more than 80 affiliated companies, over 5,000 employees worldwide and over 3,000 employees in Xinjiang region, China.

In 2007, HG started implementation of the investment projects in Georgia. Currently, HG is the largest Private investment group in the country, with over $600mln total capital invested.

Hualing Group's vision is to leverage the advantage of its presence in Eastern Europe and Asia, develop along with the “Silk Road” project initiative and reviving the historic role of Georgia as the trading hub between Europe and Asia, progressively making Hualing markets a bridge between the two regions.

The founder and owner of the Group, Mi Enhua, is a prominent Chinese businessperson, with extensive experience in business sector, awarded multiple times for his special contribution to China's economic development and charity work.

	% of ownership interest held as at 31 December	
Shareholders	**2022**	**2021**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.770%	92.305%
Mr. Mi Zaiqi	6.547%	6.969%
Other minority shareholders*	0.682%	0.726%

*Other minority shareholders are individuals, including the members of the Management Board. The portion of their remuneration is converted into bank shares under share-based scheme.

The Share ownership under local standards including not vested shares is given in Appendix PE1-BBS-QQ-20221231/ table 6.

The Bank's Subsidiaries

As at end of 31 December 2022 three subsidiaries operated under the umbrella of Basisbank: JSC BB Insurance, JSC BB Leasing and Basis Asset Management Holding LLC (BAMH).

Thousand GEL		2022	2021
Name	**Core activity**	**investment**	**investment**
BAM holding LLC	Asset management	3,797	3,797
JSC BB Insurance	Insurance	6,000	6,000
JSC BB Leasing	Leasing	11,000	11,000
Total investment in capital		**20,797**	**20,797**

BB Insurance was established in 2017 as a member of the BB Group and is the group's main bancassurance partner. BB Insurance serves individual and legal entities and provides a broad range of insurance products covering motor, property, life, travel and corporate packages.

BB Insurance services are available in all cities and regions where Basisbank is present through its branches.

The governing body of the company

Chairman of the Supervisory Board – Zaiqi Mi
Member of the Supervisory Board - David Tsaava
Member of the Supervisory Board - Hui Li
Indipendent Member of the Supervisory Board – Zaza Robakidze (Chairman of the Audit Committee)

The Management Board

General Director - Konstantine Sulamanidze
Deputy General Director - Levan Pitiurishvili (Chief Operations Office)
Deputy General Director - Shota Svanadze (Chief Risk Officer)
Deputy General Director – Vano Bagoshvili (Chief financial Officer)

BB Insurance offers its customers a variety of products in both retail and corporate segments. We offer motor, property, credit life, and various types of corporate insurance packages like: Cargo, Business Interruption, General Third-Party liability insurance, Bankers Blanket Bond, and Aviation business related risks insurances.

The company places a strong emphasis on digital sales, prompt claims settlement processes, reputable reinsurers, flexible and straightforward products, financial stability, and professional staff. These factors enable BB Insurance to maintain and expand its flexibility and accessibility to clients across the country, with a streamlined governance structure and effective decision-making processes.

BB Insurance provides its services through BasisBank Group's branches located in all cities and regions of the country. The company is actively pursuing digitalization of its operations, with a particular focus on developing remote services that allow clients to claim reimbursements in a more flexible and time-efficient manner.

The Company ended the year 2022 with net profit of GEL 2.36 million (2021: GEL 1.37 million, +72% y-y growth) and assets reaching to GEL 29.3 million recording +20% y-y growth (2021: +40% y-y growth), the insurance contracts increasing GWP for more than 28% y-y (2021: +80% y-y growth). BB Insurance closed the year with quite a good performance. Income ensured high profitability figures on ROE 17.98%, and on ROA 8.81% at y/e 2022.

BB Leasing is a member of the Basisbank Group. BB Leasing is focused on rapid development and aims to become a stable financial institution forming long-term partnership with its clientele and stakeholders to achieve its major goal - be a leader and innovator in the Georgian leasing market with sound financial standing and advance customer experiences. The company chooses the client as the central focus of its strategy. Identifying the needs of customers and creating new opportunities for them is the key focus and the business concept of the company.

The governing body of the company

Chairman of the Supervisory Board - Zaiqi Mi
Member of the Supervisory Board - David Tsaava
Member of the Supervisory Board - Hui Li

The Management Board

General Director - Konstantine Sulamanidze
Deputy General Director - Lia Aslanikashvilo
Deputy General Director - Malkhaz Kharchilava

BB Leasing provides comprehensive leasing solutions and advisory services to individuals and businesses in sectors such as: agriculture, construction, manufacturing, mineral resources, trade, medical equipment, transportation, and communication. BB Leasing main focus and strategic segment small and medium businesses, while the key in development lays in remote services and improving service delivery channels through a omni-channel offer, the client is provided with quality products and services, attached with extended consulting possibilities and processes automated at high level.

The Company reached GEL 22.5 million in assets and grew by 45% over the year, recording almost double growth of 96% in leasing portfolio up to GEL 17.7 million. The profit received during the year reache 45% of yearly growth compared to 2021 results and gave 12.6% of ROE and 9% ROA.

Basis Asset Management-Holding LLC was established in 2012, BAM Holding is a property management subsidiary of the Bank. Main activities of the subsidiary include: development, realization, leasing and rental of properties.

The Group will continue effectively using its assets to further strengthen its brand identity as one-stop-shop for financial services and become even more innovative in its service offerings.

During 2022 all three wings of BB Group continued providing services in close coordination which is based on the ability to offer one-stop-shop financial services to clients in a single space on both platforms (brick&mortal and digital). Simple, transparent and customer-centric approach remains a key factor in the success of our Group.

The Governance

Bank Governance Structure

Good Corporate Governance (CG) is crucial to the proper functioning of the company and a well-governed company is the corner stone of any successful business, especially in an emerging market economy. We believe that implementation of good CG in the bank, as well as the industry, should adhere to basic principles, such as transparency, accountability, independence and fairness.

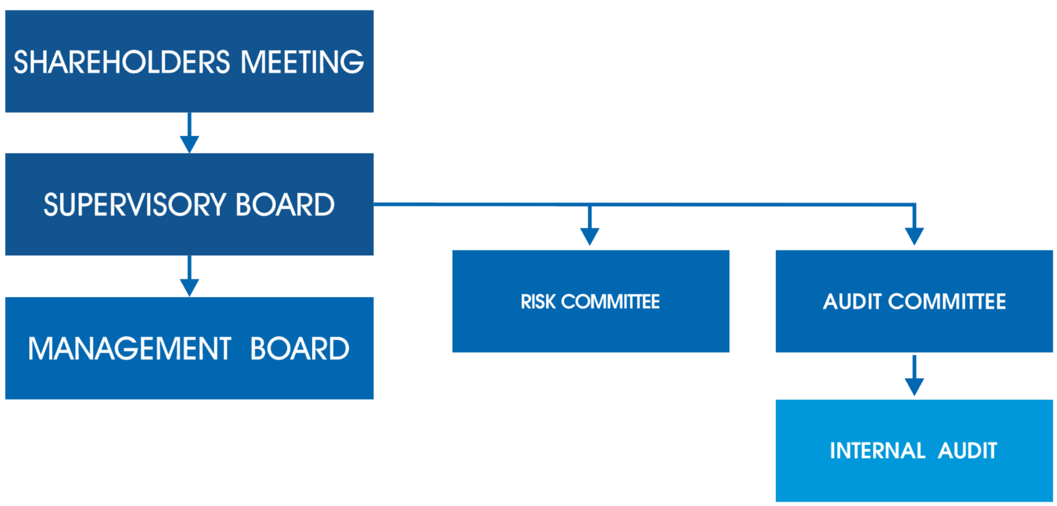
To establish good CG, Basisbank adheres to the Corporate Governance Code for Commercial Banks adopted by the National Bank of Georgia (NBG). Additionally, the Bank is guided by the principles on corporate governance for banks issued by the Basel Committee as well as various other standards and guidelines related to the implementation of good corporate governance.

In line with the principles of above-mentioned regulations, the Bank established CG structure suitable with the size, complexity, structure, economic significance, risk profile and business model of the Bank and its Group.

The governing bodies of the bank are:

- General Meeting of Shareholders
- Supervisory Board and Board Level Committees
- Management Board and management board level committees

Bank Governance Structure



General Meeting of Shareholders

Shareholder exercises its rights and responsibilities through the General Meeting. The General Meeting of Shareholders is the supreme governing body of the bank, by participating in the Meeting, shareholders exercise their rights of bank membership in compliance with the legislation of Georgia and the Bank Charter. General meeting takes decisions on the most important issues - approves the bank's charter, makes decisions on issuance of shares, distribution, and usage of earnings, on changes in the bank's capital and makes decision on appointment and / or dismissal of the Board members.

The General Meeting of Shareholders makes the following decisions:

- Amendments to the charter;
- Issuance of bank shares or other securities on the securities market;
- About the rules of sale of the bank shares and other own securities;

- Election of the Supervisory Board and the approval of the Board's budget (including the Board Committee(s));
- Approval of the Regulation of the Supervisory Board/amendments to it;
- Distribution and use of the bank's net profit;
- Increasing/decreasing the bank's capital.

At the General Meeting of Shareholders, one unit of ordinary share entitles its holder to one vote. Each scheduled meeting of the General Meeting of Shareholders is held once a year no later than two months after the preparation of the audited financial report for the previous year, which in turn shall be prepared four months after the end of the year. An unscheduled meeting of the General Meeting of Shareholders is convened at the request of the Chairman of the Supervisory Board, the Management Board or at least 5% of the shareholders.

Supervisory Board

The Supervisory Board (the Board or SB) is the body supervising the Group's activities, exercising its functions through the Board Meeting and Board-level Committees. The Board appoints Management Board members and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

The key functions of the Supervisory Board are supervision of the Basisbank Group's activities, Corporate Governance and Risk Management. Within the framework of these functions, the Board makes decisions on establishing the group's values, organizational structure and generally, ensuring that the group is governed in full compliance with the principles of fairness, competence, professionalism and ethics; establishes the group's strategy and oversees management's implementation of the bank's strategic objectives; ensures that the group is in compliance with all regulatory and supervisory requirements; establishes the risk appetite of the company along with Management Board and the CRO (Deputy General Director on risk management). The Board also oversees Management Board's activities and evaluates Management Board's decisions, ensuring independence and effectiveness of control functions, and conducts Management Board's performance evaluation in line with its long-term succession plan. The Board is responsible to oversee transactions with related parties and ensure existence of effective procedures and policies within the group in line with the requirements of law and regulatory framework. The Supervisory Board, in addition to financial risks, assesses non-financial risks, including the impact of the climate change risks on the banking activity. The Supervisory Board ensures that ESG risks are fully integrated into the Bank's risk management framework.

The SB adheres to and comply with requirements and principles of the Law of Georgia on Commercial Banks Activities, the Corporate Governance Code for Commercial Banks, the Code of Ethics and Standards of Professional Conduct, and internationally recognized standards in their work.

Board meetings are based on the principles of open dialogue, accountability and transparency, and members have the opportunity to be fully involved in the work process. Decisions are made in a transparent manner, with all members being equally involved in the dialog and decision-making process, except for the exclusion provided by the Bank's internal regulation on the Management of Conflict of Interests. Board's decisions as well as related material are submitted to the National Bank of Georgia on an ongoing basis.

The Supervisory Board held 36 regular and ad-hoc meetings in 2022.

