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BASISBANK

2024

ANNUAL REPORT

Contents

1. Executive summary

1.1. Introduction

Pillar 3 Annual Report of JSC BasiBank's ("BB") for year 2024 is prepared in accordance with the requirements of Decree of the National Bank of Georgia "On Commercial Banks Disclosure of Information within Pilar III" No.92/04 of May 22, 2017, and in compliance with the Disclosure Requirements by Basel Committee for Banking Supervision and the standards established under the European Union Directive N0 575/2013.

1.2. Management's Statement

- The Management Board confirms that the information provided in this Report is accurate and free of any material misstatement.
- The report is approved by the Audit Committee on March 27, 2025 in accordance with the requirements of Decree of the National Bank of Georgia "On Commercial Banks Disclosure of Information within Pilar III" No.92/04 of May 22, 2017.
- Unless otherwise stated, all data and information disclosed in this report are presented according to the reporting standards set by the banking regulator in Georgia, the National Bank ("NBG").
- The regulation does not require banks to audit the Pillar III report and its acompanying disclosures.
- The report is prepared in full observation and compliance with the internal control processes, agreed and approved by the Supervisory Board of JSC BasisBank.

1.3. Regulatory Developments

Chanegs in Capital requirements: To mitigate the impact of globally tightened financial conditions on the local economy, based on the NBG's decision in November 2023, the countercyclical capital buffer will be accumulated gradually. According to the Financial Stability Committee decision, banks are required to accumulate neutral countercyclical capital buffer according to the following schedule: 0.25 percent by March 15, 2024; 0.5 percent by March 15, 2025; 0.75 percent by March 15, 2026; 1 percent by March 15, 2027.

De-Dollarization measures: The National Bank, in coordination with the industry, considering the macroeconomic environment and risks, continues to implement the long-term de-dollarization plan. By decision of the Financial Stability Committee in November 2024, the limit for unhedged foreign currency loans has increased from 400,000 to 500,000 GEL. The change will come into force on January 1, 2025. This change will positively affect reducing the dollarization in the retail loans portfolio.

The NBG is also actively monitoring the dynamics of deposit dollarization, the level of which increased lately against the background of uncertainty and contributed to the accumulation of excess foreign currency liquidity in the financial system. To prevent excess liquidity from turning into increased dollarization of loans, in November 2024, the Monetary Policy Committee decided to increase the upper limit of the reserve ratio on foreign currency liabilities by 5 percentage points. So now the reserve requirement for funds attracted in foreign currency will be not in the range of 10% to 20%, but in the range of 10% to 25%. This change will increase the cost of US dollar resources for banks, which will reduce the interest rate on dollar deposits and increase interest rate on loans denominated in the US dollars. This will have a positive effect on de-dollarization.

Granting, Maintenance and Cancellation of Green, Social, Sustainable and Sustainability-linked Bond Status: In order to promote and strengthen responsible financing practices in the capital market, in 1Q 2024, the NBG released a draft regulation for public consultation on granting, maintenance, and cancellation of green, social, sustainable, or sustainability-linked bond status. It introduces regulatory measures for publicly offered corporate bonds with environmental and social objectives, with a focus on enhancing investor confidence and interest in these bonds. Additionally, it aims to prevent and eliminate misleading advertising practices, known as greenwashing.

The regulation is aligned with the International Capital Markets Association (ICMA) principles and international best practices in sustainable finance. It also reflects the European Green Bond Standard Regulation approved by the European Parliament and Council on November 22, 2023.

Open banking updates: In 1H24 the NBG published a draft of Amendments to the Open Banking Regulation, allowing micro-banks to participate in Open Banking, together with commercial banks. In addition, the minimum criteria that a bank must meet when presenting a guarantee in the National Bank of Georgia, have been added to the regulation. Open Banking involves the immediate exchange of information between financial institutions using electronic technologies. Open banking can bring positive results to both consumers and the financial sector in general. Open Banking paves the way to the efficient use of new technologies, significantly improves access to finance, promotes sound competition, serving as the basis for the development of data-driven Fintech business models.

AML: The Georgian banking sector remains committed to complying with relevant anti-money laundering (AML) regulations and the sanctions adopted by the UK, US, and EU.

2. Ownership and the Group structure

2.1. About BasisBank and the Group

JSC BasisBank (hereinafter referred to as „the Bank“) is incorporated and operates In Georgia. The Bank is structured as a joint-stock company with limited shares, established in compliance with the laws and regulations of Georgia in 1993.

BasisBank is a part of financial holding that includes JSC BasisBank , Basis Asset Management-Holding LLC, JSC BB Leasing and JSC BB Insurance (collectively referred to as „BB Group“ or „the Group“).

As of the most recent data, BasisBank is positioned as the fourth largest financial institution in Georgia. The Bank maintains 39 branches and employs over 900 individuals, providing services to 200 thousand customers. As of December 31, 2024, the Bank's assets totaled 4.0 billion GEL, which is 4.2% of the market.

The primary activity of the Bank involves offering banking and financial services to both business and individual clients. Additionally, through its subsidiaries, the Bank provides leasing and insurance services. For more detailed information please refer to suv-section – “Subsidiaries”.

BasisBank was founded 1993 in Tbilisi by a small group of individuals with a shared vision and modarate capital, but with a strong aspiration and goal to create a leading private financial institutions and valuable banking brand in the country. Despite the challenges of the 90s, the bank successfully laid a solid foundation for its establishment and development. It did so with a clear strategy and consistent forward steps.

Early 2000s were significant years for BasisBank, a development strategy was formualted and first steps on establishing solid co-operation with International Financial Institutions have been taken. The Bank laid foundation to growth-oriented, strategic platforms relying solely on its resources, which soon attracted investors which were searching investment opportunities in Georgia.

In 2008, 15% of BasisBank’s shares were acquired by EBRD,which kick-started organizational re-modelling processes targeting more agile and efficient structure. The primary goal was to establish a robust financial institution with well-developed structures, policies, and procedures. These enhancements were designed to advance the bank's position in the financial market and attract strategic investors.

In 2012, 90% of BasisBank’s shares were acquired by one of the largest private investors in Georgia, Xinjiang Hualing Industry & Trade Co. Ltd (hereinafter Hualing Group) Hualing group, later increasing shareholding up to 92%.

BasisBank's progress on the market since the entrance of Hualing Group was considerable - the main task was to ensure speedy growth, retain sound financial and pre-tax earnings history and achieve these targets with careful risk management practices to retain sustainability of the long-term development path.

Financial support from solid parent created new opportunities for the bank – the bank recorded speedy growth on the market for several succeeding years upgrading its ranking from number 11th to Top 5th biggest commercial bank in Georgia.

In 2017 Bank establishes two subsidiaries, BB Insurance and BB Leasing, forming BasisBank Group (BB Group). The financial group structure enabled the Bank to synergize the resources and provide a diversified range of financial services to a broader range of customers.

In 2022 organic growth was successfully boosted by acquisition of VTB Bank Georgia's portfolios, acquiring total loan portfolio of GEL 787 million and Deposit Portfolio of GEL 665 million. As a result, BasisBank became the 4th bank on the market, increasing total assets, loan portfolio and customer base by acquiring over 135 thousand new clients, 24 new locations and over 350 new employees.

2023 and 2024 were other challenging yet fulfilling years for the Bank. The Strategic Transformation process of becoming a universal bank and covering all client segments and sub-segments, made the bank rethink its operations, processes and adjusted strategy for greater growth. The bank started implementing agile structure for strategic directions, to adjust to rapidly changing environment and began implementing new digital banking solutions.

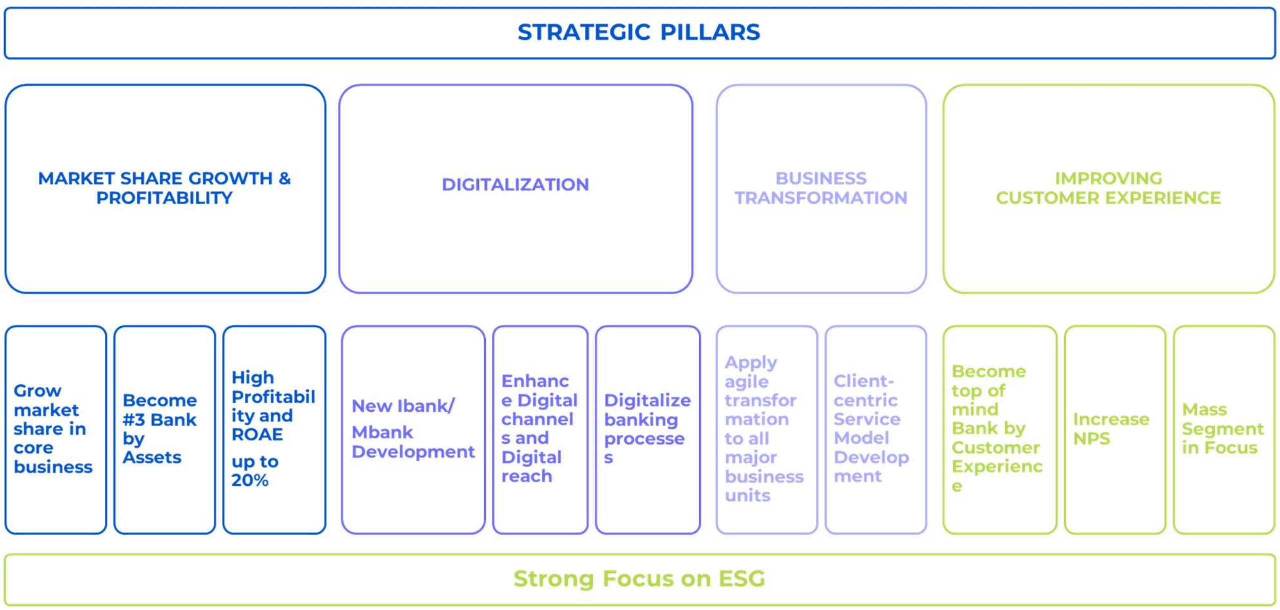
By the end of 2024, the Group's consolidated assets reached GEL 4.1 billion, recorded profit GEL 87 million, while Loans and Deposits portfolios amounted to GEL 2.96 billion and 2.54 billion respectively.

2.2. Strategy

Our strategy over the years has been continuously developing and gaining greater market share. Following the business momentum of the year 2022, after the acquisition of portfolios that boosted the bank's retail and corporate coverage, the Bank and the Group entered a dynamic transformation phase, mapping new strategic objectives along the way.

We aim to create value for our customers, understanding their needs and offering them products and services tailored to their personal and business requirements.

The strategic goals of the Company encompass four pillars: Growth, Digitalization, Business Transformation and Customer Experience, each of them having several sub-objectives.



By addressing all of them, operating ethically and winning the long-term commitment of our employees, customers, partners, and shareholders, we aim to establish our position among top 3 banks on the market in all key areas, including banking, insurance and leasing.

Our key strategies are centered around three basic goals

- Retaining product competence in all major segments and customer groups, improving customer experience
- Accelerating Digital Transformation
- Maintaining our key features - being a trusted financial partner for those who are doing business with us.

Key Enablers of our Strategy - Customer-centric business model, highly qualified management and team, strong capital base, holistic risk-management and loyal customer base are key enablers in achieving our strategic objectives. With all these strategic building blocks we have laid the groundwork for the bank of the future and are committed to delivering strong profitability and maximizing shareholder value.

2.3. Ownership structure

Joint Stock Company BasisBank was established on August 16th, 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, Queen Ketevan Avenue 0103 Tbilisi, Georgia.

As of 31 December 2024, and 2023 the year end the Bank's immediate and ultimate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China.

	% of ownership interest held as at 31 December	
Shareholders	**2024**	**2023**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	91.891%	91.548%
Zaiqi Mi	6.144%	6.461%
Other minority shareholders*	1.965%	1.991%

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

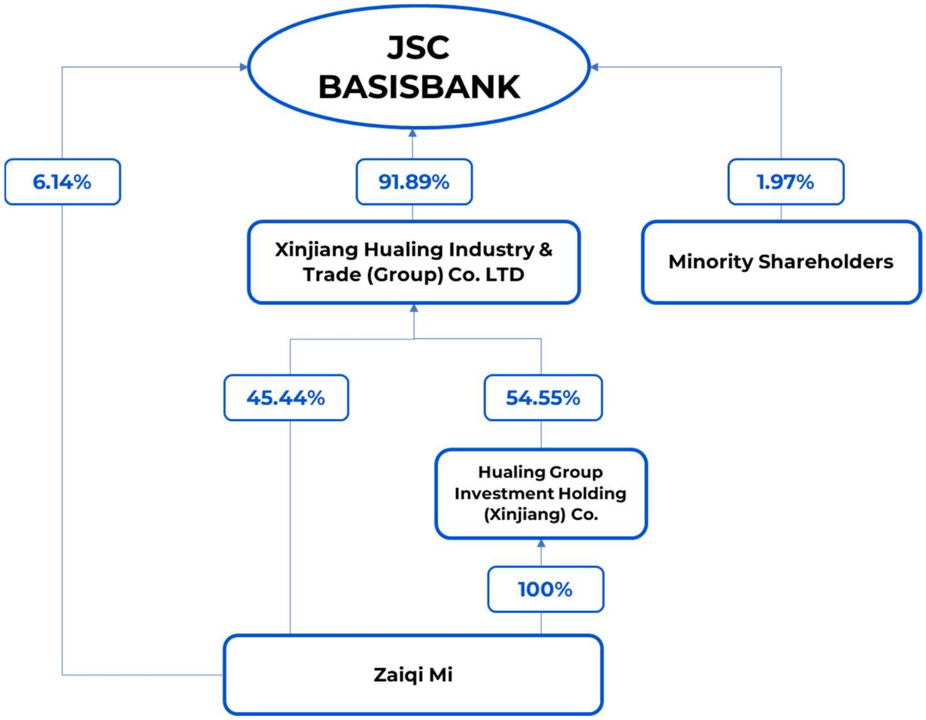
As of December 31, 2024, the ultimate beneficiaries with more than 5% of ownership were Zaiqi Mi (directly and indirectly owning 56.266% of shares) are Mi Enhua (with 41.752% of shares) through Xinjiang Hualing Industry & Trade (Group) Co Ltd.

The details of ownership structure of Ownership in Xinjiang Hualing Industry & Trade (Group) Co Ltd is as give below:

	% of ownership interest held as of 31 December 2024
Shareholders	Ownership in Xinjiang Hualing Industry & Trade (Group) Co
Hualing Group Investment Holding (Xinjiang) Co. (100% owned by Zaiqi Mi)	54.545%
Enhua Mi	45.436%
Other minority shareholder	0.018%
Total	**100.00%**

On January 7, 2025, Enhua Mi and Yang Xiaoling transferred all of their shares in LLC "Xinjiang Hualing Industry and Trade (Group) Co" to their son Zaiqi Mi, who became the ultimate beneficiary of Xinjiang Hualing Industry & Trade (Group) Co Ltd with 100% ownership interest, directly holding 45.4546% of the company's shares and indirectly owning 54.5454% of the shares through Hualing Group Investment Holding (Xinjiang) Co (where he has 100% of ownership interest). The changes were reflected at National Enterprise Credit Information Publicity System of Republic of China on January 15, 2025.

The updated shareholder structure of JSC BasisBank



Following the change, the ultimate beneficial owner Zaiqi Mi is holding 98.03% of the shares of JSC BasisBank.

The Shareholders' ownership information is given in Appendix PE1-BBS-QQ-20241231/ table 6.

Shareholder information

Xinjiang Hualing Industry and Trade (Group) Co., Ltd or (referred as “Hualing Group”) is a Chinese private enterprise group with broadly diversified businesses in China and extending overseas businesses.

Being a major shareholder of the bank since 2012, keeping controlling stakes at above 90%, Hualing Group is committed to develop strong financial institutions 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 Enhua Mi in Urumqi, Xinjiang region in 1988, Group’s Traditional Business is development and management of commodities wholesale and retail markets as well as Real Estate Development.

Hualing Group has over 40 subsidiaries and more than 80 affiliated companies.

Through these subsidiaries, the company operates in the following sectors:

- Real estate development and management
- Operation and management of retail and wholesale goods markets
- Commercial services
- Agribusiness
- Logistics and transport
- Financial sector
- Education

In 2007, Hualing Group started implementation of the investment projects in Georgia. Currently, it is one of the largest Private investment groups in the country.

2.4. The Group structure

At end of 31 December 2024 three subsidiaries operated under the umbrella of BasisBank: JSC BB Insurance, JSC BB Leasing and Basis Asset Management Holding LLC (BAMH).

Thousand GEL		2024	
Name	**Core activity**	**Investment**	**Ownership %**
BAM holding LLC	Asset management	3,797	100%
JSC BB Insurance	Insurance	6,000	100%
JSC BB Leasing	Leasing	18,000	100%
Total investment in capital		**27,797**	

BB Insurance

BB Insurance is BB 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
Independent Member of the Supervisory Board – Zaza Robakidze

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 and offers 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.

BB Leasing

As a member of the BasisBank Group. BB Leasing provides comprehensive leasing solutions and advisory services to individuals and businesses in various sectors. The client is provided with quality products and services, attached with extended consulting possibilities and processes automated at a high level.

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 Aslanikashvili
Deputy General Director - Malkhaz Kharchilava

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 Management Board

General Director – Levan Gardapkhadze

3. Corporate Governance

3.1. Governance Overview

Effective corporate governance in accordance with high international standards is a part of our identity. We are committed to maintaining a best-in-class corporate governance framework, fully compliant with NBG Corporate Governance Code, in line with international standards and best practices. Framework is suitable to support efficient decision-making, to align risk and accountability based on clear and consistent roles and responsibilities, putting a strong focus on enhancing a clear Governance structure ensuring value driven management and control.

NBG Corporate Governance Code on itself, is based on international standards and best practices, such as those of Basel Committee on Banking Supervision, Directive 2000/36/EU of the European Parliament and of the Council of 26 June 2013, the Organization for Economic Cooperation and Development (OECD), the UK Stock Exchange etc.

In the pursuit of delivering greater shareholder value, BasisBank has continued to subject its operations to the highest standards of Corporate Governance, which is an essential foundation for sustainable corporate success, especially in an emerging market economy. We are committed to upholding the principles of good Corporate Governance in all our operations, which is the basis of strong public trust and confidence reposed in us to our shareholders, customers, business partners, employees and the financial markets and the key to our continued long-term success.

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

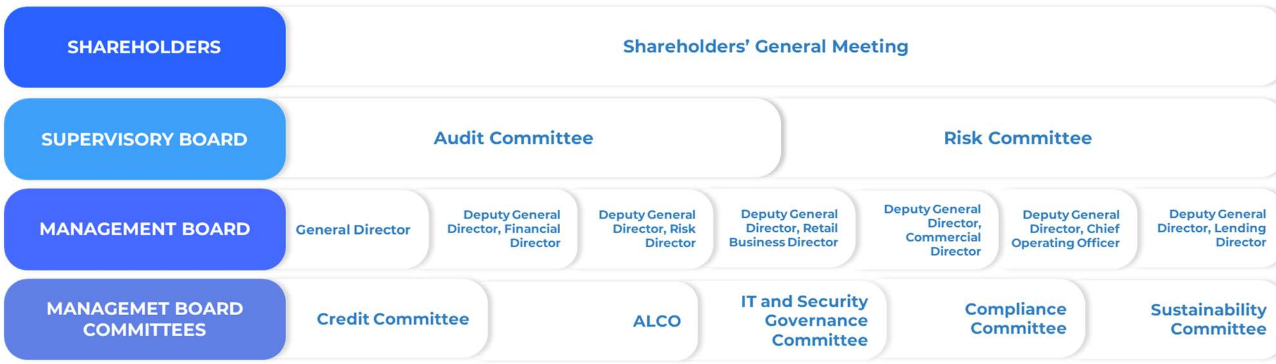
On the Group level, the Management Board and the Supervisory Board are responsible for the Group's strategy, risk management and internal controls. Internal control systems and risk management policies and practices are shared at the group level.

3.2. Governance Structure

BasisBank's (Bank) governance structure sets a formal framework for the Management Board to follow Bank's strategy and objectives, as well as manage the relationship between Directors and Shareholders. The Bank has elaborated a thorough set of policies and systems to ensure that its ultimate objectives are met and there is an effective framework for oversight and control.

BasisBank's corporate governance structure combines three separate bodies:

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



3.3. General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Bank. Shareholders exercise their rights by participating in the Shareholders General Meeting, appointing their representatives in the Supervisory Board and voting on certain matters in compliance with the legislation of Georgia and the Bank Charter.

The general meeting takes decisions on the most important issues - approving the bank's charter, making decisions on the issuance of shares, distribution and usage of earnings, on changes in the bank's capital and making decisions on appointments and / or dismissal of the Board members.

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.

The Annual General Meeting ("AGM") for 2025 will be invited by the Management Board in observance of the procedure stipulated by law, by publication on the unified electronic portal of the National Public Registry Agency, and the bank's official webpage www.bb.ge.

AGM rights and rules

The General Meeting of Shareholders is the highest governance body of the Bank. It conducts two types of meetings: the Annual General Meeting (AGM) and the extraordinary General Meeting of Shareholders.
On AGM annual results, as well as other issues stipulated by the law and the agenda, are discussed.
Meetings held in addition to the regular AGMs are extraordinary meetings of shareholders.

Convening the General Meeting of Shareholders:

- The General Meeting of shareholders is convened by the Management Board.
- The AGM shall be convened annually, at least once a year, no later than 3 months after the completion of the annual balance sheet audit.
- An extraordinary meeting of shareholders must be convened based on a written request from the General Director, Deputy General Directors, the Supervisory Board, or a Shareholder (Shareholders) owning at least 5% (five percent) of the Bank's shares. A decision on convening the General Meeting must be published within 10 days of receiving this request.
- The written request of the Shareholder/Shareholders to convene the General Meeting must specify the necessity, purpose and reason for convening the General Meeting, as well as its agenda outlining all the issues requested by the Shareholder/Shareholders.
- The decision to convene the General Meeting must be published on the electronic portal of the registering agency and on the Bank's website at least 21 days prior to the date of the General Meeting. It must contain at least the information defined by the legislation of Georgia.
- Each subsequent General Meeting may be convened earlier than yearly, if the General Meeting is convened due to the absence of the quorum required for convening the first General Meeting, the first General Meeting was convened in accordance with the procedure established by the legislation of Georgia and no issue has been added to its agenda. In this case, there should be at least a 10-day interval between the dates of the last and the next General Meeting.

Competence of the General Meeting of Shareholders:

The General Meeting of Shareholders discusses and makes decisions on the following issues:

a) Making changes to the bank's Charter, approving a new edition of the Charter;
b) Amendment of the Constituent Agreement of the Bank;
c) Reorganization of the Bank;
d) Dissolution of the Bank, appointment of liquidator, approval of interim and final liquidation balances;
e) Redemption of own shares by the Bank;
f) Change of the invested capital;
g) Defining the composition of the Supervisory Board, the number of members, their election, early recall, the amount of compensation and the structure;
h) Approval of the Bank's audit report and selection of the entity performing the audit;
i) Approval of financial report and distribution of dividends;
j) Determining the procedure for the General Meeting and electing the vote counting committee;
k) Participation in the ongoing legal proceedings against the Bank's governing body/persons and members of the Bank's Supervisory Board, including the appointment of a representative for these proceedings;
l) purchase, alienation, exchange (interrelated transactions) or other encumbrance of the property by the Bank, the value of which is more than half of the balance sheet value of the Bank's total assets, except for those transactions related to the Bank's normal course of business;
m) Determining the number of shares, nominal value, classes and rights related to them;
The Shareholders' Meeting is authorized to make decisions on other issues provided by Charter and the law.

Decision-Making Capacity of the General Meeting of Shareholders:

The General Meeting of Shareholders can make decisions, and a quorum is present if more than half of the Shareholders with voting rights are present or represented at the Meeting. If the Meeting is not capable of making decisions, a new meeting with the same agenda will be convened within the time limit approved by the Supervisory Board, following the procedures provided for above. A new meeting has decision-making capacity, if at least 25% (twenty five percent) of Shareholders with voting rights are present or represented at it. If the meeting still does not have decision-making capacity, a new meeting with the same agenda will be convened within the time limit approved by the Supervisory Board. That Meeting can make decisions regardless of the number of Shareholders present or represented.

At the AGM, 1 (one) ordinary share provides 1 (one) voting right. The General Meeting of Shareholders makes decisions by a simple majority of the votes of the present or represented Shareholders, except for the decisions on the issues provided for in clauses "a" - "f" provided above, on which the AGM makes decisions by a majority of ¾ of the votes of the Shareholders present or represented.

Cumulative voting is used to elect the members of the Supervisory Board at the Shareholders' Meeting. The cumulative voting method is as follows:

a) The Shareholder distributes all their votes to any number of candidates, so that the total number of their votes does not exceed the total number of votes at their disposal;

b) The Shareholder can only support the candidate with each of their votes (voting against them is not allowed);

c) If the number of candidates is less than or equal to the set number of members/persons to be elected, all those candidates who received at least 1 vote are considered elected. If the number of candidates exceeds the set number of members/persons to be elected, those candidates who received the majority of the votes of the participants in the voting shall be considered elected.

The work of the General Meeting of Shareholders is led by the Chairman of the Supervisory Board. One of the Co-chairmen of the Supervisory Board do so in their absence, and the General Director of the Bank or one of the Deputy General Directors-in the absence of the co-chairman. In their absence, the Chairman of the Meeting is elected at the General Meeting by a simple majority of votes. If the Chairman of the General Meeting has a conflict of interests with an issue brought up for discussion at the General Meeting, another (independent) member of the Supervisory Board chairs the meeting when discussing that issue.

3.4. Supervisory Board

The Supervisory Board of BasisBank appoints, supervises and advises the Management Board and is directly involved in decisions of fundamental importance to the bank. The Supervisory Board is exercising its functions through the Supervisory Board Meetings and Supervisory Board-level Committees. The Board appoints and works closely with the Management Board, supervises and advises on important issues and is directly involved in fundamental decisions.

Key Functions: Key functions of Supervisory Board are supervision of the BasisBank's activities, Corporate Governance and Risk Management. Within the framework of these functions, the Supervisory Board makes decisions on establishing the Bank's values, organizational structure and ensuring that the Bank is governed with the principles of fairness, competence, professionalism and ethics. The board establishes the Bank's strategy and oversees management's implementation of the bank's strategic objectives. It ensures that the Bank follows all regulatory and supervisory requirements, establishes the risk appetite of the company along with the Management Board and the Risk Director (Deputy General Director). The Board also oversees the Management Board's activities and evaluates its decisions, ensuring independence and effectiveness of control functions, and conducts the Management Board's performance evaluation in line with its long-term succession plan. The Board is responsible for overseeing transactions with related parties and ensuring the existence of effective procedures and policies within the Bank in line with the requirements of law and regulatory framework.

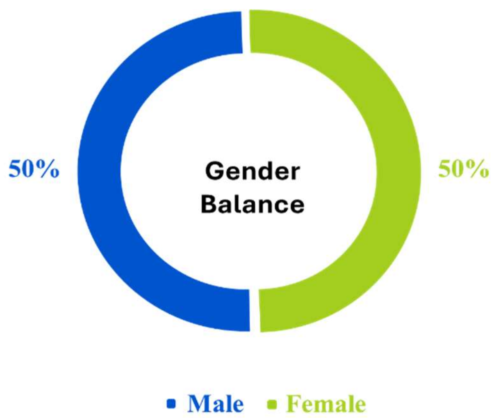
Board Meetings: The Board meetings are based on the principles of open dialogue, accountability and transparency, and members can be fully involved in the work process. Decisions are made in a transparent manner, with all members being equally involved in the dialog and decision-making process, except 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.

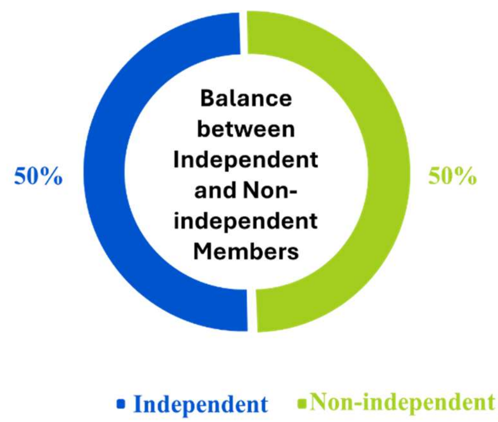
Appointment and re-appointment of Supervisory Board Members: Supervisory Board Members are appointed by AGM for the tenor of 4 years. After 4 years their authority is prolonged until new members are appointed by the next AGM. The same person can be appointed for the position for an unlimited number of times.

Board members can resign any time. Resignation notice shall be sent 3 months earlier. Board members can be resigned by AGM any time before the tenor. A new member should be appointed within 6 months of the date of resignation of the former member.

Segregation of duties: Given the corporate governance structure with its separation of the Management and Supervisory Board, a member of the Supervisory Board is excluded from being a member of the Management Board. While the Management board is actively involved in delivering strategy and day-to-day management of Bank, the role of Supervisory Board is oversight and recommendations to Management Board.

Board Diversity: Supervisory Board is diversified in terms of age, sex, nationality, background and expertise. Members contribute to the Board functioning with their diverse opinions and advice on different issues. Bank believes that this diversity brings balanced expertise and perspective to the matters reserved for the Board and levels up decisions made by the Board. Female representation on the Board is at 50%.





Board Independence: Half of the Supervisory Board members (three out of six) are independent. Board members are independent, if they are not exposed to the influence from the Bank or third party, which can deter the member from making objective and independent decisions. They are obliged to inform the Board regarding any matter that could impair their independence. Independent members have key roles on the Board level Committees, so they provide external experience and objectivity and help to avoid conflicts of interests more effectively.

The status of an independent member is terminated after 9 (nine) years from the first appointment as a member of the Board.

Composition of the Supervisory Board

Zhang Jun **Chairman of the Supervisory Board**	**Zhou Ning** **Vice Chairman of the Supervisory Board**
	
Appointed: 2012 **Nationality:** Chinese	**Committee** Membership: Member of Audit Committee **Appointed**: 2012 **Nationality**: Chinese
Education **MBA degree** from Tianjin University	**Education** MBA degree from Fuqua School of Business in USA, master’s degree in engineering from Virginia Polytechnic Institute bachelor’s degree from University of Science and Technology of China
Career Zhang Jun has over 30 years of executive positions in various Chinese banks, incluzding 7 years of executive supervisory role at The People's Bank of China, 5 years as Deputy Director of Chengxin Credit Union of Urumqi, as well as 12-years career with Urumqi City Commercial Bank, serving as Sales Department General Manager, HR Director, and Assistant of the Chairman of the Board. He occupied the position of Deputy Director in finance and foreign investments in Hualing group. In 2012 he became Executive Chairman of Supervisory Board in BasisBank and in 2015 Chairman of the board.	**Career** Zhou Ning started a position of Senior Financial Analyst with Ford Motor Co. He moved to J.P. Morgan Hong Kong as an Associate of Investment Banking Division. In 2004 he became Vice President of ABN AMRO Bank, overseeing the Strategic Development Department. He was invited as an advisory during BasisBank acquisition by Hualing Group and in 2015 he was invited as a Vice-chairman of the Supervisory Board.