Competence of the Supervisory Board

- Implement the basic defining principles of the Bank's strategic development, banking, risk management and supervise their implementation;
- Approve and periodically update documents such as the bank's internal regulations, and those regulating bank management and banking activities;
- Approve strategic development plan of the bank, review and approve the annual plan of the bank's activities presented by the directorate, and the annual budget, control their implementation, review the periodic financial reports submitted by the directorate;

- Approve the organizational structure of the bank;
- In case of consent of the General Meeting of Shareholders, appoint the General Director, other members of the Directorate, determine the issues related to the fixed and variable remuneration of the members of the Directorate;
- Ensure that Environmental, social, and governance (ESG) issues are properly reflected in the Bank's strategy and monitor their effective implementation;
- Approve the policy defining the principles of managing the conflicts of interest, control potentially risky transactions and, above the policy limits, review the deals planned with the persons related to the bank;
- Appoint an external auditor of the bank and request direct reporting from them;
- Convene the General Meeting of Shareholders;
- Perform the functions of the Remuneration, Corporate Governance and Nomination Committees;
- Implement internal control and risk management oversight through the functions delegated to Board-level committees;
- Execute other powers granted by the current legislation and the bank's charter.

Board Composition and Structure

The Board consists of six members, two of which are independent members of the Board. All members of the Supervisory Board are selected in accordance with the eligibility criteria set by the National Bank of Georgia. Board members are elected by the General Meeting of Shareholders.

The board's composition is an appropriate mix of knowledge, skills and experience that aligns with the Bank's strategy. The diversity of gender, age, nationality and functionality ensures different views in the process of discussion, evaluation from different perspectives and increases Board's performance. It is a properly balanced board that has the mission to ensure that the underlying issues are discussed from a variety of perspectives and that strategic decisions are made that are important for the bank's operations.

The Board is elected for a term of 4 years, however, the term of office shall continue after the expiration of this term, before the convening of the General Meeting of Shareholders. Repeated election of board members is unrestricted. A member of the Board may be removed from the Board before the end of the term by the General Meeting at any time.

The Supervisory Board is chaired by the Chairman of the Board, who is elected by the simple majority of votes from among its members for a term of 4 years. The Supervisory Board has two vice chairman, who are elected by the Board by a simple majority of votes from among its members for a term of 4 years.

Meetings of the Supervisory Board are held at least four times a year. The meeting of the Supervisory Board may be held in the personal presence of the members of the Board, or by electronic means of communication.

In 2022, we welcomed a new independent member to the Supervisory Board. Mr. Nikoloz Enukidze was appointed in November 2022 as an independent member of the Supervisory Board. He also joined the Bank's Audit and Risk Committees. Accordingly, Zhou Ning stepped down from his Audit and Risk Committees roles in November 2022.

Composition of the Supervisory Board

Zhang Jun - Chairman of the Supervisory Board

Zhang Jun holds an MBA. 2010 to present: Deputy General Manager in finance and foreign investments at Xinjiang Hualing Trade and Industry (Group) Co., Ltd. 1998 to 2010: worked as Sales Department General Manager, Assistant to the Chairman of the Board, HR Director in Urumqi City Commercial Bank. 1992 to 1997: Deputy Director in Chengxin Credit Union of Urumqi. Mr. Zhang held senior managerial positions at Urumqi Branch of the People's Bank of China, Urumqi City Commercial Bank and other financial institutions for many years. He has extensive practical experience in the operation and management of commercial banks, hence the profound and clear view of the strategic development of small and medium-sized commercial banks.

Zhou Ning - Vice Chairman of the Supervisory Board

Zhou Ning holds an MBA from Fuqua School of Business in USA, MS in Engineering from Virginia Polytechnic Institute, and BS in Engineering from the University of Science and Technology of China. 2005 to present: Managing Director in Tuhong International Co. Having implemented a number of financial advisory projects at Urumqi City Commercial Bank, Bank of Deyang, Yantai Bank, Hang Seng Bank, Wing Lung Bank, Xiamen Bank, Hong Kong Fubon Bank and Bank of Tianjin, Mr. Zhou has an in-depth understanding of strategy and business development of domestic and foreign small and medium banks.

Nikoloz Enukidze - Independent Member of the Supervisory Board

Nikoloz Enukidze holds degree in Physics from Tbilisi State University (1993) and a master's degree in business administration (MBA) from the University of Maryland. He served as the Deputy Chairman of the Supervisory Board at Bank of Georgia in 2006-2008, and Chairman of the Supervisory Board of the same bank in 2008-2010. Nikoloz Enukidze held various leading positions at TBC Bank in 2013-2021, including those of the Chairman of the Risk Committee and Chairman of the Supervisory Board. From 2017 to present, he has been working as independent non-executive member of the Supervisory Board of Yelo Bank (Azerbaijan).

Previously, Nikoloz Enukidze worked as Managing Director for Corporate Finance at Concorde Capital, a leading Ukrainian investment bank, Assistant Director for Corporate Finance at ABN AMRO in London and Senior Manager for Business Development at Global One Communications LLC in the USA.

Mi Zaiqi - Vice Chairman of the Supervisory Board

Holds a BA from the University of California. 2011 to present: Deputy Director of GM Office in Xinjiang Hualing Trade and Industry Group Co., Ltd and Director of GM Office in Georgia Branch Office of Xinjiang Hualing Trade and Industry Group Co., Ltd. 2010-2011: worked as an assistant to GM in Xinjiang Hualing Real Estate Development Co., Ltd. 2005 to 2006: worked as an assistant to GM at Xinjiang Hualing Grand Hotel Co., Ltd.

Zaza Robakidze - Independent Member of the Supervisory Board

Zaza Robakidze, a proficient banking expert with over 25 years of sector experience, accepted the position of the Member of Supervisory Board in late 2018. He has also been serving as Chairman of Basisbank's Audit Committee since 2012. Zaza Robakidze spent several years working at the National Bank of Georgia on various positions, from Economist to Head of Supervision Department. Zaza Robakidze holds a master's degree in economics.

Mia Mi - Member of the Supervisory Board

Holds a bachelor's degree in business administration from University of Southern California, Los Angeles. Director of International Development at Hualing Group International Special Economic Zone in Georgia. Extensive experience in assisting Chairman of JSC Hualing International Special Economic Zone in 2 crucial actions: acquisition of Basisbank in 2012 and each year (2011-2015) organizing international construction materials fair, connecting buyers and sellers from across Central Asia. 2015-2017, Mia Mi held various positions in key departments at Basisbank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders, organizing major corporate events and assisting HR in recruiting talents.

Supervisory Board - level Committees

The Board delegates specific areas of responsibility to its committees: the Audit Committee and the Risk Management Committee.

The functions of the committees are separated from each other, the issues are not discussed in duplicate. The committees report regularly to the Supervisory Board and facilitate informed decisions by the Board.

The Committees have unrestricted access to the Bank's internal information and documents related to any matter within the competence of the Committee.

The committees have full access to the Management Board and the risk management functions; however, they have the opportunity to meet independently, without the presence of the members of the Management Board, the employees of any unit of the bank as well as and external auditors, and to request and receive reports.

The committees have the right and opportunity to independently invite external consultants, and, if necessary, to receive consultations and services on legal, technical, accounting, financial, risk management, statistical and other issues.

Audit Committee

The Audit Committee is established by the Supervisory Board members and two of the three members are independent.

During the reporting period, the Audit Committee convened 6 times, and among others, was responsible for:

- Ensuring the adequacy and efficiency of the functions of the bank’s internal and external auditors; within that, setting of the scale and scope of the internal audit;
- Oversight and monitoring the quality of the Bank's accounting and financial reporting;
- Ensuring that the Management Board takes necessary steps to correct the identified control weaknesses, non-compliance with the legislation and other deficiencies;
- Ensuring the framework of the risk management and efficiency of internal controls;
- Review of the annual consolidated and separate financial and non-financial statements of the banks, discussion of the audited reports with the auditors, the pre-audit and post-audit processes and key issues and findings, and preparing of reports and recommendations for the Supervisory Board.
- Review of all internal documentations, the appropriateness of internal processes and control function, monitoring of the financial reporting process, data validation process, etc.

As of the end of 2022, the members of the committee were:

- Zaza Robakidze - Chairman of the Audit Committee/Independent Member of the Board
- Mi Zaiqi - Member of the Supervisory Board
- Nikoloz Enukidze - Independent Member of the Supervisory Board.

Risk Management Committee

The Risk Management Committee is established by three members of the Supervisory Board, two of them are independent members.

During the reporting period, the Risk Management Committee convened 4 times, and among others, was responsible for:

- Oversight of the Bank's risk strategies and policies and their effective implementation
- Assessment and oversight of the Bank’s risk profile and limits
- Oversight of the subsidiary’s risk management function, risk management framework and the proper functioning of internal control systems.

Thus, through the Risk Committee, the Supervisory Board is actively involved in the risk management process, has the proactive information and recommendations on risk limits, monitoring and evaluation results, and observes the level at which the risk management strategies and policies are integrated in the daily activities of the bank management and other business units, and also whether they are acting in compliance with the laws and internal policies.

The members of the Risk Management Committee as of end-2022 were:

- Nikoloz Enukidze - Chairman of the Risk Committee / Independent Member of the Supervisory Board
- Mia Mi - Member of the Supervisory Board
- Zaza Robakidze - Independent Member of the Supervisory Board.

Annual evaluation of the Supervisory Board and Board level committees

As a part of the annual self-evaluation Based on the period from January 1, 2022 to December 31, 2022, the Supervisory Board reviewed the structure, size and composition of the Board, as well as the structure and coordination of the board-level committees. Other criteria for evaluation were inter alia: Functions and responsibilities, Professional Ethic, Session planning, agenda, submission of materials and reporting, Participation in Strategy Definition and Planning, Reporting and communication (board-level committees).

As a result of the evaluation, the work of both the Board and its committees was assessed as effective and in line with current legislation as well as the bank's internal standards. The Board and Committees consider all important matters that fall within their responsibility and make decisions based on the obtained information The Board and the Committees attach great importance to the compliance of the Bank's work and processes with the legislation regulating the banking activities, the legal acts of the National Bank of Georgia and the Financial Monitoring Service of Georgia and the instructions of the National Bank of Georgia. The staffing and qualification of the members of the Board and Committees is in accordance with the current legislation and underlying challenges.

Members of the Board and the Committees have the opportunity, to obtain any information and resources needed to make a decision, based on the complexity and importance of the issue to address, including the services of independent consultants. Appropriate resources are provided for this purpose in the Bank's budget.

Due to rapidly changing legislative requirements and global and local challenges, it was recommended to periodically increase the awareness of the Board and Committee members and/or seek the assistance of external experts in topical items such as: information and cyber security issues, a recovery plan based on hypothetical, systemic and idiosyncratic stress scenarios; managing non-financial (including: environmental, social and managerial) risks.

In line with the internal “Evaluation Guideline for Supervisory Board and Committees”, an independent external company evaluated the Board performance in 2022. The evaluation document emphasizes recommendations such as role and importance of the Board to ensure the implementation and maintenance of effective management processes, including the development of appropriate strategies and procedures for maintaining business continuity in the outflow of material risk-takers; Ensuring that ESG issues are properly reflected in the Bank's strategy and monitoring of their effective implementation; The senior independent member shall be simultaneously appointed as the deputy chairperson of the Supervisory Board.

Management Board

The primary function of the Management is to effectively run the group’s activity, ensure the uninterrupted growth and development of the bank and the group, ensuring sustainable positioning on the market in line with the objectives set by the Supervisory Board. The SB appoints the members, their functions, the structure and the role in governance and responsibilities in line with the applicable law and terms of reference. The remuneration is clearly defined by the SB. The accountability of the management, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the Supervisory Board.

The management recognizes the importance of good corporate governance and risk management culture as well as its role in these processes. The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives, in compliance with applicable laws/guidelines as well as internal regulations. The Management Board works closely together with the Supervisory Board and reports to the Supervisory Board on all issues with relevance for the Bank concerning strategy, the intended business policy, planning, business development, risk situation, risk management, staff development, reputation, and compliance, on systematic basis but at least quarterly.

The management is responsible for delivering business objectives in line with the group’s strategy, ensuring the Bank’s capital and liquidity planning, and that management policies and procedures are communicated and implemented throughout the bank and are supported by sufficient authority and resources. The management is also responsible to ensure that the bank operates consistently with the processes and procedures set out in its internal and external regulations, allocations of resources, planning, managing, accounting, and reporting of financial and risk position, properly executing the management and control functions.

The Management Board consists of General Director, General Director Deputies, and other Directors.

General Director

- Distributes responsibilities among board members in consultation with the Supervisory Board;
- Ensures the proper functioning of the Management Board, collective decision-making and compliance of decisions made with the company's strategy;
- Supervises and coordinates the decisions made by the Management Board;
- Represents the bank in relations with third parties

Management Board members

- Supervise their respective structural units, take care of their proper functioning and implement the policy defined in accordance with the Bank's strategy;
- Represent the bank in relations with third parties within the scope of their managerial authority.

Management Board of the Bank consists of 7 members:

- David Tsaava, General Director
- Lia Aslanikashvili, Deputy General Director, Finance
- Hui Li, Deputy General Director, Lending
- David Kakabadze, Deputy General Director, Risk Management
- Levan Gardapkhadze, Deputy General Director, Retail
- George Gabunia, Chief Commercial Officer
- Rati Dvaladze, Chief Operational Officer

Members of the directorate

David Tsaava – General Director

General Director of Basisbank since 2011. 2015-2018: Member of Basisbank Supervisory Board. Since December 2017 David Tsaava has been serving as Supervisory Board member of BB Leasing and BB Insurance, the subsidiaries of Basisbank Group.

He started his career at Basisbank as a loan officer in 2004. Later, till 2008, he headed the Corporate Loan Division. In 2008-2010 David Tsaava was appointed as Corporate Director. In 2010-2011 he was an acting General Director.

After obtaining a Bachelor's Degree in Banking and Finance from Tbilisi State University, David Tsaava got a Master's Degree at Sokhumi State University. Later, he obtained a PhD in Business Administration from Technical University of Georgia.

Lia Aslanikashvili – Deputy General Director, Finance

Basisbank's Deputy General Director, Finance since 2012. 2017-2018: General Director of BB Leasing, the subsidiary of Basisbank Group. 2017-present: Deputy General Director, Finance at BB Leasing and BB Insurance, the Basisbank Group member companies.

In 1999-2002, she served as Manager at the International Operations Department of Basisbank. In 2002-2005, she headed the same department. In 2005-2007, headed the Settlement Department. In 2007-2008, Lia Aslanikashvili led the Treasury Department. In 2008-2012, she was the CFO of Basisbank.

Lia Aslanikashvili holds a Master's degree in International Economic Relations from Tbilisi State University.

Li Hui - Deputy General Director, Lending

Basisbank's Deputy General Director, Lending since 2012. 2015-2018: Member of Basisbank's Supervisory Board. Supervisory Board member of BB Leasing and BB Insurance, the Basisbank Group member companies, since 2017. Li Hui has been working in the financial sector since 1993. In 2005-2012 she was in charge of loan approval in Credit Management Department of Urumqi City Commercial Bank. At different times, she held the position of Deputy Manager of Credit Department and Deputy Director in Urumqi Chengxin Credit Cooperatives.

Li Hui holds a Bachelor's Degree in Accounting from Financial University of China.

David Kakabadze – Deputy General Director, Risk Management

Basisbank's Deputy General Director, Risk Management since 2019. 2017-2019: General Director of BB Insurance, the subsidiary of Basisbank Group. 2017-2018: Deputy General Director of BB Leasing, the Basisbank Group member company.

David Kakabadze has been with Basisbank since 2003, initially serving as an IT developer/ programmer. In 2005, he was appointed as Head of IT Programming Division. In 2008-2012 David Kakabadze became Director of IT and Risk Management. In 2012-2019 he served as Basisbank's Deputy General Director, Risk and IT Management.

David Kakabadze holds a Master's Degree in Finance from Caucasus Business School.

Levan Gardapkhadze – Deputy General Director, Retail Business

Basisbank's Deputy General Director, Retail Business since 2012. 2017-2018: Deputy General Director of BB Leasing and BB Insurance, the Basisbank Group member companies.

Levan Gardapkhadze started his career at Basisbank as International Operations Department Manager. In 2005 he was appointed as Head of Plastic Cards Department. In 2007-2008 he chaired the Development and Project Management Committee. In 2008-2012 Levan Gardapkhadze was a Retail Banking Director.

Levan Gardapkhadze holds a Master's Degree in Business Management from University of Georgia, a Master's Degree in law from Tbilisi University of Economics, Law and Information and a Bachelor's Degree in International Economics from Technical University of Georgia.

George Gabunia – Chief Commercial Officer (CCO)

Basisbank's CCO since 2019. In 2012-2019 George Gabunia headed the bank's commercial department. In 2010-2012 he led the corporate department of an international Georgian bank. In 2008-2010 he headed the Corporate Regional Group, and in 2006-2008 George Gabunia was a corporate banker at the same financial institution. In earlier years, he worked in Basisbank's marketing and sales areas.

George Gabunia holds a Master's Degree in Banking from Tbilisi State University and a Bachelor's Degree in Finance and Banking form the same university.

Rati Dvaladze – Chief Operations Officer (COO)

Basisbank's Chief Operations Officer since 2019. In 2014-2019 he headed Basisbank's Project Management and Business Analysis Division. In 2008-2014 he worked in the areas of credit risk system and analysis. Rati Dvaladze also is an educator, delivering lectures.

Rati Dvaladze obtained a Master's Degree in Information Technology Management from Free University and a Master's Degree in Mathematics from Tbilisi State University. He also holds a Bachelor's Degree in Mathematics.

Risk Management and Risk Strategy

Risk management and control system

Risk management and control systems are key in ensuring stable and robust development of the bank and the group in pursuit of delivering its strategic goals aligning risk, capital and performance targets with interests of customers, shareholders, employees and stakeholders.

The Risk Strategy, reviewed and approved on the Board level, is derived from the business strategy. The Risk Strategy defines key priorities, sets targets for the execution and deals with changes in economic, social and regulatory environment; ensures a medium-low risk profile as defined by the risk appetite framework of the bank, taking into account the principles of market best practices and regulatory expectations. Risk Strategy is approved by the Supervisory Board and is modified at any time when strategy is revised, but at least annually and it is essential to be available for the whole institution.

The Risk Strategy defines the group's approach to risk management including general methodologies to identify, assess, control, report and manage / challenge relevant risks; and the risk governance structure built to support these activities within the everyday operation of the Bank.

Risks are managed via a framework of principles formalized in policies and procedures, and the organizational structure with clearly delegated authority levels and measurement and monitoring processes that are closely aligned with the activities of divisions and business units. This dedicated governance framework ensures that all inherent risks are controlled in a proper way within the everyday operation of the Bank.

Risk Governance

The group follows a strong risk governance framework which pursues effective control and management of risk profile as defined by the Board.

At a strategic level, risk management objectives supported by the risk governance structure are:

- To define Bank's strategy based on the Group's Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business.
- To ensure business growth plans are properly supported by effective risk infrastructure.
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

This governance framework is underpinned by the distribution of roles among the three lines of defense, a robust structure of committees, and risk sharing responsibility from top Management level down through to each business line, unit manager and/or risk officer.

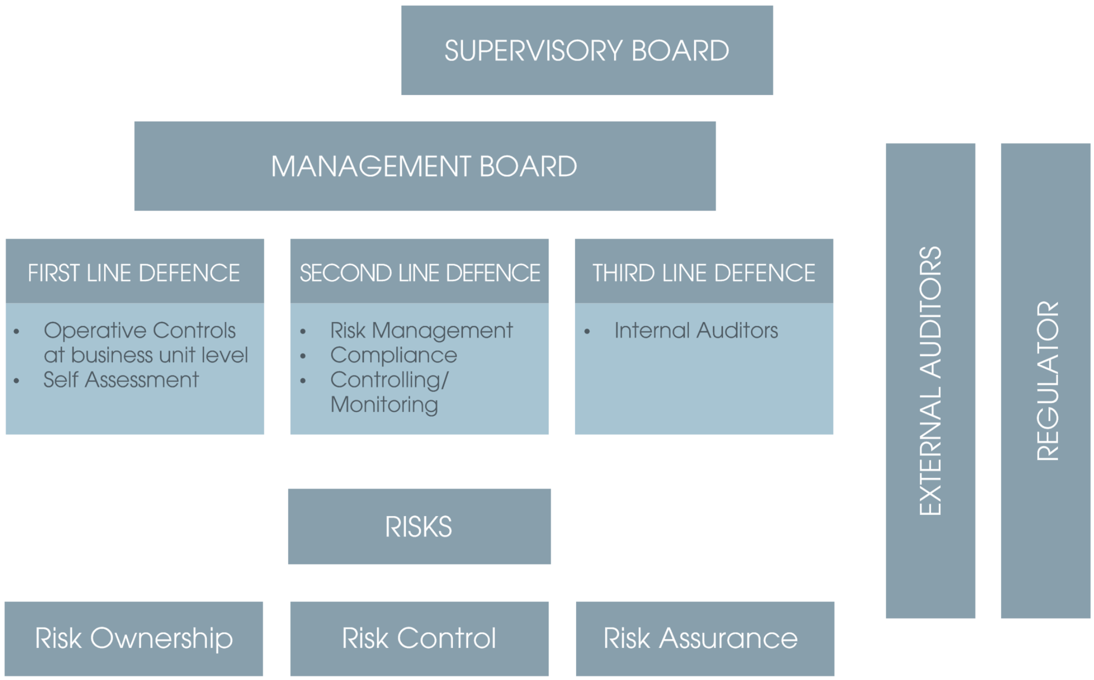
Lines of defense

The risk control is organized across three lines of defense:

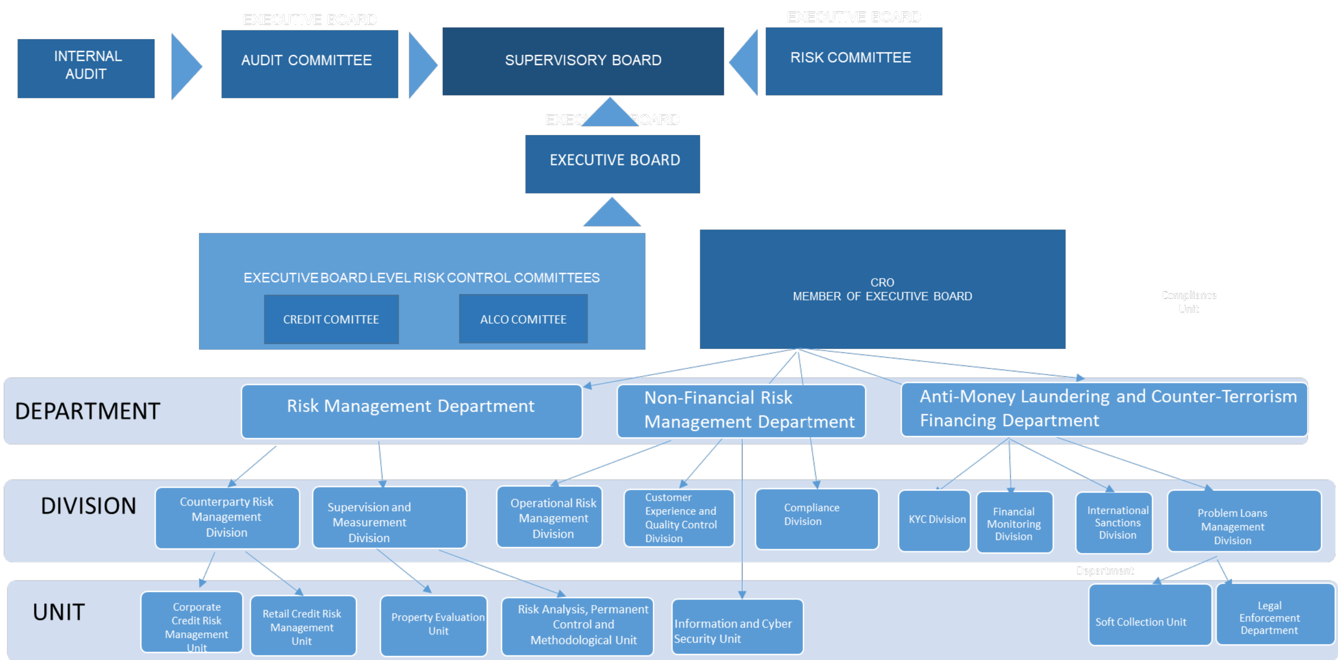
First Line: Business unit level - operational day-to day management of risks are the task of business units and back support functions that originate risks, and therefore have primary responsibility in the management of those risks. Each risk owner establishes and reviews the risk management tools and structure for the risks generated as a part of their activity, ensuring that daily risk management is regulated in accordance with the policies of the Bank and executed according to the detailed operational level regulations of the Bank.