Zaza Robakidze
Independent member of Supervisory Board

Committee Membership: Chairman of Audit Committee, member of Risk Committee
Appointed: 2018
Nationality: Georgian

Education

Master's degree of Economics from Tbilisi Ivane Javakhishvili State University.

Career

An expert in banking, Zaza Robakidze, who has over 25 years of experience in the sector, took the position of a member of the Supervisory Board in 2018. Since 2012, he worked as the chairman of the Audit Committee of BasisBank.

For many years he held various positions in the field of supervision of the Central Bank, from an Economist to the Head of Supervisory Department.

Nino Okhanashvili
Independent Member of the Supervisory Board

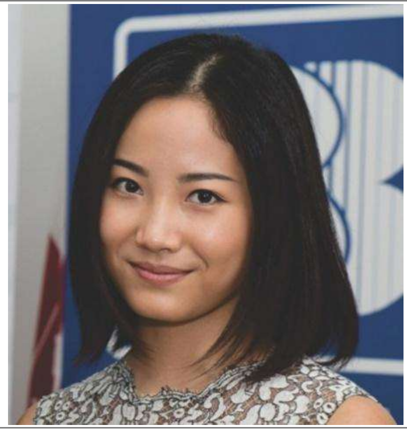
Committee Membership: Member of Audit Committee
Appointed: 2023
Nationality: Georgian

Education

MBA from the European School of Management (ESM Tbilisi) and an MA in international economic relations from Tbilisi Ivane Javakhishvili State University.

Career

In 1999-2000, she worked at Bank of Georgia. In 2000-2008, she held various positions at TBC Bank including those of Branch Director and Head of HR Division. In 2021-2022, Nino Okhanashvili served as Chief Human Resources Officer and Director of Tegeta academy at Tegeta Holding. In different years, she was Founder and CEO of ISB International School of Business and Founding Partner at Insource Recruitment and Advisory. Independent consultant since 2008, Nino Okhanashvili implements organizational development and HRM consulting projects and research assignments.

Sabina Dziurman **Independent Member of the Supervisory Board**	**Mia Mi** **Member of the Supervisory Board**
	
Committee Membership: Chairman of Risk Committee **Appointed:** 2023 **Nationality:** British/Polish	**Committee Membership**: Member of Audit Committee **Appointed**: 2018 **Nationality**: Chinese
Education MBA from London Business School	**Education** Bachelor's degree in business administration from University of Southern California, Los Angeles.
Career In 2004-2015, she held high-ranking positions in the European Bank for Reconstruction and Development (EBRD) in different countries, including Georgia. In 2015-2019, she was the EBRD Director for Greece and Cyprus. In 2020-2022, Sabina Dziurman was an independent member of the Supervisory Board of Asakabank, Uzbekistan, as well as Chair of the Audit Committee and Member of the Risk Committee.	**Career** Director of International Development at Hualing Group International Special Economic Zone in Georgia. She participated actively in the process of acquisition of BasisBank in 2012. In 2015-2017, Mi Mia held various positions in key departments at BasisBank, analyzing loan portfolio, communicating with Chinese corporate and retail clients as well as Banks shareholders.

Meetings of the Supervisory Board in 2024

The Supervisory Board had a busy and comprehensive agenda in 2024, covering a wide range of important issues related to the bank's governance, operations, risk management and strategic direction.

During 2024, the Supervisory Board met 33 times to make decisions and discuss 47 issues, including two meetings held in Georgia, in a physical (attended) format.

During discussions and decision-making on such issues, if any member of the Supervisory Board had a connection with the discussed issue and a conflict of interest might arise, specific members did not participate in the discussion and decision-making of the issue.

Throughout 2024, the Supervisory Board discussed various issues including:

Strategy and Budget	- Basisbank 2024 strategy and budget approval
	- Basisbank stress scenarios with the recovery plan
Financials	- Basisbank 2023 audited financials
	- Basisbank results for 6 months
Capital and Funding	- Funding lines approval
	- Loan and trade finance agreements
Corporate Governance	- Supervisory Board and board level committees' performance review
	- Audit and risk committee yearly reports review
	- Audit and risk committee semi-annual reports review
	- Internal audit budget and working plan approval
	- Collective Suitability of the Supervisory Board and Supervisory board-level committee's review
	- Revision and approval of the Risk Management Framework
	- Revision and approval of the Code of Professional Ethics and Standards of Conduct
	- Revision and approval of the Regulation on Management of Conflict of Interests
Policies Review	- AFC policy amendment approval
	- ICAAP approval
	- ILAAP approval
	- Revision and approval of the Credit Policy
	- Revision and approval of the Regulatory Compliance Policy
	- Revision and approval of the Asset-Liability Management Policy
Positions Approval	- Authority prolongation for directors
Remuneration	- Management remuneration
	- Changes to bonus scheme
Business Operations	- New head office project advancement

Supervisory Board - level Committees

The Supervisory Board has established two Supervisory Board level committees, Audit Committee and Risk Committee, and delegates specific areas of responsibility to them. The committees facilitate informed decisions and report regularly to the Supervisory Board.

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

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

Audit Committee

Audit Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Financial Reporting and Audit. The Audit Committee is established by the members of the Supervisory Board, where two out of the three members are independent. It directly reports to the Supervisory Board.

The Chairperson of the Committee is an independent member of the Supervisory Board.

The Audit Committee is responsible for:

- Relationship with internal and external auditors, setting the scale and scope of internal and external audit;
- Provides oversight of the bank's internal and external auditors' recommendations;
- Reviewing annual consolidated and standalone financial/non-financial statements;
- Oversight and monitor the quality of the Bank's accounting and financial reporting;
- Ensuring adherence to risk management framework and efficiency of internal controls and processes;
- The Audit Committee meetings were held twice during the year.

As of the end of 2024, the members of the committee were:

- Zaza Robakidze - Chairman of the Audit Committee/Independent Member of the Board
- Zhou Ning - Member of the Supervisory Board
- Nino Okhanashvili - Independent Member of the Supervisory Board.

Risk Management Committee

The Risk Management Committee is an independent control function established on the Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. The Committee is established by the members of the Supervisory Board, where two out of three are independent.

The Committee directly reports to the Supervisory Board. The Chairperson of the Committee is an independent member of the Supervisory Board.

The Committee is responsible for:

- Oversight of Bank's Risk Management Framework and functions;
- Oversight of Bank's risk strategies and policies and their effective implementation;
- Assessment and oversight of Bank's risk profile, limits and overall Risk Culture;
- Oversight of compliance with regulatory and other internal and external regulations;
- Oversight of subsidiary's risk management function, risk management framework and the proper functioning of internal control systems.
- The Risk Management Committee meetings were held twice during the year.

The members of the Risk Management Committee as of end-2024 were:

- Sabina Dziurman - 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

The Board is required to conduct a self-assessment of its and Board level Committees performance at least once a year. It evaluates the effectiveness of the Supervisory Board as a whole, its committees and members. Additionally, the external Auditor should evaluate the effectiveness of the Board’s Performance every three years. The last external evaluation was conducted in 2023 for the year 2022. The last internal review was conducted in 2025.

As a part of the annual self-evaluation 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 qualifications of the members of the Board and Committees are in accordance with the current legislation and the 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. Considering the current legislative framework and challenges, the Bank organized an ESG awareness training course for Supervisory Board members in 2024, conducted by an external consulting company. As part of the training, Board members were made aware of ESG risks and their integration into the Bank's risk management framework and received comprehensive information on the legislative requirements in Georgia, as well as the Bank's sustainability strategy.

ESG risks are fully integrated into the bank's risk management framework, and the Supervisory Board assesses them alongside other non-financial risks. In the report submitted by the bank to the Supervisory Board for the 2025 reporting period, information on ESG risks should be more detailed and include the bank's compliance with applicable legislation, including the ESG Guidelines developed by the National Bank of Georgia and published on its official website.

3.5. The Management Board

Management Board (the Board) has comprehensive responsibility for managing BasisBank, steering Bank and setting the bank's strategic course. Along with that, the Board shall be responsible for running the ultimate business objectives in line with the Bank's strategy, navigating within an effective Risk Management and Internal Control framework, and ensuring best practices for Corporate Governance are adhered to.

The Board is collectively responsible for long term success of the Bank and delivering value to shareholders. Board members have appropriate balance of experience, skills, and knowledge, as well as independence from bias, to be able to fulfill their duties and responsibilities.

The Board is composed of seven Directors, a General Director and six deputies, each covering different directions: Retail Business, Lending, Finances, Risk Management, Operations and Commercial Business.

Key Responsibilities:

- Responsibility for the day-to-day management and oversight of the Bank and its operaitons;
- Approval and fulfilment of the Bank's strategy, long-term objectives and budgets; monitoring performance against those;
- Creating effective systems for Financial and non-financial Risk Management, risk controls, supporting risk culture within the Bank.

Management Board level committees: The Board delegates specific areas of responsibility to its five committees: the Credit Committee, the Informational Technologies and Security Governance Committee, the Asset and Liability Management Committee (ALCO), the Sustainability Committee, and the Compliance Committee.

Appointment and re-appointment of Directors: General Director and Deputy General Directors are appointed and dismissed by the Supervisory Board.

Members of Management Board are appointed for 4 years. After 4 years their authority is prolonged until new member is appointed by Supervisory Board. The same person can be appointed for the position for an unlimited number of times.

Segregation of duties: The Management board is actively involveld in outlining and delivering strategy and day-to-day management of the Bank. High-level functions of oversight for each Director are summarized in the Table below:

David Tsaava
General Director

- Lead Management Board
- Strategic Development and Management
- Marketing and Strategic Communications
- Business Analytics and Transformation
- Human Resources Management and Administration

Lia Aslanikashvili
Deputy General Director, Financial Director

- Accounting and Financial Reporting
- Strategic Planning and Budgeting
- Capital and Asset-Liability Management
- Treasury Management
- Global Transactions and Cash Management

Davit Kakabadze
Deputy General Director, Risk Director

- Financial and Non-Financial Risk Management
- Regulatory and Legal Compliance
- Legal Support
- Problem Asset Management and Litigation
- AML and Sanctions Compliance
- Customer Experience and Quality

Rati Dvaladze
Deputy General Director, Chief Operating Officer

- Technology Lead, IT, and Software Development
- Operations Management and Centralized Back Office
- Project Management and Business Analytics
- Product and Service Support
- Infrastructure Support and Logistics

Gigi Gabunia
Deputy General Director, Commercial Director

- Corporate Finance and Strategic Business Development
- SME Banking
- Private Banking
- Trade Finance and Factoring
- Credit Analytics

Hui Li
Deputy General Director, Lending Director

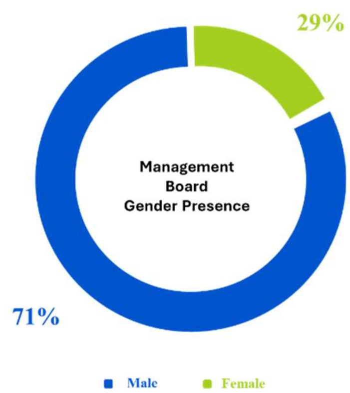
- Member of Credit Committee

Levan Gardapkhadze
Deputy General Director, Retail Director

- Retail Business Management
- Premium Banking
- Branch and Service Network Development
- Digital Services and Transformation
- Product and Service Development
- Sales Network Development

Management Board Diversity: The Management Board is difersified in terms of age, sex, nationality, background and expertise. Bank believes, that this diversity brings a balanced expertise and perspectives to the Strategic Direction and day-to-day management of the Bank.

Female representation on the Board is at 29% (Two out of seven members are women).



Changes in Management Board composition: In 2024, there have been no changes in Management Board .

Members of the Management Board

David Tsaava

General Director

Education	PhD in Business Administration from Technical University Georgia, MiF from Sokhumi State University, Bachelor Degree in Banking and Finance from Tbilisi State University
Career	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. David Tsaava has over 20 years of experience in banking. 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.

Lia Aslanikashvili

Deputy General Director, Financial Director

Education	Master degree in International Economic Relations from Tbilisi State University.
Career	BasisBank's Deputy General Director, Financial Director 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. Lia Aslanikashvili has over 20 years of experience in banking. In 1999-2002, she served as Manager at International Operations Department of BasisBank. In 2002-2005, she headed the same department. In 2005-2008, headed the Settlement Department. In 2007-2008, Lia Aslanikashvili led the Treasury Department. In 2008-2012, she was a CFO of BasisBank.

David Kakabadze
Deputy General Director, Risk Director

Education:	Master's Degree in Finance from Caucasus Business School.
Career:	BasisBank's Deputy General Director, Risk Director 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 over 20 years of experience in banking. He 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.

Levan Gardapkhadze
Deputy General Director, Retail Director

Education	Master's Degree in Business Management from University of Georgia; Master's Degree in law from Tbilisi University of Economics, Law and Information; Bachelor's Degree in International Economics from Technical University of Georgia.
Career	BasisBank's Deputy General Director, Retail Director since 2012. 2017-2018: Deputy General Director of BB Leasing and BB Insurance, the BasisBank Group member companies. Levan Gardapkhadze has 20 years of experience in banking. He 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.

George Gabunia

Deputy General Director, Chief Commercial Officer

Education	Master's Degree in Banking from Tbilisi State University; Bachelor's Degree in Finance and Banking form Tbilisi State University.
Career	BasisBank's CCO since 2019 has 18 years of experience in the sector. In 2012-2019 George Gabunia headed the bank's commercial department. In 2010-2012 he led the corporate department. In 2008-2010 he headed the Corporate Regional Group, in 2006-2008 George Gabunia was a corporate banker. In earlier years, he worked in BasisBank's marketing and sales areas.

Rati Dvaladze **Deputy General Director, Chief Operating Officer**	
	
Education	Master's Degree in Information Technology Management from Free University; Master's Degree in Physics and Mathematics from Tbilisi State University; Bachelor's Degree in Mathematics.
Career	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 a lecturer.

Li Hui

Deputy General Director, Lending Director

Education	Bachelor's Degree in Accounting from Financial University of China.
Career	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.

3.6. Further Aspects of Governance

Conflicts of Interests

Based on the BB Group specifics, the Supervisory Board, the Management Board and other control functions strictly control the possible sources of conflicts of interest. The bank and the Group identify and record related parties and set controls on the transactions with those. The Supervisory Board periodically revises the policies developed and approved by it, to ensure compliance with the underlying challenges. In addition, the bank closely cooperates with the National Bank of Georgia to take into consideration the regulator's guidance for the establishing and maintaining robust control system.

The transactions with the related parties are subject to mandatory review and approval by the Management Board and/or Supervisory Board. The Bank strictly adheres to the arm's length principle and ensures the coherence of the related party transactions with these principles. A sufficient number of independent members of the Supervisory Board enhances control effectiveness to prevent conflicts of interest.

Internal control and risk management systems for drawing up Financial Statements

Financial Statements are prepared by Finance Department and reviewed by Deputy General Director, Finances. Afterwards, it is reviewed and approved by the Management Board, Audit Committee and ultimately the Supervisory Board. One of the functions of the Audit Committee is to review the integrity of the financial statements, considering the appropriateness of accounting policies and practices, and reviewing the significant issues and judgements considered in relation to the financial statements. The Committee receives detailed reporting from the Deputy General Director, Finances and the external auditor including key areas of management's judgements, reporting and audit process during the year. Where necessary, the Audit Committee challenges the actions, estimates and judgements of management in relation to the preparation of the financial statements.

Additionally, Bank has drafted Internal Instruction on the preparation of Financial Statements for Audit purposes. It defines roles, responsibilities and deadlines for the parties involved, as well as outlines internal controls for the preparation of Financial Statements.