Second Line: Risk Management, Compliance and AML/CFT functions – internal control and compliance oversight is the responsibility of this functions, as well as identification and challenging the risks. The limit system is operated by Risk Management who has to report the result to the Executive Board on a regular basis. In case of limit breaches, mitigation actions need to be defined by the Executive Board. The risk management also monitors activities of the first line of defense. These functions ensure that risks are managed in accordance with the risk appetite, fostering a strong risk culture across our organization. They also provide guidance, advice and expert opinion in risk-related matters.

Third Line: Internal audit – responsible for assurance to senior management and the board that the first and second lines' efforts are consistent with expectations, Internal Audit function controls and regularly checks that the policies and procedures are adequate and effectively implemented in the management; controls that all risks are consistent with the bank's risk appetite statement and internal regulations; monitors compliances with all regulatory and other mandatory requirements.



Risk governance structure within Basisbank



Risk Governance Structure in the Bank ensures effective segregation of duties from the senior management through managerial units to the front-line personnel; Core risk management responsibilities are embedded in the Management Board responsibilities and delegated to senior risk managers and senior risk management committees responsible for execution and oversight. Cross-risk analysis and regular reviews are conducted across the Group to validate that sound risk management practices and a holistic awareness of risk exist.
Risk Oversight function and risk management systems is split between following risk management units:

- The Supervisory Board,
- The Management Board,
- Audit Committee,
- Risk Committee,
- Assets and Liabilities Management Committee ("ALCO"),
- Risk Management departments,
- AML/CFT Department,
- Compliance Division,
- Treasury department,
- Credit Committees.

The Supervisory Board and the Executive Board have a sound understanding of risk management and its importance to the sustainable and strategic development of the Bank.

At Supervisory Board level - the independent Audit Committee and Risk Committee, which report directly to the Board and give unbiased information about adequacy of existing policies and procedures, adherence to the group's risk strategy, risk appetite and risk positions, regulatory compliance and other internal and external regulations.

At Management board level - an Independent Risk Management unit, and risk-profile committees in credit, assets & liabilities management committees level, to ensure sound risk management practices and decision making process; Risk management analytical and decision making tools; Comprehensive system of financial and managerial reporting to meet regulatory requirement and needs of Management Board; Detection and classification of different types of risks which the group potentially faces; Policies, procedures and guidelines, which govern management of risks across the organization.

Supervisory Board - is setting "the tone on the top" by establishing and fostering a high ethical and responsible culture in the bank. The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board approves and exercises control over the implementation of the Bank's strategy and its budget, sets the general approach and principles for risk management by assessing the Bank's risk profile, the adequacy and effectiveness of the Bank's risk management framework, approves individual risk strategies, setts risk appetite and the risk control framework.

The Risk Management policies are approved by the Supervisory Board of the Bank aim to identify, analyze and manage the risks faced by the Group. They assign responsibility to the management for specific risks, set appropriate risk limits, set the requirements for internal control frameworks, and continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, emerging best practices, products and services offered.

Audit Committee - is an independent control function, which regularly reviews internal controls and processes; reviews bank's internal control system, evaluates its objectivity and correctness; provides oversight of the bank's internal and external auditors' recommendations; approving, or recommending to the Board on monitoring the financial accounting process; provides oversight of the effectiveness of the risk management system, particularly of the internal control system and the internal audit system. The audit committee reports to the Board on quarterly basis on key risk portfolios, on risk strategy and supports the Supervisory Board in monitoring the implementation of this strategy; monitors the Management Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.

Risk Committee monitors the Bank's risk profile, evaluates adequacy requirements for principal risks, including evaluation, monitoring and limits of the risks; debates and agrees actions on the risk profile and risk strategy across the Bank; discusses all risk policies and related documents proposed for approval to the Supervisory Board prior to their submission; evaluates effectiveness of the bank's internal control and risk management systems together with the Internal Audit Committee; reviews test results of risk management environment conducted by external audit and develops corresponding recommendations; periodically reviews existing limit system.

The Management Board is responsible for managing the Bank in accordance with the law and its' Terms of Reference in performing its activities in accordance with the goals and objectives of the Bank. Management Board is responsible for establishing effective business organization and adequate segregation of duties and subordination; structuring the business to reflect risk, ensuring existence of adequate procedures, including approval of all policies prior to submission to the Board, reviewing and approval of procedures before implementation.

Management oversight and control culture involves inclusion of key items of internal control into the regular tasks of the Management Board. The scope of Management Board's control function includes review of performance to streamline the progress toward the strategic goals, control activities at division and departmental level, regular reviews of the bank's strategy and risk and capital limits to ensure compliance with exposure and capital limits; follow-up on non-compliance to ensure that management at an appropriate level is aware of the transaction or situation and to establish accountability; requiring approval and authorization for transactions above certain limits; review of evaluations of internal controls, ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.

An effective internal control system requires that significant risks are identified and assessed on an ongoing basis. This process should cover all risks assumed by the banks and operate at all levels within it. Individual policies for Credit, Operational and AML policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.

The Management Board establishes committees and functional units within the bank to ensure overall oversight and management of risk.

ALCO Committee reviews current and prospective liquidity positions and monitors alternative funding sources; reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing; develops parameters for the pricing and maturity distributions of deposits, loans and investments; develops alternative strategies which take into account changes in interest rate levels and trends, deposit and loan products and related market/banking regulations, etc.; performs an independent review of the validation and reasonableness of the inputs, assumptions, and output of the ALM model(s) and procedures; approves limit structure on counterparty risk.

Credit Committee acts in the best interest of the Bank and in compliance with internal policies and procedures; evaluates potential clients' financial standing and their ability to repay the loan; reviews loan applications and makes decisions within the authority delegated to the committee; reviews loan collection practices to improve loan underwriting and collection efforts.

Deputy General Director - Risk Management (CRO) is a member of the Executive Board, is a top-level executive responsible for overall risk management in credit, market and operational risks, who provides overall leadership, vision, and direction for Enterprise Risk Management (ERM) and develops a framework of management policies, including setting the overall risk appetite of the Bank. Responsibilities of CRO include comprehensive control of risk and continuing development of methods for risk measurement; setting risk limits and creating risk maps; communicating a clear vision of the firm's risk profile to the board and to key stakeholders. CRO has unimpeded direct access to the Supervisory board, regularly reports to SB about the Bank's risk profile, its adherence to defined risk appetite, significant internal and external developments which could have material effect on bank's risks.

General Risk Management Department evaluates credit, market and liquidity risks related to various transactions or operations and draws up suggestions about modifications necessary in structure, procedures, makes assessment of expected credit losses (ECL); manages and evaluates credit, market and liquidity risks; elaborates ICAAP (internal capital adequacy assessment process), by coordinating them with the risk owners; elaborates and introduces methods of risk mitigation, specifically related to credit risk management; evaluates bank's lending performance and compares it to the past periods;

The Non-financial risk management Department is an integrated part of the Bank's overall risk management activities and aims to establish sound and effective non-financial risk management practice across the Bank. Non-financial risk includes operational risks as defined in the Basel III operational risk event types, but also other important risks such as cyber and information security and third-party risk. The purpose of Non-Financial Risk management is to ensure enforcement of effective risk identification, assessment, monitoring and reporting tools and methodologies to minimize non-financial losses while supporting business development and growth; It ensures to minimize internal fraud incidents and establish environment, which aligns with the bank's business objectives.

The bank differentiates two main non-financial risk functions: Operational Risk and Information and cybersecurity risk.

Treasury department – responsible for daily control and management of A&L structure, liquidity and funding position, interest rate gap exposures and management of foreign exchange risk exposure, reporting directly to CFO and ALCO committee for approval; Treasury department maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive risk reporting and management review process, as well as effective internal controls.

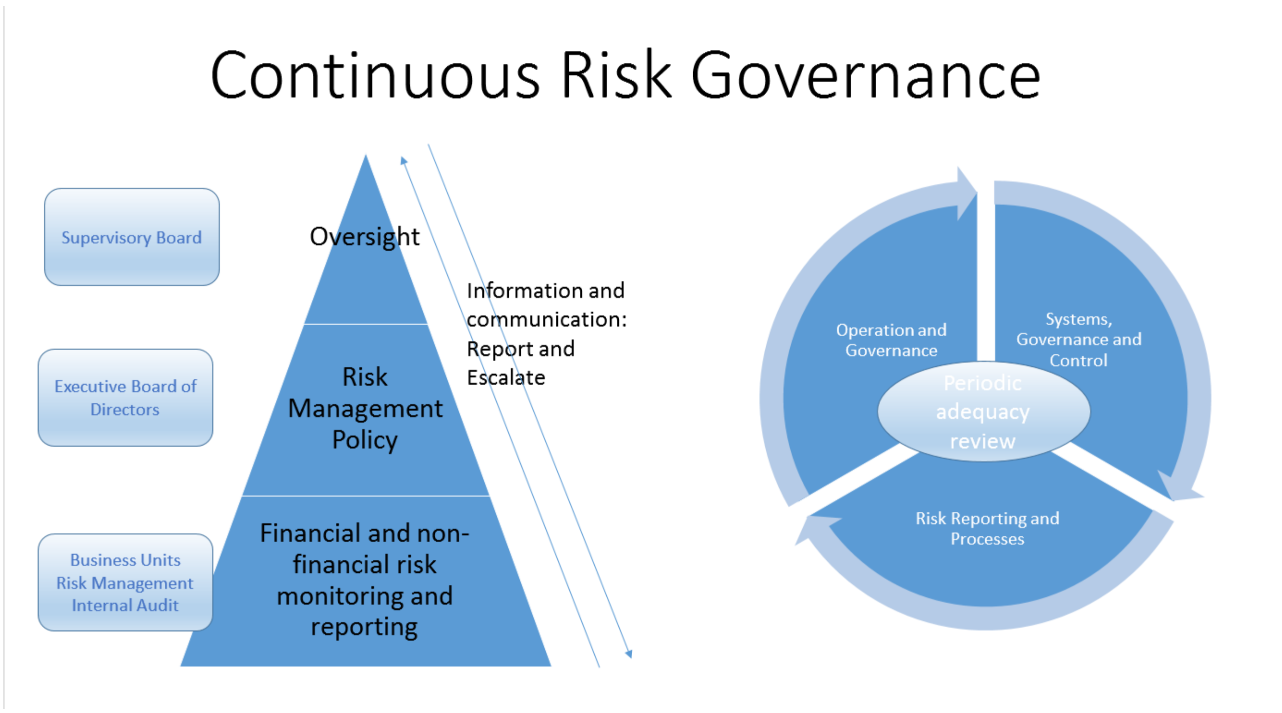
At a strategic level, risk management objectives supported by the risk governance structure are:

- To define Bank's strategy based on the Group’s Risk Appetite and Capital Plan
- To optimize risk return decisions by taking them as closely as possible to the business;
- To ensure business growth plans are property supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains stable under a range of adverse business conditions.

Information and communication are essential for effective Risk Governance. In Basisbank it involves the inclusion of key types of data in the record-keeping process, such as internal financial, operational and compliance data, as well as external market information on events and conditions relevant to decision making. An effective internal control system requires that significant risks are identified and assessed on an ongoing basis.

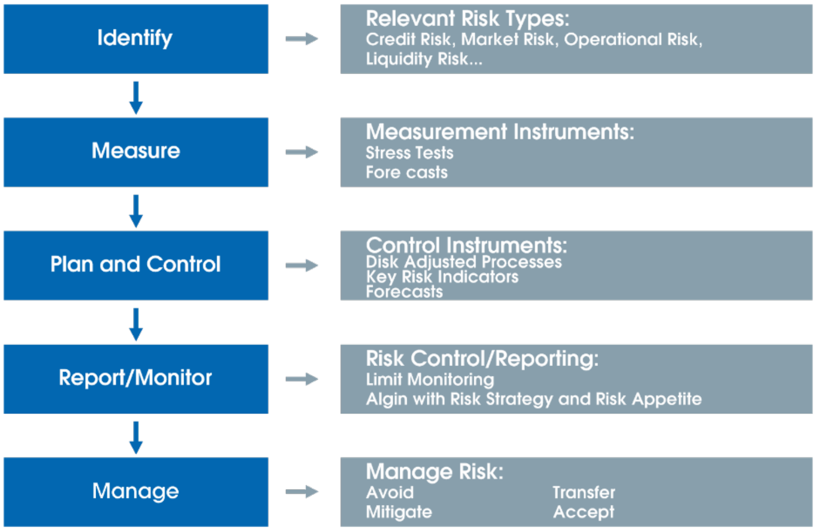
Individual policies for Credit, Operational and Anti-Money Laundering (AML) policies enable the Bank to measure, aggregate and report risk internally, as well as use this information for regulatory purposes. Further, Bank's internal methodologies and manuals provide description of processes from credit decisions - granting, pricing and approval, to portfolio management and capital adequacy.

Risk Governance Continuity



The Bank maintains and adheres to the best Corporate Governance standards. Basisbank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009. Our operations are regulated and supervised within banking supervision framework by NBG which focuses on licensing, capital adequacy, liquidity requirement, risks' concentration, Corporate Governance Code as well as organizational and reporting requirements. Supervision framework also provides guidelines for the regulation of Risk management in Commercial banks, risk governance principles, internal control systems, etc.

A management reporting system is built up to serve as an effective tool for risk governance. Risk management processes are constructed in a way that they support the execution of the risk strategy in the daily activities, so that risk management becomes a continuous process of creating transparency and risk mitigation. In pursuit of its objectives, risk management is segregated into five discrete processes: identify, assess, control, report and manage/challenge. All material risk types, financial, as well as non-financial risks: including credit risk, market risk, operational risk, liquidity risk, regulatory risk and reputational risk, inherent in the financial business, are managed via dedicated risk management processes. Modelling and measurement approaches for quantifying risk and capital demand are implemented across all material risk types.



Risk Appetite and Key Risk Types

Risk appetite is the amount of risk that an organization is prepared to accept, tolerate, or be exposed to at any point in time. As it is evident that risk inherent in the operations of the Bank cannot be reduced to zero, based on careful cost-benefit analysis, the Bank has to elaborate its risk tolerance framework.

The management of each material risk type is defined within the Risk framework of the Bank. The risk appetite of Basisbank has been set as a limit system which enables the Bank to continuously monitor the exposure to the relevant risk factors. The limit system considers all relevant risk types identified during the ICAAP processes.

The limits are defined by the Management Board and must be in line with strategic planning and external requirements (legal requirements on capital and liquidity; Group level/owner requirements). The Bank considers risk assessment in a systematic way, which is achieved via different stress tests and Internal Capital Adequacy Assessment Process (ICAAP). Capital adequacy ratio, Liquidity Position, market risk is assessed within the regularly performed benchmark analysis and under more severe stress tests conditions.

The risk map of the institution shows the complete picture of all risk types evaluated in Basisbank under the ICAAP. For each type of risk its relevancy is assessed and the methodological approach to measure and mitigate the risk is outlined in the ICAAP policy document.

If the risk is considered significant and it is quantifiable, the Bank must define internal methodology to calculate the respective capital needed to cover the risk. Other relevant risk types that cannot be quantified are to be treated through appropriate internal processes. Internal processes shall aim to minimize potential losses arising from non-quantified risk types. If the risk is found irrelevant, no special treatment is necessary.

However, the regular review of ICAAP ensures that at least yearly all risk types are assessed, and risk types that were irrelevant and became relevant over time are addressed in an appropriate matter.

Key Risk Types: Identification and Assessment

The Group is committed to have a comprehensive risk management process in place that effectively identifies, measures, monitors and controls all risk exposures, as the Group wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions.

The Group is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.

On bank level the group monitors the following risk exposures:

Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and price risk), and **liquidity risk**. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. Credit risk is obviously the most important type of risk for banks and banks' supervisory authorities. The Bank's credit strategy is to create a diversified and profitable loan portfolio while maintaining maximum quality.

Credit risk management. The estimation of credit risk for risk management purposes is complex and involves use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, associated loss ratios and default correlations between counterparties.

Management of Credit Risk in Basisbank includes different activities embedded in the daily activities.

Establishment of an appropriate credit risk management environment - In Basisbank this is achieved through written Credit Policy and Credit Manual related to target markets. In this formalized document portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and management reporting issues are addressed and outlined.

The Group structures the levels of credit risk it undertakes by placing *concentration limits* on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a regular basis and are subject to an annual, or more frequent, review.

Credit risk, both at portfolio and transactional levels, is managed by a system of *Credit Committees* to facilitate efficient decision-making. A hierarchy of credit committees is established depending on the type and amount of exposure. Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit.

Sound credit-granting process. In Basis Bank this involves the consideration of several factors in credit granting. Depending on the type of credit exposure and the nature of the credit relationship, these could be the purpose of the credit and sources of repayment, the current risk profile of the borrower or counterparty and collateral and its sensitivity to economic and market developments, the borrower's repayment history and current capacity to repay, historical financial trends and future cash flow projections. During the credit analysis, consideration is given to the borrower's business expertise, the borrower's economic sector and its position within that sector. These elements are part of scoring models developed for both Retail and Corporate business lines. Corporate and Retail Credit Risk Management Departments (under Risk Management Division) take part in credit risk assessment of the client. For Individual borrowers the bank has developed simplified scoring model, which enables the Bank to assess the credit repayment capacity of the borrower, based on the analysis of financial standing of the borrowers and their past repayment history. The scoring for retail and corporate is used primarily in the credit approval process for pricing purposes: pricing of each loan is risk adjusted, based on the scoring of the client and riskiness of the product.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities, or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Central Governments, Interbank exposures, International Financial Institutions (IFIs) Securities and other financial assets, when applicable.

Risk Mitigation and Residual risk. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risk. The limits for collateral coverage are different depending on product type and borrower segment. To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. The Group obtains collateral valuation at the time of granting loans and annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. For Financial Reporting Year 2022 the Group has refrained to re-evaluate all underlying collaterals for the loans of top-100 borrower groups, to avoid over-valuation of collaterals in the light of current significant increase of real estate prices in the country, as a result of migration wave. The Group has performed a re-evaluation of a representative sample of underlying collaterals on migrated VTB portfolio, in order to confirm that the valuations are fair, with satisfactory results. The Legal Department regularly (at least yearly) reviews the collateral contract template and modifies, if necessary, based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values are defined for each customer type by the Credit Policy.

Provision assessment

Starting from 1 January 2018, the Group assesses credit risk and allocates provisions for expected losses according to IFRS 9. Loss reserves for assets and other contingent liabilities must be sufficient to cover all expected losses in the Bank's credit portfolio. Key risk parameters, considered in the scope of loss allowance calculations are: (a) the probability of default (PD) by the counterparty on its contractual obligations; b) expected losses in case of default of a counterparty (LGD) and Exposure at Default (EAD). Forward-looking information is included in the final ECL (expected credit loss) assessment. IFRS9 allows financial institutions more precise assessment of loan-loss provisions and allowances by means of incorporating forward-looking information obtainable without undue cost or effort. ECL assessment approach under IFRS 9 takes into consideration past events, current conditions, and forecasts of future economic conditions in the process of ECL estimation. The bank has incorporated macroeconomic forecasts, published by National Bank of Georgia in the internal impairment models.

Governance over the Expected Credit Loss (ECL) calculation process is shared between Financial Reporting and Risk functions. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The results of back testing the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

During 2022 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2022 as estimated by the IFRS9 impairment models at the end of previous year. No modifications have been deemed necessary to be made based on the results of performed back-tests: models used by the Bank adequately predict ECL.

Stress testing. The Bank regularly performs regular stress tests to monitor impact of adverse macroeconomic, as well as bank specific events on regulatory capital buffer and on bank’s performance as a whole or at different levels of aggregation. Stress tests are used as an effective tool of risk assessment and management, in order to assess its capital adequacy and in case of need create additional capital buffer for adverse changes. Stress tests amongst others cover events of broad economic crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), and default of several large exposures.

Maintenance of appropriate credit administration, measurement and monitoring processes involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty, compliance with existing covenants, collateral coverage and contractual payment delinquencies. Also, it involves the monitoring of share of exposure in the total loan portfolio to specific types of borrowers to avoid risk concentration. Such concentrations occur when there are high levels of direct or indirect loans to a single counterparty, a group of interrelated borrowers, or a particular industry or economic sector.

Maintenance of appropriate portfolio quality reporting. Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management in its control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, exposures by sectors and HHI index, dynamics of PD, LGD figures, etc. In order to monitor exposure to credit risk, regular reports are produced by the dedicated staff of Financial Reporting and Risk departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness is reported to and reviewed by the Risk Committee, the Management Board and Supervisory Board.

Market and liquidity risks are managed by the Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the Risk Management department. The Treasury Department performs monitoring by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, interest rate exposures, and controls and manages foreign exchange risk exposure.

Market Risk. The most likely sources of market risk are interest rate risk and foreign exchange rate risk.

Interest rate risk is the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. From a credit institution's perspective, an interest rate risk may occur for both its trading book portfolio and banking book transactions (traditional credit/deposit and investment transactions).

Types of interest rate risks relevant for the Bank are:

- Re-pricing risk, i.e., risk deriving from the different maturity structure of receivables and payables and from pricing that is based on different interest rates or different periods. A re-pricing risk is generated when there is a mismatch between the maturity structure of assets and liabilities and if pricing takes place at different intervals or at differently based interest rates (e.g., receivables at a fixed interest rate and liabilities at a variable interest rate).
- Yield curve risk, i.e., risk originating in changes of the shape and steepness of the yield curve.

Foreign exchange risk rises from an open or imperfectly hedged position in a particular currency as a result of unexpected movements in the level of exchange rates (that may lead to losses in the local or reporting currency of the market participant).

Oversight and control of market risk is set out to ensure that the bank's policies and procedures for managing interest rate risk and FX risk on both, long-term and day-to-day basis are adequate and that clear lines of authority and responsibility for managing and controlling market risk are maintained. The Bank maintains a comprehensive interest rate risk reporting and review process, as well as effective internal controls, sets appropriate limits on risk taking, establishes adequate systems and standards for measuring risk and performance, valuing position, reprising maturity gap.

Liquidity Risk. Liquidity risk is defined as the risk of the inability of the bank to honour its financial obligations under normal or stressed conditions. Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, affects markets. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

The bank relies on Basel 3 liquidity management methodologies and on other internal assessment models developed in line with best international practice and manages liquidity risk according to the internal policies of Anti-Money Laundering (AML) and Liquidity Management, with detailed definition of processes and limit systems connected to liquidity management (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)).