Diversity and Inclusion Policy

The Bank's Diversity and Inclusion Policy applies to all employees of the Bank, all functions, all units in the Bank, and all subsidiaries with regard to age, gender, ethnicity, sexual orientation, disability and socio-economic backgrounds. It applies to the Board, committees, Management and employees – all levels of Bank. The Diversity and Inclusion Policy commits to ensuring a diverse and inclusive culture within the Bank. Our ongoing aim is to be a bank that develops and maintains diversity and inclusivity – for our employees, our customers, all our stakeholders and for society.

Whistleblowing

Bank ensures there are effective procedures in place relating to whistleblowing. The Whistleblowing Policy allows any person including the employees, trainees, clients, suppliers, vendors and other stakeholders to confidentially raise concerns about unethical business practices such as: fraud, conflict of interests, corruption, money laundering, harassment, blackmail, environmental or social issues etc. The Company has an advanced independent whistleblowing reporting channel in place, including an anonymity option. The Bank has continued to promote the importance of the whistleblowing process and procedures to employees. The Audit Committee continues to monitor the use of the system.

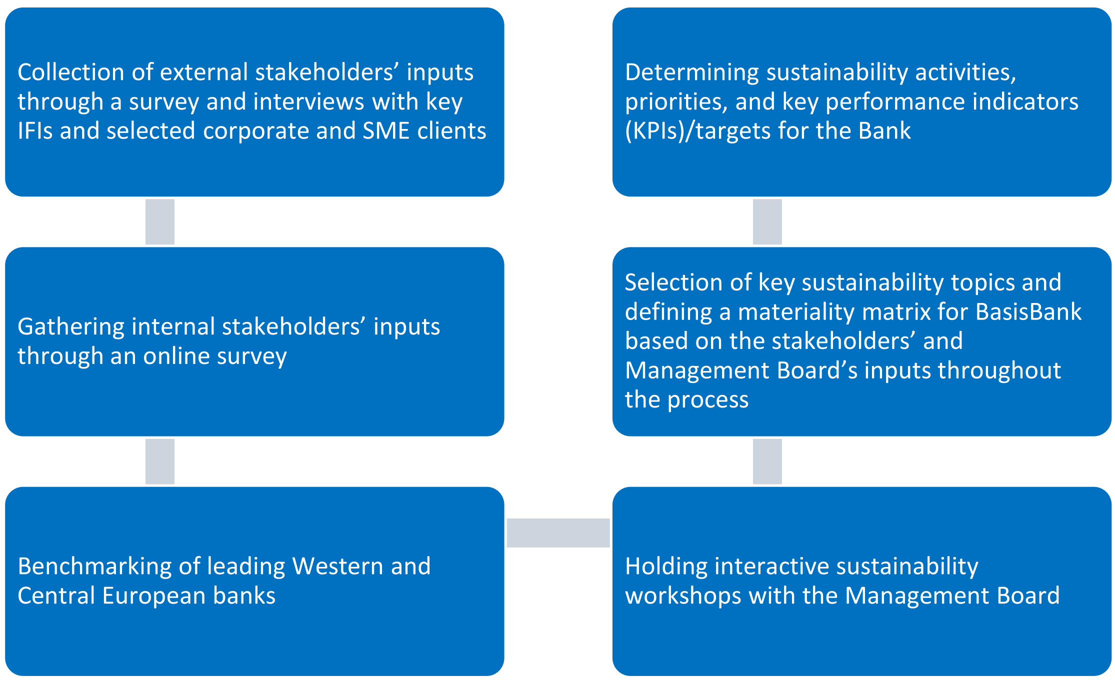
Any potential violations of the Code of Conduct and Ethics that are recorded through the whistleblowing channel are forwarded to a special commission led by the Audit Committee Chairman, which also includes the Head of HR and the Head of Compliance Units. The commission reviews the potential incident and based on the results of the investigation, makes an impartial and objective decision.

Sustainability Strategy

BasisBank developed and approved the Sustainability Strategy to enhance its environmental and social practices, and to monitor progress thereon. This strategy's development was a complex and multi-layered process. It determined BasisBank's goals and priorities in sustainability and green finance for the coming years.

Sustainability Strategy was developed through a companywide approach with the active involvement and engagement of the Bank's management and input from internal and external stakeholders. Among the stakeholders, the following groups were identified, and their inputs were collected accordingly: corporate and SME clients; employees; and IFIs.

The strategy's design and development process comprised the following activities:



The Sustainability Strategy is composed of the following several important elements that are interconnected:

A Materiality Matrix

- identifies and prioritizes sustainability topics material to BasisBank

Sustainability objectives

- Sustainability objectives and commitments for the defined material topics, consisting of business goals with varying time horizons;

Sustainability KPIs

- Measurable quantitative indicators through which Bank monitors, assesses, and keeps track of its progress

A sustainability roadmap

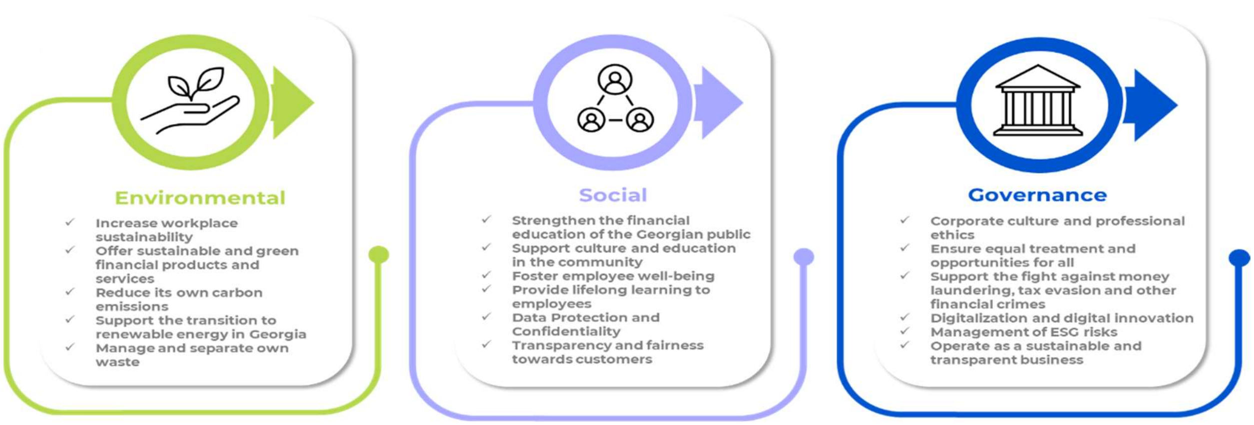
- Detailing underlying infrastructure needed to be built to achieve targets and relevant activities

As a result of the materiality assessment and taking into consideration the internal and external stakeholders' inputs, a number of material topics were identified during the assessment process as being of significant importance.

Identifying material topics helped us to define the path towards implementing more comprehensive sustainable practices. By pinpointing topics material to the defined stakeholders and management of the Bank, we were able to formulate objectives, set aims and targets toward which BasisBank would work.

The sustainability strategy along with its sustainability roadmap was approved by the Management Board. BasisBank has thus committed to fulfilling its objectives under several categories, such as climate action, ESG issues, and sustainable business directions. For each objective relevant timeframes and KPIs were elaborated, and corresponding roadmaps were developed to further track and monitor progress.

Based on the overall materiality assessment, we have grouped material topics considering their impacts and SDG alignment.



After mapping/aligning ESG strategic objectives to the SDGs, the bank believes the strategy contributes to the following Development Goals:

As part of its ESG strategy, the Bank has either already started working on the outlined objectives or achieved certain milestones in this regard. Specifically, by the end of 2024, BasisBank has thus far accomplished the following Sustainable objectives under the following topics:

Strategy Topic	Strategy Objective	SDG Alignment
Offer sustainable and green financial products and services	Develop a green lending framework and guidelines	SDGs 8 & 13
	Issue green/sustainable bonds in cooperation with the ADB to finance green lending products	SDGs 8 & 13
Reduce its own carbon emissions	Measure and disclose greenhouse gas emissions	SDG 13
Foster employee well-being	Conduct yearly employee satisfaction surveys	SDGs 3 & 8
	Increase the attractiveness of the Bank for young graduates by organizing outreach activities and sponsoring events at universities	SDGs 3 & 8
Data protection and confidentiality	Create the position of Data Protection Officer	SDG 12
Transparency and fairness towards customers	Monitor the net promoter score and aim for constant improvement	SDG 12
Corporate culture and professional ethics	Enforce BasisBank’s Code of Ethics	SDG 16
Ensure equal treatment and opportunities for all	Enforce an anti-discrimination policy	SDGs 5 & 10

	Increase the share of women in the senior management	SDGs 5 & 10
Operate as a sustainable and transparent business	Issue a sustainability report	SDGs 8 & 12

The materiality assessment and elaboration of the strategy as a whole were part of a technical support project run by the Green for Growth Fund, with the support of the EU4Energy Initiative.

Policies and procedures

The Bank has adopted a thorough set of policies to ensure compliance with high Corporate Governance Standards and International Best Practice as well as provide framework for internal procedures and controls.

Policies and Procedures are reviewed annually by Management and Committees for updates. Our compliance with these policies is a process of continuous improvement.

2024 updates to policies and procedures

This year we created and updated several policies and procedures across the Bank to support Corporate Governance and day-to-day management of the bank within an appropriate risk framework.

Bank has adopted and updated following policies and procedures: revised Risk Management Framework, renewed General Risk Management and Internal Capital Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), renewed Code of Professional Ethics and Standards of Conduct, By-law as well as Regulatory Compliance Policy, revised Regulation on Management of Conflict of Interests, several internal regulations on non-financial as well as financial risk management etc.

In 2024, the Bank developed several documents relevant to Corporate Governance, including: collective Suitability of the Supervisory Board and Supervisory Board level committees, internal evaluation of the effectiveness of the Supervisory Board and Board level committees' members etc.

4. Risk Management and Risk Strategy

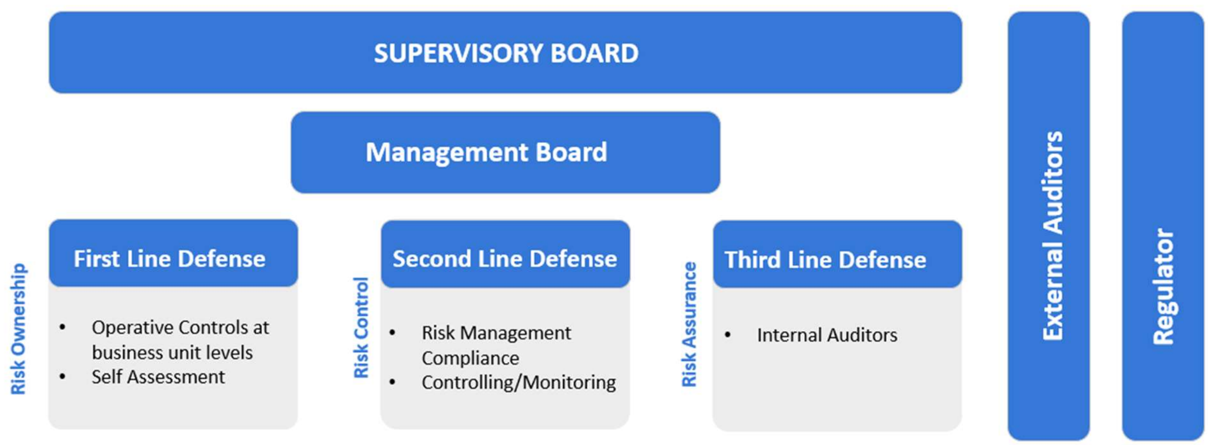
4.1. Risk Management Framework

Risk management is 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. Material risks and uncertainties are key focus areas for the Management Board and Supervisory Board, which is the ultimate responsible unit of the Bank's Risk Management and control system.

BasisBank has developed a Risk Governance Framework with the aim of creating an image of BasisBank as a stable and reliable bank. The Framework is fully in line with the size, complexity and the risk profile of the Bank. The Framework covers defining Risk Strategy as well as identification, measurement and control of relevant risk types, stress testing and capital planning. The Risk Management framework is supported by a dedicated Risk Governance Structure with clearly delegated authority levels, which ensures that all material risks are effectively controlled and managed in a proper way within the everyday operations of the Bank.

The risk management framework is integrated into the bank's strategy, business planning and day-to-day activities.

The risk is managed 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 structure. By dividing responsibilities among these three lines of defense, BasisBank aims to create a well-structured and comprehensive risk management system that helps mitigate risks, ultimately contributing to the stability and sustainability of the Bank.



First Line of defense (Business Unit Level) involves the daily operational activities of the bank, including front-line staff, business units and processes. The first line of defense is risk owners who are primarily responsible for identifying, measuring and managing respective process related risks. They possess business-specific, insightful and comprehensive knowledge of inherent risks associated with their own processes; hence they are accountable to reveal such risks on a regular basis. Risk Owners from the first line of defense are responsible to establish policies/procedures and design respective controls to ensure adequate risk management.

Second Line of defense (Risk Department Level) is responsible for overseeing and supporting the effort taken from the first line of defense. Second line of defense in BasisBank are General Risk Management Department, Non-financial Risk Management Department, AML/CFT Department and Compliance Division. Internal control and compliance oversight are the responsibility of these functions, as well as identification and challenging the risks. 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 opinions on risk-related matters.

Third Line of defense is internal audit who is responsible for independent and objective assurance to senior management and the board on the effectiveness of the first- and second lines' processes that their efforts are consistent with expectations. Internal Audit controls and regularly checks that the policies and procedures of risk management are adequate and effectively implemented; controls that all risks are consistent with the bank's risk appetite statement and internal regulations; Verifying compliance with laws, regulations, and internal policies.

The Bank's governing principles set overall tone at the top on risk taking. The key objectives of governing principles are to (i) ensure risk control, (ii) increase resilience and (iii) control risk-return:

- Risk Culture - fosters a strong risk culture in which risk appetite is articulated throughout the Bank and employees take ownership of risk management with a clear understanding of it, resulting in risk-minded decision-making. The risk culture is ever evolving to adapt to the constantly changing risk environment.
- Profitability - seek to deliver annual target operating metrics consistent with our stakeholders' expectations by maintaining low earnings volatility and sustainable profitability.
- Reputation - have a minimal appetite for damage to Bank's brand reputation and, at all times, treat all stakeholders fairly and act with full integrity. Ensure to have a sound corporate governance and aim to pursue the strategy of good corporate citizenship.

4.2. 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 sound risk management practices, and a holistic awareness of risk exists.

The risk management system is split between the following risk management units:

The Risk Management Departments are responsible for the elaboration of the Risk Management Framework and are risk owners of most of the risk types. Risk Management Departments are: General Risk Management Department, Non-financial Risk Management Department, AML/CFT Department and Compliance Division (hereinafter - ERM Working Group).

Enterprise Risk Management (hereafter - ERM) is essential for the BasisBank to navigate the complex landscape of risks inherent in financial activities. It helps BasisBank to strike a balance between growth and risk, maintain regulatory compliance, and build resilience to external shocks. The role of ERM working group is crucial to foster continuous risk assessment of business processes and strengthen execution of high residual risk mitigation plans. The cross-functional nature of the ERM working group facilitates the identification of enterprise-wide issues that should be discussed.

The ERM Working Group supports:

Enhanced Risk Identification and Mitigation:

- ERM enables Basisbank to systematically identify and assess a wide range of risks. This comprehensive approach allows to implement targeted strategies to mitigate and manage these risks effectively.