Liquidity management process includes establishment and regular re-assessment of liquidity requirements based on the bank's asset and liability structure and general market conditions; development and control of corresponding liquidity risk limits; addressing funding structure and mismatch volume, fund raising capacity, etc.; developing and monitoring liquidity and fund management principles; liquidity forecasting under normal business conditions and for stressed scenarios; developing contingency plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

Operational Risk. Operational risk is defined as the risk of financial loss resulting from inadequate internal policies, system and control failures, human errors, fraud or management failure, external events and natural disasters. The bank is exposed to number of operational risks, including internal and external fraudulent activities, breakdowns in processes, procedures or controls; and system failures from an external party with the intention of making the bank's supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions of the bank, its clients, counterparties or customers. Further, the bank is subject to risks that cause disruption to systems performing critical functions arising from events beyond its control that may result in losses or reductions in service to customers and/or financial losses to the bank.

The risks discussed above are also relevant where the bank relies on outside suppliers of services, because the bank may not have direct control of the activity performed by the third party.

Considering the extent and complexity of the fast-changing environment of both banking services and associated possible operational risks, the importance of improving processes, procedures, controls and systems is crucial to ensure risk prevention. To oversee and mitigate operational risk, the bank established the operational risk management on three levels in the Bank: business units/departments level, Operational Risk Management level and Internal Audit level. The operational risk management division acts as the second line of defense.

The Bank's Operational Risk policy is an overarching document that outlines the general principles for effective operational risk principles. It has been developed in accordance with Basel Committee "Principals for Sound Management of Operational Risks", issued in July 2011, and the overall risk strategy of the bank. The policy also considers requirements of the National Bank of Georgia ("Regulation of Operational Risks Management by Commercial Banks issued in June 13, 2014). It is an integrated part of the Bank's overall risk management activities, defines major risk management principles and tools for how operational risk is to be identified, assessed, monitored, and controlled or mitigated, that should be reflected in respective risk management policies of the bank. It aims to establish sound and effective operational risk management practice across the bank activities. The policy is responsible for implementing the operational risk policy and appropriate procedures to enable the bank to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues.

Operational risk management is also responsible for the day-to-day management of operational risks using various techniques and assessment tools to manage operational risk. The Bank has implemented policies and procedures to anticipatine, analyze, mitigate, control and communicate operational risks and the effectiveness of the corresponding control environment across the Bank. Corresponding policies and procedures enabling effective management of operational risks are an integral part of the operational risk management policy, including a system of checks to identify strengths and weaknesses of the operational risk environment is defined and contingency and business continuity plans are in place to ensure the ability to operate as going concern and minimize losses in the event of severe business disruption. Policies and standards are reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards and are made available to all relevant employees through internal channels.

The Bank has started to implement the risk and control self-assessment (RCSA) process, which enables to identify, analyze, assess and examine different mitigation plans for operational risks and the corresponding controls, providing reasonable assurance that all business objectives will be met.

Moreover, enacting an outsourcing risk management policy, which enables the Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor.

Further, involving the operational risk management function in the approval process for new products and services to minimize risks relating thereto.

The banks cyclically identify and reassess critical business procesess, as key internal and external dependencies. The identified feasibly scenarios are assessed for their financial, operational and reputational impact, and the resulting risk assessment is the foundation for recovery objectives that designs a recovery plan.

Through effective alignment of roles and responsibilities related to operational risks among the three lines of defence, the Bank identifies, monitors, measures, reports on and manages risks and related controls.

Third-party relationships. The Group's policy ensures that third-party relationship initiatives follow a defined process, including due diligence, risk evaluation and ongoing assurance. The following aspects support effective monitoring and management of third-party risk:

The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Operational risks are reviewed quarterly by the Risk Committee

Operational risk management identifies potential breaches of the law on Personal Data Protection via analyzing customer complaints, the operational risk event databases and introduces changes in operational practices to improve personal data protection and avoid leakage of personal information in the environment of rapidly increasing automation.

In order to effectively measure and manage operational risk, appropriate operational risk management environment is developed through internal reporting of operational risk as a distinct risk category related to the bank's safety and soundness on one hand, and by effective and comprehensive internal audit function, carried out by operationally independent, appropriately trained and competent staff, on the other hand.

Although the Bank calculates capital requirement for operational risk using the Basic Indicators Approach (BIA approach), some qualitative elements of more advanced risk quantification are used, which serve as a basis of more comprehensive operational risk management.

Information security/Cybersecurity Risk. Information security/Cybersecurity Risk is an effect of uncertainty on information security objectives. Information security risk is associated with the potential that threats will exploit vulnerabilities of an information asset or group of information assets and thereby cause harm to the bank. It is the risk resulting from unauthorized utilization of personal data or other sensitive information, cyber-attacks, phishing and other forms of data breach. Information security, therefore, is one of BasisBank's material non-financial topics. Preserving the confidentiality, integrity, and availability of our clients' & partners' data and the bank's information assets is essential for upholding the trust placed in BasisBank by our clients, employees and stakeholders.

The threat posed by cyber-attacks has increased in recent years and it continues to grow. The risk of potential cyber-attacks, which have become more sophisticated and complex, may lead to significant security breaches. Such risks change rapidly and require continued focus and implementation of best practices. No major cyber-attack attempt has targeted BasisBank in recent years. However, the banks' growing dependency on complex IT systems increases its vulnerability and exposure to cyberattacks.

Information Security/Cybersecurity function is in charge of continuous improvement of information security and business continuity management processes, in order to minimize risks associated with information security/cybersecurity and ensure security of clients and partners.

Information Security framework is established to ensure that security policies and standards mirror evolving business requirements, regulatory guidance, and emerging cyber threats. Information security/cybersecurity corresponding policies support the bank in complying with these parameters and build the foundation for actively managing and governing information security-related implementation processes. International standards and best practices are used to structure the bank's comprehensive information security policy landscape.

Information Security/Cybersecurity function is mandated to ensure that the appropriate governance framework, policies, processes, and technical capabilities are in place to manage the related information security/cybersecurity risk within the bank. Information Security/CyberSecurity function works with every business division/unit and all employees of the bank to ensure the bank's systems are protected as well as used safely and securely to achieve the bank's business objectives.

At least once a year, a full information security and cyber security audit as well as cyber security framework analysis is performed by an external consultant to assess the efficiency of the bank's capabilities against industry best practices and real-world cyber-attack scenarios, taking into consideration the relevant regional and sector specific perspectives. The audit gives the bank a broad review as well as a detailed insight, which helps to further enhance the information and cyber security systems. In addition, penetration test exercises are performed on a regular basis.

During the year the internal as well as external audit and Risk Committee worked in synergy to oversee the development of a risk-based information security approach, which included the improvement of policies and documentation.

Bank employees play a crucial role in information security. As a result, regular training sessions are conducted for employees, which are comprised of remote learning courses on security issues, fraud and phishing simulations as well as informative emails to further assist our employees with information security matters. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

Anti-Money Laundering and Counter Terrorist Financing (AML/CTF), including international sanctions compliance; Anti-Bribery and Anti-Corruption (ABC). Potential Conflict of Interest: Basisbank has adopted a holistic approach to Financial Crime and created the group-wide anti-financial crime (AFC) framework, which sets the control requirements in the following key risk areas: AML/CTF, Sanctions compliance, ABC and avoiding potential conflict of interest. This combined approach allows the Bank better to understand their risk exposure and prioritize the management focus. In line with its AFC framework, Basisbank takes a zero-tolerance approach to intentional facilitation of money laundering and terrorist financing, as well as to bribery, fraud and corruption.

For preventing money laundering and terrorist financing across the Bank, as well as ensuring compliance with international sanctions requirements, there is dedicated independent structural unit- AML/CTF Department, consisting of three divisions: KYC, International sanctions and financial monitoring. During AML/CFT/International sanctions control, the following measures/instruments are used: Know Your Customer standard, Customer Due Diligence and Enhanced Due Diligence measures; ML/TF Risk assessment/reassessment; Information renewal according to the risk level; sanctioned and PEP List screening; red flag control etc. For online screening against sanctioned and PEPs lists the Bank uses automated and comprehensive solution of LexisNexis- Firco Compliance Link.

The Bank does not tolerate any form of corruption, bribery or fraud, money laundering, terrorism financing, sanctions avoidance/ circumvention or any other type of illicit, fraudulent or unethical behavior. All employees are personally accountable to protect the Bank, its reputation and themselves from the risks arising from bribery and corruption and avoid the consequences of non-compliance. Anti-Bribery & Anti-Corruption Policy defines main principles, rules and standards of behavior upon which are based Bank's everyday activities, in order to reasonably prevent, detect and report bribery and corruption incidents enterprise wide. Internal audit, AML/CTF Department, Compliance and Operational Risk Management Units are responsible for ensuring compliance with the AFC framework, making sure that the internal regulations and working principles are integrated into all of the Bank's activities.

Corporate Compliance Risk is a risk of sanctions, financial or reputational losses and legal litigations which could be affected by ignoring current legislation and standards of conduct. Compliance risk management system comprises of compliance policy, description of legal and statutory acts regulating the banking activity, regularly revising of compliance with specified requirements as well as reporting to Supervisory Board and Directorate and facilitating in making informed decisions by the Management. For enforcement of compliance policy as well as for effective functioning of compliance risk management, the Bank established the Compliance Division and AML/CFT Department. In line with the Bank's integrated control framework, the bank carefully evaluates the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes. Among other duties, the unit is anticipating, detecting, assessing and controlling significant/potential risks related to non-compliance.

The Bank wants to avoid high volatility in its earnings and net value due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions. Therefore, the Bank is committed to mitigate potential risks by the adequate, well-elaborated business strategy and manage inherent risks via developing systems of early risk detection and internal policies and procedures to ensure risk-aware decisions and actions in its day-to-day business activities.

Within the scope of ICAAP framework, the Bank assess other risks to which the bank can be exposed, some of these risks are described below:

Business Risk means current or prospective risk of earnings and capital decrease arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

The management of environmental and social risks includes, on the one hand, efficient consumption of natural resources and responsible waste management in the daily business activities of the bank, and integration of responsible financing principles in the bank’s lending activity on the other.

In order to effectively implement responsible financing principles, in 2018 Basisbank made significant changes in its environmental and social risk management policy by developing the Due Diligence and E&S Risk Assessment procedures. The bank also introduced the exclusion list. It specifies the types of activities that the bank does not finance. The activities on the exclusion list can be, in some way, linked to production/trade of weapons and military materials, forced and child labor, illegal pharmaceuticals, production/trade of certain pesticides and herbicides, gambling and casinos, etc. These documents are based on the active Georgian legislative framework, best practice and recommendations of the international financial institutions.

As part of the environmental and social risk assessment process, all business loans are subject to standard procedure of verifying the project in the exclusion list. At a later stage, based on the data and documents provided by the client, assessments after the onsite visit, and information received from independent sources, the responsibility of the potential client is assessed, along with the client’s degree of environmental and social risk management. The bank refers to the IFC's Environmental and Social Performance Standards for its assessments. The bank is also empowered to set covenants for the client for the purpose of enhancing the client’s environmental and social responsibility (e.g. improvement of the fire safety system and upgrade of working conditions).

Country Risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country’s government but not by the credit grantor/investor. The Bank implemented a limit system by introducing Country Risk Management Policy in order to measure its exposure to country risk based on the external rating of the countries.

Reputation Risk may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances or customer expectations, inappropriate business conduct or unfavorable authority opinion and actions.

Regulatory Requirements under Basel 3

The purpose of Basel 3 is strengthening capitalization, liquidity, market, and other risk-related requirements and ensuring of transparency. It sets:

- Capital adequacy requirements;
- Liquidity requirements;
- Requirements related to risk concentration;
- Requirements for leverage ratio;
- Requirements related to relevance of administrators and corporate governance;
- Requirements related to transparency and audit.

Under Basel 3, Capital Adequacy Requirements for Commercial Banks are based on three pillars: Pillar 1 sets minimum requirements for regulatory capital; Pillar 2 covers supervisory review and capital assessment process and Regulation on Additional Capital Buffers; Pillar 3 is about information disclosure by commercial banks.

The regulatory framework of **Pillar 1** defines the value of the risk-weighted assets and sets minimum capital requirements for credit, market and operational risk exposures.

Pillar 2 includes a supervisory reviewing and assessment process, in which the National Bank examines the relevant risks management policies implemented by commercial banks, strategies, processes and mechanisms and their compliance with the Bank's risk positions; In addition to fulfilling minimum capital requirements, the Commercial Bank is obliged to comply with the requirements of the additional capital buffer for the risks that are not included in the Pillar 1 (including market risks that are not included in the Pillar 1 (For example, the concentration risks, interest, liquidity, strategic and reputation risks and more).

Pillar 3 - Commercial Banks are obliged to provide a high level of transparency aimed at raising confidence towards the financial sector and protection of consumer and investor rights. This is regulated by the requirements of Pillar 3 and implies publishing quantitative and qualitative information by the Bank - disclosure of information on capital adequacy, corporate governance, risk concentrations and management standards, as well as disclosure of internal processes and other important information.

Regulatory Capital Requirements

Within Pillar 1, the minimum capital requirements are defined as follows:

o Common Equity Tier 1 (CET 1) ratio of	4.50%
o Tier 1 Capital ratio of	6.00%
o Regulatory Capital ratio of	8.00%

Common Equity Tier 1 (CET1) minimum capital requirement applicable is 4.5 %. It represents the primary source of the capital, i.e. the equity that includes common stock and additional reserves (additional funds originated as a result of issuing the common tier 1 capital instruments; as well as accumulated reserves /retained earnings) less supervisory adjustments.

Additional Tier 1 capital (AT1) is unsecured, perpetual capital instruments that have no step-ups, are subordinated to depositors, unsecured creditors and subordinated debt of the commercial bank; and are not subject to legal or economic conditions that put the claim in the senior position vis-à-vis bank creditors, while the bank retains the discretion on suspension/payment of dividend/coupon. At least 6 per cent of risk-weighted assets are required to be covered by Such Tier 1 capital (CET1 plus AT1), considering regulatory adjustments.

Supervisory Capital - Commercial Bank's capital adequacy is determined by its supervisory capital, composed of basic and additional premium capital elements and secondary, liquidation capital.

Tier 2 capital (liquidation) comprises certain subordinated instruments, unsecured securities, long-term liabilities, with the original term of more than 5 years, with no step-ups. These do not have the conditions that could promote the investor's right to accelerate the future payments (coupon or principal), except for bankruptcy and liquidation cases.

Minimum Supervisory Requirements and Additional Buffers

In addition to the minimum capital requirements under Pillar 1, NBG sets capital buffer requirements within pillar 1 and pillar 2 framework.

Under pillar 1 commercial banks are required to meet a combination of capital buffer requirements comprising three components:

- The capital conservation buffer is a standard buffer, defined as 2.5% of total risk-weighted risk exposures, and is designed to provide for risks originating because of stress events.
- The countercyclical buffer represents one of the main macro-prudential policy instruments, with the goal to limit excessive credit growth that leads to the build-up of systemic risks. In determining the countercyclical capital buffer, an analysis of several factors is taken into account, including the credit-to-GDP ratio and indicators describing its deviation from the long-run trend, trends in lending, along with other indicators and characteristics of the country's macro-financial environment.
- Systemic buffers are set additionally by the NBG for systemically important commercial banks.

56% of required capital should be complied with through the elements of common equity Tier 1 capital and 75% - through tier 1 capital on granular bases. Consequently, buffers for concentration risk and net GRAPE buffer are set at 100% of supervisory capital, 60% of tier 1 capital and 45% of common equity tier 1 capital.

o Common Equity Tier 1 (CET 1) ratio of	45%
o Tier 1 Capital ratio of	60%
o Regulatory Capital ratio of	100%

Supervisory Requirements for JSC Basisbank

The Supervisory Requirements of BasisBank include minimum supervisory requirements set within the framework of Pillar 1, plus capital conservation buffer and counterparty buffer, which is currently defined by the National Bank at 0%. As for system buffers, Basisbank is not considered by the National Bank as a system-maker, so the systemic capital buffer rate for Basisbank is set at 0%.

As at 31 December 2022, the requirements introduced for BB under Pillar 2 define the following buffers:

- Unhedged currency induced credit risk buffer;
- Credit portfolio concentration risk buffer, consisting of the name and sectorial concentration buffers;
- Net stress test buffer, set in accordance with supervisory stress tests;
- Net GRAPE buffer is set as part of the review of the risk categories and the bank's internal capital adequacy within the NBG's General Risk Assessment Program.

Capital buffers defined by Pillar 2 are individual for all banks and depend on the Bank's risk positions concentration.

According to NBG's capital requirements, the banks are obliged to maintain a ratio of regulatory capital to risk-weighted assets (capital ratio) at the minimum required limit.

As at 31 December 2022 the BB's capital ratio stood at 16.13% (2021: 18.00%). No dividends or payment in investments were made during 2021-2022 to impact the capital ratios.

Risk Weighted Exposure

Risk weighted exposure is the sum of weighted values of credit, market and operational risk exposures.

Credit Risk Analysis

In accordance with the current regulation, the bank uses a standardized approach to calculate the credit risk weighted exposure. Credit risk exposure consists of three components: balance elements, off-balance elements and counterparty-related credit risk weighted exposures.

The cost of the risk exposure for balance elements is interest, penalty, accounts receivable, and other claims against the party, reduced by special reserve and capital adjustment and added to the principal.
In the calculation of the credit risk exposure, JSC Basisbank uses the following permissible methods:

- Loans secured by residential real estate are weighted at the 35% risk weight;
- Credit risk mitigation;
- Use of ratings established by external credit rating agencies;

Using credit mitigation – The Bank stated that it would mitigate the risk exposure in case of the "funded collateral of the loan", i.e., reduce it in consideration of the value of collateral/guarantee and credit evaluation weight. In case the debtor is at default, the bank has the right to sell and/or repossess the collateralized assets in a timely manner. For these purposes, it is permitted to subtract risk position only with the funds available on the client's deposit account. Accordingly, the risk position is considered as funded collateral when it is secured with deposit. The deposit can be owned as by the borrower client as well by the third party. A deposit taken as collateral (or its part used as collateral) must be free of other liabilities.

Note: See Appendix PE1-BBS-QQ-20221231, Table 12_CRM.

Evaluation by Credit Rating Agencies - With the recommendation of National Bank of Georgia, the assessments of the following agencies - Moody's, Fitch, Standard&Poors, can be regarded as credit assessments by external credit rating agencies. Evaluations of the specified agencies comply with the six-step scale, summarized in the table below:

	Fitch	Moody's	S&P
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and lower	Caa1 and lower	CCC+ and lower

The assessments for the short-term evaluation will be made in accordance with the following table:

	Fitch	Moody's	S&P
1	F1+, F1	P-1	A-1+, A-1
2	F2	P-2	A-2
3	F3	P-3	A-3
4	Lower than F3	NP	B-1, B-2, B-3, C

Note: starting from July, 2018, the NBG introduced the Regulation on Defining the Unhedged Borrowers. The borrower risk exposure can be attributed to the hedged category, if the repayment of their claims is considered by:

1. The versatile banks and those financial institutions, against whom the risk exposures are weighted at 0%.

2. Production of the standardized merchandise/proceeds from trade and products are traded (pricing) in the same currency as the loan.
3. Proceeds from export, sales price for the product is in the same currency as the loan.
4. Proceeds from the hotels; majority (>50%) of the hotel visitors are from foreign countries.
5. Proceeds from electric energy production sector; 50% of the risk exposure;
6. Borrowers that meet the below criteria:
    1. Debt / EBITDA <=1.5
    2. EBIT / Interest Expenses >=5.0
    3. Equity / Assets >=75%

It is also important that the Regulation on Asset Classification and the Creation and Use of Loan Loss Reserves by Commercial Banks sets the minimum requirements for "Loan Services" (PTI) and Loan Security (LTV) ratios for the loans classified as standard and issued to individuals. The amendments double the risk weight for those unsecured consumer loans, which do not meet the requirements related to the loan service and security ratios. If the commercial banks breach the limits set under the revised regulation, they face the sharply increased regulatory burden in terms of capital adequacy requirements. After the transition to International Financial Standards those requirements would be abolished.

The cost of the risk exposure for off-balance elements is their value, reduced by special reserves, multiplied by the credit conversion factor.

Note: Please refer to PE1-BBS-QQ-20221231, Table 8_LI2

Counterparty-related credit risk weighted risk exposures - The counterparty-related credit risk is the risk of counterparty's default before completion of the transaction. For these purposes, only the risks associated with the counterparty that are included in the interest rate and exchange rate derivative instruments (futures, forwards, swaps, options and other off-balance liabilities from similar agreements) are considered. If the term of the agreements on the interest rate and the exchange rate derivative instruments does not exceed 14 calendar days, it does not take into consideration for the risk weighting purposes.

Note: Please refer to Appendix PE1-BBS-QQ-20221231, table 15_CCR

Market Risk Weighted Risk Exposures - Within Pillar-1, only currency risk is considered as part of market risk. Market risk weighted risk exposure equals to the overall open currency position defined under the Regulation on Limit defining, calculation and following of overall open currency position for Commercial Banks".

The currency risk arises in open and improperly hedged positions because of unexpected movements in certain currency (this causes the possible losses of market participant related to internal or settlement currency).

Currency positions are managed in compliance with Bank Management's foreign exchange policy. Foreign exchange management policy comprises limits for everyday positions and limit of overall open currency positions, which is 5% of supervisory capital, which is quite strict, compared with limits allowed by NBG (limit of 20% for the open net position).

Operational Risk Analysis - Within the framework of Pillar 1, the capital requirement is calculated using the Basic Indicator Approach (BIA). The operational capital requirement, according to BIA, should amount to 15% of the NBG-set indicator. It is defined as the average of the sum of net interest and net non-interest revenues for the last three years.

Note: Please refer to Appendix PE1-BBS-QQ-20221231, table 23-OR2

During the evaluation and management of operational risks, the bank also uses other qualitative and quantitative criteria, that provides a more comprehensive and effective management of operational risks. Operational risk activity is governed by Regulation on Operational risk management methodology.

The following instruments are used:

- **Data accumulation on losses and damages:** obtaining of fixed losses with participation of business-units (collection of decentralized data);
- **Self-assessment:** evaluation of possible losses with participation of business-units; (assessment of frequency and severity of incurred losses)
- **Definition of appropriate measures for risk mitigation -** based on incurred losses and analysis obtained because of self-assessment.

Operational risk at JSC BasisBank is managed at three levels (Business-unit/department level, operational risk management level, audit level), that provides constant control of operational risks.

The Operational risks department assesses required capital defined using the BIA on an annual basis as well as the projected level of loss coverage resulting from an internal evaluation. If operational risk management considers that BIA has not sufficiently covered the potential losses, the additional capital is allocated based on the request of the operational risk management.

Note: Information on the volume of operational losses is given in appendix PE1-BBS-QQ-20221231/table 22_OR1

JSC Basisbank Tier 1 and Regulatory Capital Positions

Capital adequacy Thousand GEL	2022	2021
Common shares that comply with the criteria for Common Equity Tier 1	17,215	16,181
Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	102,555	76,413
Other reserves	203,333	159,580
Retained earnings (loss)	53,210	43,753
Before adjustments	**376,314**	**295,927**
Adjustments	(22,446)	(20,925)
Common equity Tier 1 capital	353,868	275,002
Tier 2 capital	82,878	31,537
Regulatory capital	436,747	306,539
Total risk weighted risk exposure	2,707,680	1,706,474
Tier 1 capital	**13,07%**	**16,12%**
Regulatory capital	**16,13%**	**18,00%**
Tier 1 Requirement	**11,42%**	**11,30%**
Regulatory capital Requirement	**14,99%**	**15,87%**

Based on the data of 2022, supervisory components are adjusted by the following elements:

- with asset revaluation reserves
- with intangible assets

The Bank has invested in three companies, which are accounted for by full consolidation.