Improved Capital Allocation and Efficiency:

- ERM helps optimize the use of capital by aligning it with the level of risk exposure, ensuring that sufficient capital is set aside to cover potential losses.

Strategic Decision-Making:

- ERM aligns risk considerations with strategic planning, allowing Basisbank to make informed decisions that balance risk and reward. This is crucial for pursuing growth opportunities while maintaining a prudent risk profile.

Regulatory Compliance:

- Since the banking sector is heavily regulated ERM assists Basisbank in identifying and addressing compliance risks.

Strengthened Risk Culture:

- ERM promotes a strong risk culture within the Basisbank, where employees at all levels are educated about risks and actively contribute to risk management. This helps in early detection and response to emerging risks.

Reputation Management:

- ERM assists Basisbank in identifying and managing risks that could harm their reputation, such as unethical behavior, fraud, or data breaches.

Optimized Product and Service Offerings:

- ERM helps Basisbank to evaluate the risks associated with new product and service offerings. This ensures that potential risks are properly assessed before launching new initiatives.

Enhanced Customer Confidence:

- Demonstrating effective risk management practices through ERM enhances customer confidence in the Basisbank's stability and ability to safeguard their assets.

Long-Term Sustainability:

- By addressing risks that could threaten the bank's stability and profitability, ERM contributes to the bank's long-term sustainability and success

The ERM working group is responsible for assisting the Management Board to oversight risk, review the Bank's risk appetite and risk profile in relation to capital and liquidity, reviewing the effectiveness of the Bank's risk management framework, reviewing the methodology used in determining the Bank's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions. Primary responsibility for setting the Bank's risk appetites and overseeing the Bank's profile against it; overseeing the brand and reputation of the Bank and ensuring that the reputational risk is consistent with the risk appetite lies with the ERM working group.

Key functions of each unit of Risk Governance are summarized in the table below:

Unit Name	Risk Function
Supervisory Board	**Description:** Supervisory Board is the ultimate responsible body for the oversight of the risk management framework, which sets general approach to risk management by approving individual risk strategies. **Key Functions:** - Sets tone from top, establishes and fosters high ethical standards across bank; - Approves and exercises control over the implementation of the Bank's risk strategies; - Establishes risk appetite in cooperation with the Chief Risk Officer and other members of the Board; Approves risk appetite; - Reviews Bank's risk profile; - Approves risk management framework and ICAAP and ILAAP frameworks; - Reviews the adequacy and effectiveness of BasisBank risk management framework by approving Risk Management Policies and Procedures; - Assess non-financial risks including ESG risks. As a part of the risk management system oversight, the Supervisory Board regularly assesses ESG risks and verifies that these risks are identified, measured, monitored, and their impacts are mitigated appropriately.
Audit Committee	**Description:** Audit Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. It directly reports to the Supervisory Board. **Key Functions:** - Gives unbiased opinion 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. - Regularly reviews internal controls and processes; - Provides oversight of the bank's internal and external auditors' recommendations; - Approves or recommends to the Board monitoring the financial accounting process; - Provides oversight of the effectiveness of the risk management system, particularly the internal control system and the internal audit system; - Monitors the Management Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.
Risk Committee	**Description:** Risk Committee is an independent control function established on Supervisory Board level, which supports the Supervisory Board in monitoring the implementation of Risk Strategy. **Key Functions:** - Ensures oversight of the Bank's risk strategies and policies and their effective implementation - Assesses and oversights the Bank's risk profile, risk appetite and limits - Oversights the subsidiary's risk management function, risk management framework and the proper functioning of internal control systems.

<table>
<tr><th>Unit Name</th><th>Risk Function</th></tr>
<tr><td></td><td>- Oversees compliance with regulatory and other internal and external regulations.</td></tr>
<tr><td>Internal Audit</td><td>Description: Internal Audit is a function established under the Supervisory Board and directly reports to it. Internal audit supports senior management and Supervisory board by independent and objective assurance that measures of risk identification and mitigation performed by the first and second lines of defense are in line with their expectations.

Key Functions:
- Assesses the adequacy and effectiveness of BasisBank control framework and adherence to internal policies and procedures;
- Prepares periodic reports to the Supervisory Board for summarizing audit activities</td></tr>
<tr><td>Management Board</td><td>Description: Management Board is the body which is responsible for effective business organization and adequate segregation of duties to reflect risk and ensuring existence of adequate policies and procedures.

Key Functions:
- Reviewing performance to streamline progress towards strategic goals;
- Controlling activities at division and departmental level;
- Regularly reviewing bank's strategy, risk and capital limits to ensure compliance with exposure and capital limits;
- Following up on non-compliance;
- Reviewing evaluations of internal controls,
- Ensuring prompt follow-ups on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses.</td></tr>
<tr><td>ALCO Committee</td><td>Description: Functional unit established by Management Board to ensure oversight and management of Asset, Liability and Capital Risks

Key Functions:
- Reviews current and prospective liquidity positions and monitors alternative funding sources;
- Reviews maturity and pricing schedules of deposits, loans and investments;
- Develops alternative strategies deemed appropriate, which take into account changes in interest rate levels and trends, relevant products and related regulations;
- Reviews and validates ALM model(s) and procedures;
- Approves limit structure on counterparty risk.</td></tr>
<tr><td>Credit Committee</td><td>Description: Functional unit established by Management Board to ensure oversight and management of Credit Risks.

General Functions:
• Evaluation of potential clients’ financial situation and their ability to repay the loan;
• Review applications for loans and make decisions upon such applications within the authority delegated to the committee;
• Act in the best interest of the Bank, in compliance with internal policies and procedures;
• Reviews credit loan collection practices to improve loan underwriting and collection efforts.</td></tr>
</table>

Unit Name	Risk Function
Compliance Committee	**Description:** The Compliance Committee has been established by the Management Board in August 2022 to promote effective management of compliance risks by the three lines of defense of the bank within its competence. Main objective of the committee is to support the effective management and mitigation of compliance risks. The committee consists of seven members and is headed by the Deputy General Director, Risk Management. Members of Compliance Committee: - General Director; - Deputy General Director –Risk Director; - Advisor to Deputy General Director –Risk Director; - Deputy General Director – Chief Commercial Officer; - Deputy General Director – Financial Director; - Head of Anti-Money Laundering and Sanctions Compliance Department; - Head of International Sanctions Division; - Head of Compliance Division.
Sustainability Committee	**Description:** The Sustainability Committee is a key component within BasisBank, specifically focusing on ESG matters. Its primary responsibility is to support and advise the Management Board in overseeing the Bank's strategy, policies, and programs related to ESG issues. This committee ensures that the Bank's operations align with sustainable practices and is responsible for overseeing the development, implementation, and performance of the Bank's sustainability strategy. It reviews and approves major sustainability initiatives, assesses risks and opportunities, and ensures alignment with the overall business objectives. In addition, the Sustainability Committee plays a pivotal role in overseeing management of environmental impacts resulting from lending activities, positioning BasisBank as an environmentally responsible organization and enhancing its reputation. The Sustainability Committee is composed of the following members: - Deputy General Director – Financial Director; - Deputy General Director –Risk Director; - Deputy General Director – Chief Commercial Officer; - Head of Compliance Division; - International Relations Division; - Advisor to Chief Commercial Officer, Strategic Business Development; - Sustainability Manager.
Deputy General Director, Risk Director	**Description:** Deputy General Director (CRO) is a top-level executive responsible for overall risk management in all financial and non-financial 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. **Key Functions:** - Comprehensive control of risk, elaboration and continuous development of risk measurement and mitigation methods; - Setting risk limits and creating risk maps; - Communicating a clear vision of the firm's risk profile to the board and to key stakeholders.

Unit Name	Risk Function
	- Evaluation and management of credit, market and operational risks and drawing up suggestions about alteration necessary for structure, procedures and provisions; - Elaboration of ICAAP and ILAAP frameworks - Elaboration and introduction of methods of risk mitigation; - Evaluation of the bank's lending performance.
General Risk Management Department	**Description:** The General Risk Management Department is a function under the Risk Director, which owns and manages financial risks. **Key Functions:** - Assesses and Manages credit, market and liquidity risks; - Elaborates, maintains and updates policies and procedures relevant to those risks; - Take part in the elaboration of ICAAP and ILAAP frameworks, as well as resolution plan of the bank and subsequently monitor compliance with the defined risk limits; - Monitors and evaluates portfolio quality, Expected Credit Losses and collateral valuations; Conducts regulatory stress testing of the loan portfolio; - Make recommendations to the Management Board about changes in lending policies for meeting strategic business objectives; - Participates in developing pricing models; - Evaluates market (interest rate and currency risks) and elaborates measures for hedging those risks together with the Treasury Department; - Assesses liquidity risks and elaborates measures for obtaining and placement of funds in the scope of annual ILAAP review. - Elaborates and introduces methods of risk mitigation; makes assessment of expected credit losses (ECL); elaborates ICAAP (internal capital adequacy assessment process) and ILAAP (Internal Liquidity Adequacy Assessment Process); evaluates bank's lending performance.
Non-financial Risk Management Department	**Description:** The Non-financial Risk Management Department is a function under the Risk Director, which owns and manages non-financial risks and aims to establish a sound and effective non-financial risk management practice across the Bank. **Key Functions:** - To ensure enforcement of effective risk identification, assessment, treatment and monitoring/reporting tools and methodologies to minimize non-financial losses while supporting business development and growth; - To minimize internal fraud incidents and establish an environment which aligns with the bank's business objectives. - Continuous improvement of information security and business continuity management processes, to minimize risks associated with information security/cybersecurity and ensure security of clients and partners.
AML & Sanctions Compliance Department	**Description:** AML and Sanctions Compliance Department is a function under the Risk Director, which oversees compliance with AML/CFT and International Sanctions. It consists of three divisions: KYC quality control, Transactions monitoring and international sanctions. **Key Functions:**

Unit Name	Risk Function
	- Managing anti-money laundering and sanctions compliance program, including supervising the development and implementation of and performing ongoing monitoring of the Bank's AML/Sanctions compliance program. - To ensure that the Bank complies with AML rules and regulations and takes the required measures against financial crime.
Compliance Division	**Description:** Compliance Division is a function under the Risk Director, which is responsible for regulatory compliance. **Key Functions:** - Enforcement of the corporate compliance policy; - Effective functioning of compliance risk management; - Evaluate the impact of each legislative and regulatory change as part of its formal risk identification and assessment processes. - Anticipating, detecting, assessing and controlling significant/potential risks related to non-compliance.
Treasury Department	**Description:** The Treasury Department is a function under the Financial Director, which owns and manages Treasury operations, liquidity and funding positions, Interest Rate risk and Foreign Exchange risk. It reports to the Financial Director and ALCO Committee. **Key Functions:** - Daily control for liquidity, maturity transformation and structural interest rate exposure; - Controls BasisBank's liquidity and interest rate maturity mismatch; - Controls and manages foreign exchange risk exposure.
Asset-Liability Management Department	**Description:** Asset and Liability Management Department is a function under the Financial Director, which owns and manages the alignment of assets and liabilities, liquidity and capital management. **Key Functions:** - Alignment of assets and liabilities - reduction of financial risks and increase in profitability; - Pricing of assets and liabilities; - Development and management of transfer pricing system; - Participation in medium and long-term liquidity management; - Participation in capital management.

4.3. Risk Strategy

The risk strategy derived from the business strategy of the bank contains the risk appetite of the Bank and the Risk Governance Framework which ensures that risks are controlled in a proper way. It defines the group's approach and priorities to Risk Management, sets targets, deals with changes in economic, social and regulatory environment, considering regulatory expectations and best market practices. A medium-low risk profile is ensured to be maintained across the bank as required by Risk Appetite framework.

The risk strategy is updated at least annually, as well as up to any update of the Bank Strategy and is available for use for all levels of the employees throughout the bank.

Risk strategy defines BasisBank'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. Management of each material risk type is described in the next section.

Risk Management

Risk management processes must be constructed in a way to support the execution of the risk strategy in the daily processes of the Bank and the management reporting system also must be built up in a way to serve as a proper tool for risk governance.

BasisBank is committed to mitigate potential risks by an 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.

BasisBank sets principles about risk taking and risk management which are reflected in the internal rules and policies and are applied consistently throughout the organization. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- proper quantification of risks using adequate methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices in compliance with the international standards,
- maintaining proper risk control hierarchy, independent from business activities to avoid conflict of interest,
- taking into consideration risk perspective upon the launch of new activities, business lines or products.

Risk Management is a fundamental part of BasisBank business activity and an essential component of its planning process. To keep risk management at the center of the executive agenda, it is embedded in the everyday management of the business.

BasisBank ensures that it has the functional capacity to manage the risk in new and existing businesses. At a strategic level, our risk management objectives are:

- To define BasisBank's strategy;
- To optimize risk/return decisions by taking them as closely as possible to the business;
- To ensure that business growth plans are properly supported by effective risk infrastructure.
- To manage a risk profile to ensure that financial soundness remains possible under a range of adverse business conditions.

Risk management processes are constructed in a way that supports 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 four discrete processes: identify, assess, mitigate and monitor.

Identify	- Define, compile and classify existing and emerging risks to fulfil BasisBank's strategy
Assess	- Agree and implement measurement standards and methodologies, that include determining consequences of risks in a quantitative and qualitative manner, including but not limited to financial impact of possible risk events over a given time
Mitigation	- Take actions to manage or control identified risks - Implement measures, such as key control processes and practices, to reduce the likelihood of a risk occurring or to minimize its potential impact - Controls include but not limited to limit structures, segregation of duties, impairment allowance criteria and reporting requirements
Monitor	- Interpret and report on risk exposures, concentrations and risk-taking outcomes - Track and evaluate the performance and status of risk management activities - Review and challenge all aspects of the BasisBank risk profile - Assessing new risk-return opportunities - Advise on optimizing BasisBank's risk profile

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.

For each type of risk its relevancy is assessed and the methodological approach to measure and mitigate the risk is outlined in Framework. 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 are assessed within the regularly performed benchmark analysis and under more severe stress tests conditions.

If the risk is considered significant and it is quantifiable, the Bank has to define an 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 the Risk Management Framework 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.

Risk Management Policies and Procedures

The Risk Management policies 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.

4.4. Risk appetite

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 must elaborate on its risk tolerance framework.

Risk Appetite Framework is the overall approach through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk thresholds, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the risk appetite framework.

- Risk appetite Statement - The articulation of risk appetite in written form. It includes quantitative metrics, qualitative statements and risk Thresholds. RAS is communicated throughout the Bank and is embedded in the daily decision-making processes;
- Risk Capacity - The maximum level of risk the Bank can assume before breaching constraints determined by regulatory capital and liquidity needs and its obligations to depositors, lenders, shareholders, customers and other stakeholders;
- Risk Thresholds - The restrictions prescribed by the Bank on its business activities, designed to allocate the Bank's risk appetite to specific risk categories, business units and, as appropriate, to other levels;
- Risk Profile - Point-in-time assessment of the Bank's gross and as appropriate, net risk exposures aggregated within and across each relevant risk category based on forward-looking assumptions.

The risk appetite of the Bank has been set as a limit system which enables the Bank to continuously monitor the exposure to the relevant risk factors. The limit system considered all relevant risk types identified during the Risk Assessment processes. Risk Appetite was established by the Supervisory Board, as a result of cooperation with the members of the Management Board, including the Risk Director.