1. Insurance Company BB Insurance. This significant investment in equity is subject to limited recognition. The value of the investment does not exceed the 10% significant investment threshold, so there is no reduction in capital by this element.
2. Asset Management Company Basis Asset Management Holding is recorded in equity as the component adjusting the common tier 1 capital.
3. BB Leasing. This investment in equity is subject to limited recognition. The value of the investment does not exceed the 10% significant investment threshold, so there is no reduction in capital by this element.

Note: As of 2022, for supervisory purposes, the bank's subsidiaries will not be consolidated in the bank's financial statements but will be weighed at 250% risk weight in the risk-weighted assets. For information on enterprise consolidation, see Appendix PE1-BBS-QQ-20221231/ Table 5_RWA

Thousand GEL	2022	2021
Risk Weighted Assets for Credit Risk	2,533,518	1,551,535
Balance sheet items	2,306,077	1,419,210
Including: amounts below the thresholds for deduction (subject to 250% risk weight)	42,500	42,500
Off-balance sheet items	226,024	132,324
Counterparty credit risk	1,417	-
Risk Weighted Assets for Market Risk	5,464	31,742
Risk Weighted Assets for Operational Risk	168,698	123,197
Total Risk Weighted Assets	**2,707,680**	**1,706,474**

Additional Basel 3 Requirements

The leverage ratio was introduced by the NBG in 2018 based on the recommendations by the Basel Committee of Banking Supervision, which is the capital risk based additional requirement.

To calculate the leverage ratio, the primary capital is divided to the total risk exposure and expressed as percentage. The total risk exposure is the sum of balance risk exposure, derivatives, security-funded transactions, and off-balance sheet elements.

On September 26, 2019, based on the Decree of the Governor of the National Bank of Georgia No. 214/04, the bank leverage should always exceed 5%. As of December 31, 2022, the Basisbank indicator is 10.56% (2021: 13.64%).

Note: refer to Appendix PE1-BBS-QQ-20221231 table 15.1_LR

Liquidity Risk. In parallel with the capital standards based on Basel 3 framework, the NBG introduced LCR – Liquidity Coverage Ratio. The aim of the ratio is for the commercial banks to hold liquid assets sufficient for covering total net outflows in financial stress situations. For this purpose, the bank needs to maintain an adequate level of liquidity, to allow it to cope with the expected difference between the inflow and outflow of liquid funds within a 30-day stress environment. Except for the LCR, the liquidity of commercial banks is regulated through the average liquidity ratio, which is the ratio of average liquid assets of the reporting month to the same month's average liabilities.

The minimal requirements of LCR ratio of 100% on foreign currency and 75% of local currency preserves high quality liquid assets to ensure stability in stressful environment.

The table below shows the LCR as of December 31.

Liquidity Coverage Ratio (in thousand GEL)	2022	2021
High quality liquid assets	674,912	437,436
Net cash outflow	543,261	316,315
LCR (%)	**124%**	**138%**

In 2020 the National Bank introduced a long-term liquidity ratio – Net Stable Funding Ratio (NSFR). This ratio restricts dependence on short-term financing and stabilizes the risk of funding. The NSFR is defined as the ratio of available stable funding to the need for stable funding. The compulsory requirement is the minimum of 100%. After the implementation of the requirement, starting from 2020, the average liquidity requirement was abolished.

The table below shows the NSFR as of December 31:

Available stable funding (in thousand GEL)	2022	2021
Available stable funding	1,987,353	1,167,939
Need for stable funding	1,636,364	958,574
Net stable funding ratio %	**121%**	**122%**

Key Performance Indicators of the bank are presented in appendix PE1-BBS-QQ-20221231 table 1.

Remuneration Policy

In line with the regulatory requirements, in 2022 the Supervisory Board of the Bank has adopted the Remuneration Policy, to set forth the basic principles governing the remuneration of the top management, other material risk takers, staff with control functions and other staff.

The remuneration policy is based on principles such as justice, equal pay for work of equal value, taking into account the functional load of the position, the competence and experience of the person, inadmissibility of differentiation on discriminatory grounds, motivate and retain employees, paid vacation and rest time, social security guarantees as wells as promoting sound corporate governance and risk management behaviors.

Remuneration includes a fixed component and may also include a variable component. Variable remuneration is not issued to members of the Supervisory Board.

Fixed remuneration includes:

a) Fixed Salary

b) The so-called 13th pays, only if the above is not a discretionary payment, its volume is fixed, the bank has no right to suspend its payment and its payment does not depend on the financial indicators of the bank or the performance of the person;

c) As to other indirect, fixed type of compensation and benefits, if the above is not a discretionary payment and its volume is fixed, are paid to all employees in a similar situation and is not discriminatory, the bank has no right to suspend its payment and its payment does not depend on the bank's financial performance or person's performance indicators. Indirect compensation may include other substantially fixed remuneration-like payments, including (but not limited to): Financing by an employer of the contribution of an individual pension account based on fixed remuneration, various types of insurance, car service, sick leave compensation, maternity leave, business trip, telephone and fuel costs and other similar forms.

Fixed pay is determined by a person's professional experience and organizational responsibility, which in turn should be commensurate with the position he or she holds. The amount expressed in cash equivalent of fixed remuneration is predetermined and unchanged and it does not depend on performance indicators. Fixed remuneration should form a major part of the total remuneration and should be balanced with variable remuneration (if any) in such a way as to enable the bank not to issue / adjust variable remuneration. The amount expressed in cash equivalent of a fixed fee must be determined in advance and must be unchanged.

Variable remuneration includes:

a) Bonus

b) Financing by the employer on the individual pension account on the basis of variable remuneration.

c) Any remuneration granted by a bank that does not meet the fixed remuneration criteria, or the criteria are ambiguous, which makes it difficult to categorize it as a fixed remuneration.

The payment of not less than 40% of the annual variable remuneration of the material risk takers (except for the members of the Supervisory Board), and whereas the annual variable remuneration exceeds 100% of the annual fixed remuneration and/or GEL 500,000 or its equivalent – (the payment of) not less than 60%, must be deferred for 3 years (Deferral Principle).

Adjustment of variable remuneration

The variable remuneration of any material risk taker (incl. the Management Board) may be subject to adjustment, in line with the respective NBG regulations as well as internal Remuneration Policy, in case of the following preconditions:

Qualitative and quantitative characteristics

a. Economic capital, economic profit, returns on risk-weighted assets

b. Violations of compliance with the legislation, violations of the risk limit, characteristics identified by the internal control functions

Adjustement may be applied to variable remuneration/part of it in case in case of the following preconditions:

a. Committing an action by a person subject to compensation that has caused significant damage to the bank;

b. the person subject to remuneration can no longer meet the standards set by the respective regulation on the suitability criteria for administrators of commercial banks;

c. Unlawful conduct or material misconduct by a person subject to compensation, including a material violation of the Code of Ethics or other internal rules;

d. Deterioration of the financial performance of the bank / structural unit (for example, specific business indicators).

e. Significant errors / problems in terms of risk management in the bank or in the structural unit where the said person works.

f. Significant increase in the economic / regulatory capital requirements of the bank / structural unit.

g. The subject of remuneration is the action of a person who has had some influence on the imposition of a statutory / supervisory sanction on a bank.

During the reporting year there were no employees whose remuneration exceeded GEL 1 million.

Management's Remuneration

The report includes information on the policy and compensation system for the remuneration for JSC Basisbank's top management. The Supervisory Board and the Board of Directors are the top management of the Bank.

The Supervisory Board establishes the terms of employment and remuneration of the members of the Board of Directors, while the general meeting of shareholders determines the issues of compensation of members of the supervisory board.

Detailed information about the remuneration generated by management in 2022 is given in Table 24_Rem1 /27_REM 4 in appendix PE1-BBS-QQ-20221231.

The remuneration system for the directorate members includes both fixed and variable parts. Remuneration of the Supervisory Board members includes only fixed remuneration.

The compensation system and structure are reflected in the individual contracts of the Directorate Members. The fixed individual salaries of the directorate members are reviewed by way of consultations between the Director and the Supervisory Board. The variable portion of the remuneration is regulated by a contract with the members of the directorate, which is common to all members; the amount of annual compensation depends on the Bank's financial results.

Calculation of Variable Remuneration. Variable payment is issued in the form of bonuses. A bonus is an additional reimbursement payable to the Director for the fulfilment of the contractual liabilities. In July 2013, the Bank's Supervisory Board approved the top management bonus system, which includes both cash and share based payments.

The total bonus determination is based on the financial results of the previous reporting year, which is confirmed by external audit opinion (one of the world's four largest international audit companies), the goal of the team is, first of all, determined by the profitability and growth indicators set by the Supervisory Board. At the same time, the normative ratios must be observed along with the agreements stipulated in the contracts concluded with international financial institutions.

All expenses related to the top management's bonus scheme are recognized in the reporting period. Please refer to table 24_Rem1 /27_REM 4, appendix PE1-BBS-QQ-20221231.

Share Based Payments

At least 50% (fifty percent) of the compensated amount shall be used to purchase the bank's shares in pre-determined conditions. The total number of shares to be transferred depends on the value of the share; the results are evaluated based on the audited financial consolidated statement of the previous reporting year prepared in accordance with the IFRS standard.

Management shares are subject to limitation within two years from the date of purchase ("blocking period"). Following the expiry of such a period, half of the shares held by the directors are relieved of the block. All the shares owned by the Directors may be fully transferred to the new holders only after the expiry of contractual obligations.

Shares will be issued by setting the terms of service, which will be valid until the rights and obligations of the scheme participant are expired. Before these terms expire, the shares only carry the right to receive dividends. They are not entitled to voting rights and are not subject to alienation or transfer to third parties. These terms imply continuous employment; during this period the transfer of the full rights on the shares to the scheme participants is not completed.

By the decision of the Bank's Supervisory Board, all post-transfer restrictions were lifted for the shares issued before 2016. Shares issued after that date are subject subject to post-vesting restrictions, July 2019 (the end of first lock-up period) will remove restrictions on 50% of vested shares and 1 July 2022 (the end of second lock-up period) is when the post-vesting restrictions expire entirely.

In March 2017, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2017 – 2021 and granted new shares to the members of senior management of the Bank subject to service conditions. The Group considers 27 March 2017 as the grant date. According to the new share-based scheme the Management Shares are subject to similar restrictions and cannot be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). After the Lock-up Period, half of the Management Shares owned by the Directors can be sold. All the Management Shares owned by the Directors can be transferred only after the Directors' resignation.

Table 24_Rem1 shows the remuneration of the directors based on shares (see Appendix PE1-BBS-QQ-20221231) of Pillar 3 Annual Report. The reviewed pay scheme is based on local accounting standards.

Remuneration of other Material Risk Takers

Material Risk Takers (MRT)

In order to identify individuals who, have a material impact on the Bank's risk profile, the Bank developed quantitative and qualitative criteria in line with the respective regulations and recommendations of NBG. As a result, following individuals have been identified as Material Risk Takers (MRT):

- Members of the Supervisory Board

- Members of the Management Board

- Employees whose professional activities have a significant impact on the Bank's risk profile. There were 13 positions (excluding the above-mentioned top management members) identified as MRTs.

MRT employees' remuneration is subject to the NBG Corporate Governance Code as well as internal Remuneration Policy (effective from 1 January 2023). The variable remuneration of MRTs is subject to the above-described deferral principle except when the annual variable remuneration is not material, meaning that the annual variable remuneration does not exceed 20% of the annual fixed remuneration.

Remuneration of the Control Functions

Control Functions are functions that are responsible for checking the efficiency and effectiveness of processes, for objective evaluation, and for reporting in appropriate directions. These functions include the risk management, the compliance, and the internal audit function.

Remuneration of the staff with control functions, namely internal audit, risk management and compliance, does not pose a risk to the independence of these employees. Remuneration of employees of control functions does not depend on the financial results of the business line activities that are audited or monitored by these functions.