Key Risks

Bank differentiates financial and non-financial risks. In terms of financial risk, the bank includes credit risk, liquidity risk, market risk, capital risk, maturity risk, foreign currency risk and other financial risks. In non-financial risks the bank looks at operational, cyber-security and information security and third-party risks. On bank level the group monitors the following risk exposures:

Credit Risk

Risk Definition	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 because of the Group’s lending and other transactions with counterparties, giving rise to financial assets and off-balance credit-related commitments. Credit risk is obviously the most important type of risk for banks and banks’ supervisory authorities. Key Sources of credit risks are Counterparty Default Risk; Portfolio Concentration Risk and Collateral Devaluation Risk. The Bank's credit strategy is to create a diversified and profitable loan portfolio while maintaining maximum quality.
Risk Identification and Measurement	The estimation of credit risk for risk management purposes is complex and involves the use of credit risk assessment 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.
Risk Mitigation	Establishment of an appropriate credit risk management environment in BasisBank is achieved through written Credit Policy and Credit Manual related to target markets.

In these formalized documents, portfolio mix, price and non-price terms, the structure of limits, approval authorities and processing of exceptions and reporting issues are addressed and outlined.

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 the 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 General Risk Management Division) take part in credit risk assessment of the client. For Individual borrowers the bank has developed a 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.

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 monitoring the 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.

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.

Concentration: 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 Policy of the Bank contains the limit system defined by the Bank for the control of concentration risk. Single name concentration risk is limited by the Georgian regulation (Regulation on Credit Concentration and Large Risks in Commercial Banks). According to the Georgian regulation, total amount of loans and other liabilities issued by the bank to a group of interconnected borrowers shall not exceed 25% of the Tier 1 capital.

Additional internal rules include: 1. The total amount of loans and other liabilities issued by the bank to a person shall not exceed 15% of the bank's Tier 1 capital; 2. The total amount of loans and other liabilities after mitigation issued by the bank to a group of interconnected borrowers without banks shall not exceed 15% of the bank's Tier 1 capital; 3. The total amount of loans and other liabilities after mitigation issued by the bank to a group of interconnected borrowers shall not exceed 23% of the bank's Tier 1 capital; 4. Exposures to the top 20 interconnected groups of borrowers after mitigation should not exceed 30% of the total risk position after mitigation. Concentration limits according to activity sectors are as follows: exposure to one economic sector should not exceed 15% of total portfolio; Exposure to construction related sectors should not exceed 20% of total portfolio. The limit system reviewed is regularly by Risk Management when economic sectors are analyzed based on portfolio behavior and external information to review properly riskiness of the economic sectors. Concentration limits are defined and regulated by the Credit Risk Policy.

Restructuring and recovery actions: The Bank has set out internal processes for managing the commitments of borrowers experiencing financial difficulties and for delinquent portfolio. The Bank may offer the borrower individual solutions to overcome temporary difficulties. Such cases of restructuring requests may include providing the borrower grace period or otherwise rescheduling of initial payment schedules. However, the Bank will offer restructuring only to borrowers is the outlook is that the borrower will return to healthy status, otherwise the Bank will initiate recovery proceedings. The preference of the Bank is always to negotiate acceptable payment terms for borrower, but when the borrower and the Bank cannot agree on acceptable terms, collateral repossession or selling the pledged collateral through auctions might be considered as the only remaining possibility for recovery the overdue liability. Performance of delinquent and restructured portfolio is reviewed regularly to guarantee the proper classification in risk categories of those loans.

Financial assets are written off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include days past due over 270 days and non-existence of collateral as of write off day. The Bank will also write off those loans, which were collateralized, but the execution process on overdue liability is finalized and all existing collaterals have been sold on auctions or repossessed. The remaining unsecured liability will be written off, even if there is no overdue portion of the liability the moment of write off. Based on expert recommendations, the Group may write off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery, or the expected recovery is insignificant compared to the remaining liability.

Credit Risk Related to Collateral Devaluation: Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees to mitigate the credit risks, but on the other hand these collaterals can pose additional risks (legal, documentation and liquidity risks) which may deteriorate the impact of risk mitigation. The liquidation of the collateral is either problematic or time consuming - collaterals were valued inappropriately (e.g. overvaluation). The Bank may experience credit risks due to large-scale devaluation or limited enforceability of collaterals behind credit exposures. This is the risk that recognized credit risk mitigation techniques used by the credit institution prove less effective.

The following types of collaterals are used for the purpose of credit risk mitigation: residential real estate, movable property, guarantee, inventory, cash and other financial collaterals.

Movable property and other types of collateral also can be eligible during the lending processes based on the Credit Policy of the Bank, but they cannot be used as eligible collateral for capital calculation and during the ECL assessment process.

Processes and requirements of the preparation of appraisals are also regulated by the Bank (format of appraisal, control of appraisals, etc.) To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value / value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. 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. The following assessments are made regularly by Credit Risk Management to control residual risks (risks after risk mitigation): - distribution of the collateral portfolio by collateral types (subtypes) and in case of real estate by geographical location regularly analyzed and monitored, - recoveries from collaterals analyzed by collateral types, - collateral discounts are regularly back tested and reviewed. Randomly selected collaterals are regularly re-appraised by external appraisal agencies and significant differences are reviewed.

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 to have more precise assessments 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. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. 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 2024 the Group performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, to assess the adequacy of forecasts for financial year 2024 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 actively performs stress testing and scenario analysis to check the resilience of borrowers under various stress conditions. Stress tests are performed to monitor the impact of adverse macroeconomics, 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, 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.
Risk Monitoring	**Maintenance of appropriate portfolio quality reporting.** Portfolio quality and lending limits determined by Credit Policy are regularly followed by Credit Risk Management in its control function and presented to the management of the Bank via portfolio reporting. The 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. 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. Monitoring credit risk of loan portfolio is performed regularly. The monitoring includes full assessment against risk appetite limits, using key risk and early warning indicators, back-testing, stress testing and other tools to identify portfolio segments with increased credit risk. The Risk Committee reviews credit risk profile of the Bank's loan portfolio quarterly and portfolio quality review meetings are held at least monthly together with the representatives of the commercial directorate and Problem Assets Management and Litigation Department.
Risk Appetite	The Bank has implemented Credit Policies which outline credit risk control and monitoring procedures and the Bank's credit risk management systems. They are reviewed annually or more frequently, if necessary. The credit risk appetite statement and supporting limits help the Bank mitigate credit risk and is approved by the Supervisory Board. The statement consists of quantitative limits that monitor and control the overall quality of the Bank's portfolios.

Market Risks

Risk Definition	Market risk is a current or prospective risk of losses, which arises from the mismatches in the maturity or currency of assets and liabilities, exposing them to market fluctuations. Therefore, the primary sources of market risk are interest rate risk and foreign exchange rate risk. Interest Rate Risk: This risk refers to the potential adverse impact on earnings and capital due to changes in interest rates. Interest rate risk can affect both the trading book portfolio and banking book transactions (such as loans, deposits and investment transactions).

	The Bank faces two main types of interest rate risks: - Re-pricing Risk: This risk arises from differences in the maturity structure of assets and liabilities and from pricing based on different interest rates or periods. It occurs when there is a mismatch between the maturity structures of assets and liabilities or when pricing occurs at different intervals or based on different interest rates (e.g., fixed-rate receivables and variable-rate liabilities). - Yield Curve Risk: This risk stems from changes in the shape and steepness of the yield curve. - Foreign Exchange Risk: This risk occurs from open or imperfectly hedged positions in a particular currency, resulting from unexpected changes in exchange rates, potentially leading to losses in the local or reporting currency. The Bank's foreign exchange risk is calculated as the aggregate of open positions and is limited by the National Bank of Georgia (NBG) to 20% of regulatory capital.
Risk Identification and Measurement	Market risk is managed by the Asset and Liability Management Committee (ALCO) in coordination with the Treasury Department and the General Risk Management Department. ALCO sets limits on market risk exposures by currency and closely monitors compliance with the Bank's Risk Appetite Framework. Exposures and risk metrics are regularly tested under various scenarios. The Treasury Department conducts daily monitoring of liquidity gaps, interest rate exposures, and foreign exchange risk, holding regular meetings with operational units to gather expert insights. The core of market risk management is the **Value at Risk (VaR)** concept, which quantifies potential losses an investment portfolio might incur within a specific timeframe under certain market conditions. The VaR approach involves breaking down portfolio performance into its constituent risk factors for a comprehensive assessment of potential losses. To measure foreign currency risk, the Bank calculates average bootstrap VaR for any currency (10-day holding period, 99% confidence level) and portfolio 10-day VaR. To minimize interest rate risk and assess the impact of interest rate shock scenarios, interest rate risk is measured separately for Net Interest Income (NII) effect and Economic Value of Equity (EVE) effect. NII sensitivity is calculated under the assumption of parallel shifts in interest rates. Sensitivity analysis on EVE is conducted using six different interest rate movement scenarios (parallel up, parallel down, steeper, flatter, short up, and short down).
Risk Mitigation	The Bank has established a segregated line of duties to measure and manage market risk: Senior management oversees market risk. Involvement of the Senior management ensures that the bank's policies and procedures, including the Asset and Liability Management Policy (ALM), for managing interest risk on both a long-term and day-to-day basis are adequate and in line with strategic plans of the Business. Effective oversight of market risk requires that the Treasury department maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive interest rate risk reporting and management review process, as well as effective internal controls.

	The Bank has elaborated Market risk management policies and procedures. Asset and Liability Management Policy provides identification and definition of elements for limiting and controlling market risk. ALM Policy specifies the lines of responsibility and accountability of ALCO, and provides objectives, limits and criteria in respect to liquidity gap analysis and liquidity risk management, funding and decisions on market risk management. The FX management policy contains daily position limits and limits of the aggregated open FX position, which equals 5% of the regulatory capital. Since this limit is significantly stricter than NBG limit, the limit management is to be understood as follows: on a daily basis, FX position can be opened up to the 20% NBG limit, but only for a maximum for 8 calendar days, and only if and only bank has sufficient additional capital at transaction date, to cover losses calculated using VaR described below. After 8 days the limit (5%) must be kept. Calculation of the position is executed in line with the Georgian Regulation Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks.
Risk Monitoring	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. Compliance with these limits is also reported regularly to the Executive Management and periodically to the Supervisory Board and its Risk Committee. Foreign exchange positions are managed according to the FX management policy of the Bank. Monitoring and controlling foreign exchange risks by each relevant foreign currency is the responsibility of Market Risk Management.
Risk Appetite	The Bank maintains a comprehensive interest rate risk and currency 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. limits are set within the Risk Appetite framework approved by the Supervisory Board

Liquidity and Funding Risk

Risk Definition and Key Drivers	Liquidity risk refers to the Bank's ability to finance asset growth and meet its obligations within the stipulated period under normal or stressful conditions, without incurring unacceptable losses. The fundamental role of banks in transforming short-term deposits into long-term loans makes them inherently vulnerable to liquidity risk, impacting the market. Effective liquidity risk management ensures the Bank's ability to meet cash flow obligations, which are uncertain due to external events and other agents' behavior. Liquidity Risk has two components: - Funding Liquidity Risk: The risk that the Bank will not be able to raise new funding necessary for the timely fulfillment of obligations. - Market Liquidity Risk: The risk that the Bank will not be able to sell assets or convert them into cash without incurring significant losses.

Risk Identification and Measurement	Liquidity risk materializes when the liquidity obtained from both assets and liabilities is less than the need for liquidity. The main sources of liquidity risk include: - **Market Risk**: The risk of loss in the value of the Bank's assets due to fluctuations in interest rates, exchange rates, market prices of securities, and various commodities, leading to reduced liquidity generation potential from these assets. - **Credit Risk**: The risk that a counterparty will not fully fulfill its financial obligations, directly affecting expected cash flow and liquidity. Increased credit risk may prompt funding providers to reduce or withdraw funding. - **Operational and Compliance Risks**: These risks, in addition to directly affecting cash flows, may lead to a loss of trust by counterparties, impacting the Bank's reputation The Bank relies on various regulatory and internal metrics to measure liquidity and funding risk and has developed an Internal Liquidity Adequacy Assessment Process (ILAAP) framework, detailing processes and limit systems connected to liquidity and funding management.
Risk Mitigation	BasisBank manages liquidity and funding risks according to the ALM Policy and Regulation of Liquidity Management, where detailed processes and limit system connected to liquidity management are defined. Daily management of liquidity is the responsibility of Treasury, control and reporting to ALCO is the responsibility of Asset-Liability Management. Assessment of Liquidity risk is done under ILAAP. 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. The Bank strives for continuous optimization of liabilities by balancing the stability and cost of different funding sources. To achieve this goal, the bank's strategy is to have effectively diversified funding sources and funding maturities. The Bank maintains strong relationships with all its key funding providers (both wholesale and retail) to ensure that additional funds are raised when needed, preventing/reducing outflows under stress. The main funding sources of the bank are unsecured retail and unsecured wholesale funding. In addition to the main sources of funding, the bank uses/may use alternative sources of funding, such as funding from the parent company, issuance of debt instruments, sale of assets. The Bank relies on several regulatory and internal metrics to measure liquidity/funding risk: Projected Cash flow Statement, Contractual/ behavioral/ Stress Gap scenarios, Utilization of off-balance sheet liabilities, (cumulative maturity mismatch limit, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)). The liquidity risk control system in the bank is based on the segregation of powers and the system of limits. The control system is built on the principle of three lines of defense. Frontline departments act as the first line of defense, managing risks within the limits and powers set for them. The risk management function, IT resources and reporting as the second line of defense is responsible for creating/implementing the risk management and control framework, monitoring compliance with established limits, procedures and

	policies. Internal Audit, as the third line of defense, is accountable to the Audit Committee and conducts an independent assessment of the risk management and control system.
Risk Monitoring	To manage funding liquidity risk, the Bank currently monitors the following Basel III-based parameters: - **Liquidity coverage ratio (LCR)** - a regulatory metric, the purpose of which is to strengthen the bank's short-term resilience to stress, in particular, the bank must own a sufficient volume of high-quality liquid assets to be able to overcome 30-day stress. - **Net Stable Funding Ratio (NSFR):** It is a regulatory metric aimed at assessing mid- and long-term liquidity risk. The ratio is calculated as the ratio of available stable funding to the need for stable funding. The bank additionally calculates and monitors internal buffer requirements for Liquidity coverage ratio, which is added to the LCR regulatory minimum requirement. The purpose of the buffer is to ensure protection of the LCR ratio against unexpected fluctuations, which is also in line with the bank's risk appetite requirements. The liquidity buffer is the realization of the short-term part of this strategy. A liquidity buffer is a direct hedge against short-term liquidity shortfalls. In a short-term response to potential liquidity shortfalls under stress, there may be no option but to convert liquid assets into cash. Liquid buffer consists of high-quality liquid assets. The definition of high-quality liquid assets is the same as in NBG's liquidity coverage ratio statement. The liquidity buffer is calibrated according to the results of the stress test and its volume should be sufficient to ensure the minimum survival period of the bank determined by the risk appetite under the given stress scenarios. The overall ability to fill the liquidity gap should ensure the bank's solvency beyond the minimum survival period. A number of additional early warning signs for increased liquidity risk are monitored to timely detect potential weaknesses in liquidity and funding positions that could threaten the performance of a strategy defined by risk appetite. The identification of such weaknesses leads to the escalation of the issue, which should be followed, if necessary, by the implementation of appropriate corrective actions (within the contingency/recovery plan). In the scope of ILAAP, to assess Funding profile stability risks, caused by concentration of the funding sources, the Bank makes assessment of Stability of Funding Profile, assessment of market access Risks, assessment of potential change in funding risk profile based on the funding plan. Risks of access to wholesale funding for the bank are strongly related to issues such as excessive short-term liquidity risks, portfolio with high/uncertain credit risk, materialized or perceived high operational risk, legal risk, unclear strategy, possibility of credit rating deterioration. The Bank has outlined an appropriate escalation procedure for each limit/target violation. The ability to fill the bank's liquidity deficit can be interpreted as the bank's plan to respond to potential stress scenarios by having access to excess liquidity for the normal business environment in the short, medium and long-term periods. Gap-filling opportunities, in addition to liquid assets, may include the bank's plan to generate projected liquidity, either through raising new funds, making changes to existing businesses, or other more fundamental measures. First of all, the ability to fill the gap is a strategy to be implemented by the bank in the short, medium and long-term periods, which should ensure the fulfillment of its payment obligations by the bank.
Risk Appetite	The Bank has developed a framework of liquidity limits/targets that adequately reflects the Bank's business model, complexity and various material risk factors. The objective of this framework is to ensure a diversified funding structure and sufficient available liquidity buffer. The limits are determined by the Asset and Liability Management Committee upon

	presentation of the risk unit. Calibration of risk limits and compliance with risk appetite is monitored regularly considering the results of stress tests.

Capital Risk

Risk Definition and Key Drivers	Capital risk is the risk of failure to meet business objectives or regulatory requirements due to insufficient Capital under normal or stressed scenarios. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements. The Bank undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's management to ensure prudent capital management and timely actions when needed. In 2024, the Group and the Bank complied with all regulatory capital requirements.
Risk Identification and Measurement	The Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) framework as part of Pillar 2 within the Basel Framework. ICAAP represents the Bank's own assessment of the capital needed to operate effectively. The ICAAP framework is fully aligned with the Bank's size, complexity, and risk profile and includes the following elements: - **Definition of Risk Strategy**: The risk strategy, derived from the Bank's business strategy, includes the Bank's risk appetite and the risk governance framework to ensure proper risk control. - **Identification, Measurement, and Control of Relevant Risk Types**: Under the ICAAP framework, the Bank identifies all relevant risk types and defines quantitative and qualitative tools to measure its exposure to these risks. The goal is to assess the adequate level of capital (or liquidity) necessary to cover the Bank's risks based on its own calculations, which may differ from the Pillar 1 capital calculation. - **Stress Testing**: The stress testing framework assesses the Bank's vulnerability to exceptional but plausible impacts. **Capital Planning**: Capital planning, part of strategic planning, includes projecting capital requirements based on the ICAAP framework and considering the potential effects of external events. The ICAAP also includes guidelines on proper internal and risk governance frameworks.
Risk Monitoring	The Bank is subject to the NBG's capital adequacy regulation, which is based on Basel III guidelines. Current capital requirements include Pillar I requirements, Combined buffer (conservation Buffer) and Pillar 2 buffers (Concentration, General Risk Assessment Program (GRAPE), The currency induced credit risk (CICR), Credit Risk Adjustment (CRA) and Stress test buffer- currently zero). The Bank maintains an actively managed, robust capital base to cover the risks inherent in its business. As part of internal capital adequacy management framework, the bank continuously monitors market conditions and performs stress testing to test its position under adverse economic conditions and market and regulatory developments. The Banks ability to comply with existing or amended NBG requirements may be affected by, internal as well external factors, including those outside of Bank's control, for example: an increase in risk-weighted assets, losses resulting from the deterioration of asset quality, our ability to raise capital, reduction in and/or an increase in expenses and local currency

	depreciation. Therefore, throughout analysis of capital structure and capital planning is the priority for the Bank to support business plan.
Risk Appetite	Capital planning is performed as a part of the business planning which is executed based on the Procedure of Business Plan and Budget preparation. Capital planning for each material risk type is prepared by the risk owners and summed up by Risk Management, Capital planning is also prepared using stress scenarios defined by Risk Management. Enterprise Risk Management function of the Bank is involved in the decision-making process about capital allocation to guarantee efficiency, optimize the use of capital by aligning it with the level of risk exposure, ensuring that sufficient capital is set aside to cover potential losses.

Financial Crime Risk

Risk Definition	Financial crime risk refers to the risk of knowingly or unknowingly facilitating unlawful activity, such as money laundering, terrorism financing, sanctions evasion, bribery and corruption.
Key Drivers of the Risk	The main sources of financial crime risks are: - Inherent risk related to products, services and delivery channels; - Business activities of the clients with an unacceptable level of risk exposure; - Inadequate processes and controls to identify and mitigate the risks.
Risk Identification and Assessment	The risk management process involves risk identification, which is performed regularly, incorporating input from a joint effort of the first and the second lines of defense. The assessment of risks is based on the quantitative and qualitative data and control adequacy assessment. The results of identified and assessed risks are regularly reported to senior management.
Risk Mitigation	Combatting financial crime and complying with applicable laws and regulations is vital to ensuring the stability and integrity of the international financial system. To satisfy the requirements of increasingly complex national and international legislation and regulations, the Bank is continually developing its financial crime risk management and bringing this in line with current developments and challenges. The fight against financial crime is at the core of the Bank's strategy and risk appetite. BasisBank is committed to fight against financial crime, to set up and to implement an Anti-Financial Crime risk management program (or AFC programme) to identify, understand and mitigate the financial crime risks. The AFC Policy establishes the requirements set out by the Bank, to mitigate potential compliance, regulatory and reputational risks associated with violations of Anti-Money Laundering and Counter Terrorism Financing (AML/CTF), International Sanctions and Anti-Bribery and Corruption (ABC) laws, regulations and international standards. The core statements of AGC programme are: - The Bank develops and maintains a thorough AFC risk assessment to identify, understand, manage and mitigate inherent AFC risks. Risk mitigation measures

are designed and implemented to control adequately and effectively those inherent.

and residual risks are managed in line with the Bank's risk appetite.

- In line with the AFC risk assessment and risk appetite, the Bank defines and implements a customer acceptance policy outlining prohibited and restricted customer types and activities.
- The Supervisory Board has a clear understanding of the AFC risks, oversights the AFC risk management programme and its effectiveness; and is responsible for setting the proper tone from the top.
- The Supervisory Board allocates explicit roles and responsibilities in the Management Board, Senior Management and AFC decision making bodies. The Management Board appoints dedicated staff members with appropriate level of responsibilities and authorities in relation to the AFC programme management and ensures that sufficient resources are provided.
- The Bank defines and implements an AFC operating model including the internal organization with roles and responsibilities across the three lines of defense to ensure an effective AFC risk management.
- The Bank ensures that a robust and effective AFC programme is in place, covering:
  - Regulatory surveillance on new or updated regulations, industry standards and trends;
  - Documented and duly approved policies, procedures and methodologies;
  - Effective control processes on each key requirements, with the adequate internal control systems;
  - Strong company culture, constant communication from the Board, AML& Sanctions Compliance department and Compliance Unit on AFC topics, and a regular training program on all AFC risks and requirements;
  - Monitoring via quality assurance and testing performed by the second line of defense on key processes and controls;
  - Reporting and escalation to relevant functions and committees, to ensure oversight by the Management Board and Supervisory Board;
  - Regular audit by the third line of defense, considering all AFC inherent risks; and
  - Adequate record-keeping processes, in line with local requirements.

Risk Monitoring

The Bank has internal organization and systems that are adequate with respect to its size, activities and complexity as well as with the AFC risks. Internal control system includes at least the following:

- Systems to record and maintain Know Your Customer (KYC) information for all relevant parties;
- Systems to perform and maintain the Customer Risk Assessment;
- Systems to screen clients and relevant parties from AML/CTF and international sanctions standpoints;
- Systems to screen deals and transactions from AML/CTF and international sanctions standpoints, including sanctions circumvention;
- Systems to monitor customer activity from AML/CTF and international sanctions circumvention standpoints (monitoring of the activity a-priori or post-factum);
- Systems to report and manage cases between the first and second line defenses and the AML/CTF Compliance department, and between the AML Compliance Head and the relevant authorities;
- System to assess the Enterprise-Wide Business Risk Assessment;
- System(s) to collect and maintain quality assurance and testing.

	BasisBank has adopted a holistic approach to Financial Crime and created Anti-Financial Crime (AFC) framework, to prevent and set appropriate controls in the following key risk areas: Money Laundering (ML) and Terrorism Financing (TF); non-compliance with International Sanctions and Embargoes, and circumvention attempts; Bribery and Corruption; Fraud and Conflict of Interest. The Bank's Risk Appetite comprises continuous processes of developing, updating and implementing internal controls and measures to detect, prevent and mitigate the possibility of mentioned Financial Crime risk types, applying greater control over high-risk customers and transactions. This combined approach allows the Bank to better understand their risk exposure and prioritize the management focus.
Risk Appetite	In line with its AFC framework, BasisBank takes a zero-tolerance approach to facilitation of money laundering and terrorism financing, including tax crimes, bribery, corruption, serious fraud, and all predicate offences as defined by the local regulation and FATF. We are committed to comply with the sanctions of the United Nations, the European Union, the United Kingdom and the United States. The Bank maintains zero tolerance for establishing or maintaining a client or counterparty relationship with an entity or individual designated by on any of the further mentioned lists or where otherwise prohibited by local law or regulation. Bank also has no appetite to execute transactions or any other type of business relationship with any such entity or individual. In line with the above the Bank implemented an automated tool to screen customers and transactions in real time mode against the international sanctions' lists: OFAC, UN, EU, UK and other applicable lists.

Compliance Risk

Risk Definition	Compliance Risk can be defined as the potential threat or danger arising from a failure to comply with laws, regulations, policies, or standards applicable to the bank. The risk of non-compliance is "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the bank may suffer because of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities (compliance laws, rules and standards).
Key Drivers of the Risk	BasisBank, as a commercial bank, is subject to a complex and evolving regulatory environment, and compliance risk arises from the challenges of ensuring that the bank's activities align with all respective legal and regulatory requirements. The Bank identifies the following risks arising from denial/failure of compliance: - **Risk of Legal and Regulatory Penalties**: Non-compliance may result in fines, sanctions, and legal actions imposed by regulatory authorities, such as: restrictions, special arrangements, suspend authority of signature etc. - **Financial Losses:** Penalties, legal fees, and the costs associated with correcting non-compliance issues can lead to substantial financial losses for the Bank. Additionally, non-compliance may result in disruptions to business operations, impacting revenue. - **Reputational Damage:** Non-compliance can tarnish Bank's reputation. Negative publicity, loss of customer trust, and damage to the brand image can have long-lasting consequences and affect customer loyalty.

	- **Increased Scrutiny:** Non-compliance may trigger heightened regulatory scrutiny and monitoring, increasing the regulatory burden on the Bank and requiring additional resources for compliance efforts.
Risk Identification	BasisBank, as a commercial bank, is subject to a complex and evolving regulatory environment, and compliance risk arises from the challenges of ensuring that the bank's activities align with all respective legal and regulatory requirements. The Bank identifies the following risks arising from denial/failure of compliance: - **Risk of Legal and Regulatory Penalties:** Non-compliance may result in fines, sanctions, and legal actions imposed by regulatory authorities, such as: restrictions, special arrangements, suspend authority of signature etc. - **Financial Losses:** Penalties, legal fees, and the costs associated with correcting non-compliance issues can lead to substantial financial losses for the Bank. Additionally, non-compliance may result in disruptions to business operations, impacting revenue. - **Reputational Damage:** Non-compliance can tarnish Bank's reputation. Negative publicity, loss of customer trust, and damage to the brand image can have long-lasting consequences and affect customer loyalty. - **Increased Scrutiny:** Non-compliance may trigger heightened regulatory scrutiny and monitoring, increasing the regulatory burden on the Bank and requiring additional resources for compliance efforts. - **How often risks are identified:** Identifying compliance risks is a critical aspect of effective risk management for the Bank. To accomplish the above-mentioned duty, first, the respective function identifies and catalogs all applicable laws and regulations that the Bank must adhere to. Based on the catalog, Bank recognizes potential areas of non-compliance within the business operations, processes, and functions. Compliance function conducts regular internal assessments of business operations, policies, and practices to ensure they align with relevant laws and regulations. Compliance Division as well as Legal Support functions monitor regulatory changes regularly and review updates from relevant regulatory bodies.
Risk Assessment and Measurement	The goal of the compliance risk assessment is to identify, evaluate, and quantify the potential risks associated with non-compliance with laws and regulations. Compliance risks are categorized as high, medium or low, based on their nature, impact, and likelihood. Risks are prioritized according to their significance and potential consequences of non-compliance. If possible, the bank utilizes quantitative methods for risk measurement to assign monetary values to potential fines or losses. Qualitative methods include expert judgment and scenario analysis.
Risk Mitigation	To reduce potential impact of identified and measured compliance risks, BasisBank considers steps such as: - Avoid engaging in activities or operations that pose high compliance risks; - Implement measures to reduce the likelihood or severity of compliance risks; Enhance internal controls, improve processes, and implement additional safeguards to minimize exposure.

Risk Monitoring	To systematically review key areas of compliance and track both newly identified and previously recognized risks, the Compliance Function has developed checklists and conducts periodic compliance gap assessments. The division maintains thorough documentation of compliance monitoring activities and keeps records of legal opinions, assessments, and any actions taken to address compliance issues. We are committed to comply with the sanctions of the United Nations, the European Union, the United Kingdom and the United States. The Bank maintains zero tolerance for establishing or maintaining a client or counterparty relationship with an entity or individual designated by on any of the further mentioned lists or where otherwise prohibited by local law or regulation. Bank also has no appetite to execute transactions or any other type of business relationship with any such entity or individual. In line with the above the Bank implemented an automated tool to screen customers and transactions in real time mode against the international sanctions' lists: OFAC, UN, EU, UK and other applicable lists.
Risk Appetite	The risk appetite is to keep Compliance risk at minimum and to stay compliant with all regulatory requirements.

Operational Risk

Risk Definition	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.
Key Drivers of Risk	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.
Risk Identification	The bank systematically identifies, analyzes, and documents potential operational risks that could affect the achievement of the bank's objectives. It involves identifying both internal and external factors that may threaten the successful completion of business goals and the execution of operational activities. The bank uses different identification tools: New products/processes - Analyzing and mapping out products and internal processes can reveal potential points of failure or vulnerabilities where operational risks may

	occur. This method helps in understanding dependencies, bottlenecks, and potential areas for improvement. Third-Party Risks - the risks associated with suppliers, vendors, and partners involved in the development and implementation process. Dependence on external parties can introduce vulnerabilities that need to be managed, thus the bank maps all the processes defendant on third parties that can reveal potential failures. Root Cause Analysis - When incidents or near-misses occur, conducting root cause analysis helps in identifying the underlying causes of the problem. This method helps in uncovering systemic issues that may lead to operational risks. RCSA – Risk and Control Self-assessment involves self-assessment by first line of defense to evaluate the effectiveness of existing controls in mitigating operational risks. This method helps in identifying control weaknesses and areas for improvement. Loss Data Analysis - Analyzing historical loss data and incidents can provide valuable insights into recurring operational risks and their root causes. This data-driven approach helps in prioritizing risk mitigation efforts. By using a combination of these tools and methods the bank makes informed decisions to achieve objectives while managing uncertainty. It forms the foundation of the broader risk management process, which encompasses risk assessment, mitigation, monitoring, and control.
Risk Assessment	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 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 second line of defense. The Bank's Operational Risk Methodology 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 on June 13, 2014). It is an integrated part of the Bank’s overall risk management activities, which 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 policy and methodology of the bank. It aims to establish sound and effective operational risk management practice across the bank activities. The methodology 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. 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.

	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. The bank identifies, assesses and treats risks arising from operational risk events and has permanent, cyclical monitoring processes in place to detect unusual activities in a timely manner. The Bank exercises the risk and control self-assessment (RCSA) process, which enables us 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. RCSA focuses on identifying and assessing residual risks in key business processes that are subject to corrective action plans. 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. Operational risk is also responsible for the day-to-day management of operational risks using various techniques. It identifies potential breaches of PDP law 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, an 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. To further mitigate operational risks driven by fraudulent activities, the bank has introduced a sophisticated and real time digital fraud prevention system, which analyses client behavior to further minimize external fraud threats. During the unprecedented spread of covid-19, BasisBank developed a business continuity plan to ensure proper response to health issues and operational risks. The Bank has taken precautionary measures to protect the health and safety of both employees and customers, to ensure the continuity of necessary services, and to reduce all operational and financial risks. All business continuity measures are coordinated with GoG and the NBG and are based on their guidelines and instructions. Bank offices and branches operate in compliance with additional safety standards, including strict hygiene standards. The bank will continue to follow the instructions of local and international health organizations and make informed decisions.
Risk Mitigation	
Risk Appetite	The Bank is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations. The Bank's complex operations also expose it to the risk of external and internal frauds. External fraud events may arise from the actions of third parties against the Bank and, most frequently, this involves events related to plastic cards and cash. Internal frauds arise from actions committed

	by the Bank's employees and such events happen less frequently. Nonetheless, fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain and exploit the Bank's assets. It is therefore important for the Bank to manage operational risks and minimize their negative effect on the financial standing. According to the operational risk appetite statement, the bank must have adequate operational risk tolerance to maintain low costs while fostering business growth and development efficiently, must have a low tolerance for internal fraud and must aim to maintain vigorous operational systems with high resilience in stressed conditions.

Information Security/cybersecurity Risks

Risk Definition	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.
Risk Identification	Information Security/Cybersecurity function is in charge of continuous improvement of information security processes, to minimize risks associated with information security/cybersecurity and ensure security of clients and partners.
Risk Assessment	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.
Risk Mitigation and Monitoring	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's 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.

	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. As a result of the COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats and IT team provides effective oversight of teleworking channels.
Risk Appetite	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 the 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. According to the cybersecurity risk appetite statement the bank has to have a very low tolerance for disclosure of customer data, has to have a low tolerance for financial loss from cyber-attacks and has to have a zero tolerance for cyber-security related regulatory actions while aiming to strengthen defense in depth strategy and work on continuous improvement.

Model Risk

Risk Definition	Model risk refers to the potential for adverse consequences arising from the incorrect use, implementation, or interpretation of a model in decision-making processes. Model risk management has its lifecycle that refers to the systematic process of developing, pre-validating validating, implementing and monitoring models throughout their lifecycle within BasisBank. Model Risk lifecycle management is crucial for mitigating model risk and ensuring that models are accurate, reliable, and compliant with regulatory requirements. Communication with stakeholders during all steps of the process is important, all stakeholders are kept informed about the implementation process, timelines, and any changes to workflows or responsibilities.
Key Drivers of the Risk	Key drivers of model risk include poor data quality, incorrect assumptions, flawed methodologies, lack of adequate validation, and misinterpretation of model outputs. Any deviations or limitations in the inputs, processes, or outputs of a model can lead to incorrect decisions, especially when models are used in high-impact areas like finance or risk management. Models that are not updated regularly to reflect changes in the environment or market conditions are also susceptible to generating unreliable results.
Risk Identification and Measurement	Assessing model risk involves evaluating the likelihood and potential impact of model failure. This assessment should be conducted throughout the model's lifecycle,

	considering the model's complexity, scope, and use. Higher-risk models, such as those used for critical decision-making in BasisBank (e.g., capital allocation, risk measurement), should undergo more rigorous validation and scrutiny. The assessment process ensures that models meet regulatory and business standards while aligning with the institution's overall risk management framework.
Risk Mitigation and Monitoring	Mitigation involves implementing a structured approach throughout the model's lifecycle, including development, validation, and monitoring. Key strategies include ensuring data quality, conducting rigorous testing (such as sensitivity analysis and back-testing), and having clear roles for the first and second lines of defense. The first line focuses on building the model with appropriate inputs and methodologies, while the second line independently validates and oversees compliance with risk management policies. Effective documentation and clear communication with stakeholders further reduce risk. Ongoing monitoring ensures models remain accurate and reliable, with adjustments made as needed to respond to changing conditions.

Country Risk

Risk Definition	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 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. 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 mitigating potential risks by adequate, well-elaborated business strategy and managing 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.

ESG Risk

Risk Definition and Key Drivers of the Risk	ESG is the broad term that refers to the inclusion of environmental (E), social (S) and governance (G) criteria into investment decisions taken by the Bank as a manifestation of responsible or sustainable investment practices. ESG (risks for the Bank refer to the potential negative impacts that environmental, social, and governance factors may have on clients, borrowers, other counterparties, and the Bank itself. The Bank may face risks related to climate change, including exposure to industries vulnerable to environmental regulations, physical risks from extreme weather events, and transitioning risks associated with the shift to a low-carbon economy. The Bank may also be exposed to risks related to human rights violations, particularly when financing

	projects or companies operating in regions with poor human rights records, as well as risks associated with financing businesses that engage in unethical labor practices, including poor working conditions, child labor, or inadequate worker rights. Governance Risks refer to regulatory and compliance risks, including ESG compliance, corporate governance, and corporate ethics, supporting the fight against money laundering, tax evasion, and other financial crimes. Risks arising from failure to comply with evolving ESG regulations and standards can lead to legal consequences, fines, and regulatory actions. ESG noncompliance can lead to reputational damage, as stakeholders, including customers, investors, and the public, may perceive the organization as irresponsible or unethical. To effectively implement ESG risk management, 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 partner international financial institutions. As part of the environmental and social risk assessment process, all business loans are subject to the 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 Year 2023 with the support of its partner IFI, the Bank initiated Technical Assistance Program, labeling the project as "Mainstreaming Green Lending at BasisBank". The Technical Assistance project will redefine ESG ecosystem of the Bank to the core and produce a new environment, which will be compliant to the highest ESG standards of the contemporary banking system. The project is estimated to last around one year and after completion, the Bank will benefit from refined ESG strategy, including key priorities and targets and set of KPIs, sustainability roadmap and refined sustainability governance structure, with more polished, sustainability-centered lending framework and policies, as well as designated green products to further contribute to environmentally friendly development of the market.
Risk Identification and Measurement	Identifying ESG risks starts with understanding ESG factors relevant to the bank. These factors include climate change, labor practices, supply chain management, diversity and inclusion, data security, corporate governance, etc. The bank has conducted a materiality assessment to identify the ESG issues most significant to the bank and its stakeholders, including employees, customers, investors, etc. Following that, the bank has established the ESG strategy. ESG risk identification and measurement have been integrated into the bank's risk framework and ESG risk is considered alongside traditional financial and non-financial risks. However, the bank is working on improving existing ESG risk management, including adjustment with regulatory requirements, no later than the end of 2024.

Risk Mitigation	The bank has integrated thorough due diligence processes into its business operations when entering new investments or business relationships to assess ESG risks and ensure alignment with the bank's Environmental and Social Management System (ESMS).

5. Regulatory Requirements under Basel 3

5.1. Regulatory framework

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

Basel 3 sets Capital Adequacy Requirements for Commercial Banks based on three pillars:

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

Pillar 2 covers supervisory review and capital assessment process and Regulation on Additional Capital Buffers - includes a supervisory reviewing and assessment process. The National Bank examines the relevant risks management policies, strategies, processes and mechanisms adopted by commercial banks and their adequacy to cover a Bank's risk positions; In addition to fulfilling minimum capital requirements, Commercial Bank are obliged to comply with additional capital buffer requirements for risks that are not covered by Pillar 1, including market risks, concentration risks, interest, liquidity, strategic and reputation risks, and more.

Pillar 3 is about information disclosure by commercial banks - Commercial Banks are obliged to provide a high level of transparency aimed at raising confidence in the financial sector and protecting 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 concentration and management standards, as well as disclosure of internal processes and other important information.

Regulatory Capital Requirements

The capital requirements for the Georgian banking sector are based on the Basel III standard, Regulation 575/2013 of 26 June 2013 and Directive 2013/36/EU of the European Parliament and of the Council (CRR-CRD package).

The minimum capital requirements set in the Regulations on Capital Adequacy Requirements for Commercial Banks, under Pillar 1, are defined as follows:

Common Equity Capital Ratio (CET1)	4.50%
Tier 1 Capital Ratio (CET1 + AT1)	6.00%
Regulatory Capital Ratio (CET1 + AT1 +Tier 2)	8.00%

Common Equity Tier 1 (CET1) - is the primary source of capital which is equity that includes common stock and additional reserves including funds originated because of issuing 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.

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

In addition to the minimum capital requirements under pillar 1, NBG sets requirements for capital buffer 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 (is determined in the range of 0%-2.5%) 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, from 15th March 2024 is set at 0.25% and until 2027 its phase-in increase up to 1%;
- Systemic buffers are set additionally for systemically important commercial banks whose financial difficulties may jeopardize the stability of the financial sector. Bank isn’t systemically bank.

The National Bank of Georgia sets the additional capital requirements, which is determined under the “Rule on Additional Capital Buffer Requirements for Commercial Banks” within Pillar 2. Pillar 2 requirements include the following buffers:

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

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.

Common Equity Tier 1 (CET 1) ratio of	56%
Tier 1 Capital ratio of	75%
Regulatory Capital ratio of	100%

5.2. Supervisory Capital Requirements for JSC BasisBank

The Supervisory Requirements of BasisBank include minimum supervisory requirements set within the framework of Pillar 1, plus capital conservation buffer, which is currently defined by the National Bank at 2.5% as of December 31st, 2024.

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.

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

Credit Risk Analysis - The bank uses a standardized approach to calculate credit risk weighted exposure. Credit risk exposure consists of three components: balance elements, off-balance elements and counterparty-related credit risk weighted exposures.

The risk exposure for balance elements includes interest, penalty, accounts receivable, and other claims against the party, reduced by expected credit losses and capital adjustment and added to the principal.

In the calculation of 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 the purpose of capital adequacy calculation, the Bank uses funded and unfunded credit protection for credit risk mitigation. The following types of collateral are used as for credit risk mitigation:

- Funded Credit Protection - Accordingly, the risk position is considered as funded collateral when it is secured with deposit. The deposit can be owned by the borrower’s client as well by the third party. A deposit taken as collateral (or its part used as collateral) must be free of other liabilities.;
- Unfunded Credit Protection - Third party guarantees from Central Government

Note: See Appendix PE1-BBS-QQ-20241231, 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 by Credit Rating Agencies are used to estimate the risk weight and, therefore, assessment of other Banks. 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

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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-20241231, 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 terms of the agreements on the interest rate and the exchange rate derivative instruments do not exceed 14 calendar days, it is not taken into consideration for risk-weighting purposes.

Note: Please refer to Appendix PE1-BBS-QQ-20241231, 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 currencies (this causes the possible losses of market participants related to internal or settlement currency).

Currency positions are managed in compliance with Bank Management's foreign exchange policy. The 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 operational risk assessment is calculated using the Basic Indicator Approach (BIA). In accordance with the basic indicator approach, the operational risk capital requirement shall comprise 15% of the relevant indicator as determined by the NBG. The above-mentioned indicator is defined as the average sum of net interest and net non-interest revenues for the last three years.

Note: Please refer to Appendix PE1-BBS-QQ-20241231, 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 of losses and damages:** obtaining 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 losses incurred)
- **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: Operational losses are given in appendix PE1-BBS-QQ-20241231/table 22_OR1

JSC BasisBank Tier 1 and Regulatory Capital Positions

Capital adequacy Thousand GEL	**2024**	**2023**
Common shares that comply with the criteria for Common Equity Tier 1	18,212	17,092
Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	130,406	101,066
Accumulated other comprehensive income	14,966	11,085
Other reserves	-	2,606
Retained earnings	441,167	371,453
Common Equity Tier 1 capital before regulatory adjustments	**604,751**	**503,302**
Regulatory Adjustments of Common Equity Tier 1 capital	(32,517)	(26,873)
Common equity Tier 1 capital	572,234	476,429
Tier 2 capital	139,944	96,933
Regulatory capital	712,178	573,362
Total risk weighted risk exposure	3,694,885	3,155,794
Tier 1 capital	**15.49%**	**15.10%**
Regulatory capital	**19.27%**	**18.17%**
Tier1 capital total requirement	**14.41%**	**14.02%**
Regulatory capital total requirement	**17.57%**	**17.13%**

In Tier 2 capital reflects permitted subordinated own debt securities (1) with nominal value of USD 10,000 thousand (2023: USD 10,000 thousand). Subordinated debts from individuals (2) amounting to GEL 22,735 thousand and funding from other financial institutions amounting to GEL 89,141 thousand.

Based on the data of 2024, supervisory components of Tier 1 capital are adjusted by the following elements:

- with asset revaluation reserves
- with intangible assets
- investment in non-financial subsidiaries

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 2024, 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-20241231/ Table 5_RWA

Risk-weighted Risk Exposures

Thousand GEL	**2024**	**2023**
Risk Weighted Assets for Credit Risk	3,372,142	2,914,152
Balance sheet items	3,041,986	2,622,685
Including: amounts below the thresholds for deduction (subject to 250% risk weight)	24,000	21,000
Off-balance sheet items	330,082	291,467
Counterparty credit risk	74	-
Risk Weighted Assets for Market Risk	18,757	9,552
Risk Weighted Assets for Operational Risk	303,985	232,090
Total Risk Weighted Assets	**3,694,885**	**3,155,794**

5.3. Additional Basel 3 Requirements

The leverage ratio - To calculate the leverage ratio, the primary capital is divided to 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%.

	2024	2023
Leverage Ratio	13.06%	12.40%

Note: refer to Appendix PE1-BBS-QQ-20241231 table 15.1_LR

Liquidity Risk - Based on Basel 3 framework, the NBG introduced liquidity Coverage Ratio which sets a minimum standard for liquidity, which should be applied to all Georgian commercial banks. 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 liquidity.

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	**2024**	**2023**
LCR (%). GEL	105.6%	97.8%
LCR (%). FX	198.3%	165.5%
LCR (%). Combined	142.2%	122.8%

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%.

The table below shows the NSFR as of December 31:

Available stable funding	**2024**	**2023**
Net stable funding ratio %	124.2%	119.6%

Key Performance Indicators of the bank are presented in appendix PE1-BBS-QQ-20241231 table 1.

6. Remuneration Policy

In line with the regulatory requirements, in 2022 the Supervisory Board of the Bank 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 well 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, the 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
Adjustment 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 Management Board are the top management of the Bank.

The Supervisory Board establishes the terms of employment and remuneration of the Management Board, 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 2024 is given in Table 24_Rem1 /27_REM 4 in appendix PE1-BBS-QQ-20241231.

The remuneration system for the Management Board members includes both fixed and variable parts.

Remuneration of the Supervisory Board members includes only fixed remuneration.

The fixed individual salaries of the Management Board members are reviewed by way of consultation between a Director and the Supervisory Board.

The variable amount determined as bonus is based on an agreement concluded between the Bank and the members of the Management Board, after the end of the variable remuneration generation period. Bonus is calculated:

- In accordance with the work performed by the subject of pay during the variable remuneration generation period, within the scope of achieving the pre-defined KPIs, in consideration of the applicable weights.
- Taking into account adjustments based on performance and risk.

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.

The total bonus determination is based on the audited financial results of the reporting year, which is confirmed by an external auditor (one of the world's four largest international audit companies).

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.

In March 2017, the Supervisory Board of the Bank approved a new Management Bonus Scheme for the years 2017 – 2022 and granted new shares to the members of Management Board subject to service conditions. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank. According to the share-based payment scheme, the Management shares were subject to the restrictions and could not be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). In 2023, all the post-vesting restrictions expired entirely.

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-20241231.

Remuneration of other Material Risk Takers

Material Risk Takers (MRT)

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, the 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 a subject to the NBG Corporate Governance Code as well as internal Remuneration Policy. 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 risk management, compliance, and 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.