Pillar 3 Annual Report 2020

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1 INTRODUCTION

1.1 Management Statement

Senior management of the bank ensures fair presentation and accuracy of the information provided within Pillar 3 disclosure report. The report is prepared in accordance with internal review and control processes coordinated with the board. The report meets the requirements of the decree, signed in April 2017, N92/04 of the Governor of the National Bank of Georgia on “Disclosure requirements for commercial banks within Pillar 3” and other relevant decrees and regulations of NBG.

1.2 Disclosures according to Pillar 3 of the Basel 3 Capital Framework

The purpose of this Report is to provide Pillar 3 disclosures of JSC Credo Bank as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision, also known as Basel 3 and as required by the Regulation (EU) N575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. Based on the requirements of the stated Regulations, National Bank of Georgia has implemented the decree N92/04 on “Disclosure requirements for commercial banks within Pillar 3”.

1.3 Main Indicators

Table 1 Regulatory Capital (GEL)

1	**Regulatory Capital (GEL)**	31.12.2020	31.12.2019
1.1	*COMMON EQUITY TIER 1 (CET 1)*	*143,907,195*	*131,506,916*
1.2	*TIER 1*	*143,907,195*	*131,506,916*
1.3	*TOTAL REGULATORY CAPITAL*	*189,392,745*	*162,608,289*

Compared to 2019, Common equity Tier 1 (CET 1) and Tier 1 have increased by 12.4 M GEL in 2020. The main reason of above mentioned is the increase of Net Income and accordingly, the increase of Retained Earnings by nearly the same amount.

At the same time Regulatory Capital increased by 26.8 M GEL, due to the increase of components that Tier 2 includes. Particularly, the increase of subordinated debt from foreign institutional investor by 11.5 M GEL and the increase of the amount of General Reserves by 2.9 M GEL.

Table 2 CAR Ratios

2	**CAR RATIOS**	**Requirement**	31.12.2020	31.12.2019
2.1	*COMMON EQUITY TIER 1 RATIO (min.req. 4.5 %)*	*4.95%*	*11.52%*	*13.20%*
2.2	*TIER 1 RATIO (min.req. 6.0 %)*	*6.61%*	*11.52%*	*13.20%*
2.3	*TOTAL REGULATORY CAPITAL RATIO (min.req. 8.0 %)*	*10.57%*	*15.16%*	*16.32%*

Capital Adequacy Ratios, both in 2019 and 2020, significantly exceeded the minimum requirements set by the NBG. At the same time, it should be noted that the capital adequacy ratios decreased slightly compared to the previous year (13.2% to 11.5% of the initial capital ratio and 16.32% to 15.16% of the supervisory capital ratio).

The reasons for this were a slowdown in profit growth, while the risk-weighted assets grew at about the same rate as in 2018/2019.

The increase in profits, in turn, was greatly influenced by the increase in additional general reserves based on the NBG recommendation for COVID-19, which increased the reserve cost by almost 9 million GEL and reduced profits by the same amount — that is why profit of 2020 came out to be almost twice less (13.9 M GEL) compared to 2019 (27.6 M GEL).

On December 18 2017, the NBG published and approved amendments on capital adequacy regulation, (Decree N100/04) according to which minimum capital requirement ratios have been revised and set new Pillar I buffers – Capital Conservation, Systemic Risk and Countercyclical buffers, namely:

Common Equity Tier I Capital (CET I), Tier I Capital (Tier I) and Total Regulatory Capital ratios were revised and set at 4.5%, 6% and 8% respectively.

Capital conservation and countercyclical buffers are set at 2.5% and 0.0% (currently 2.5% of the conservation buffer requirement for JSC Credo Bank has been canceled (postponed) by the National Bank due to Covid regulations). The system risk buffer for Credo Bank was also set at 0.0%.

On December 18 2017, the NBG also published and approved Pillar II requirements in addition to Pillar I buffers. The requirements include the following capital buffers: Currency Induced Credit Risk (CICR), NET GRAPE, credit Portfolio Concentration Risk and Net-Stress Test buffers. From abovementioned requirements, CICR, NET GRAPE and credit Portfolio Concentration Risk buffers were in force as of December 31, 2019.

By letter # 2-22 / 950 dated 31 March 2020, the National Bank reduced its 2.5% requirement for capital conservation. Credit risk concentration (HHI), net GRAPE buffer and foreign exchange credit risk buffer requirements were also postponed indefinitely.

These deferrals were enforced as of December 31, 2020, which led to a reduction in the minimum capital adequacy requirements of the NBG compared to the corresponding period of 2019.

Credo Bank satisfies all capital requirements (see table 2) and its capital ratios well above required levels:

CET I and Tier I ratios are 11.52%, Total Regulatory Capital ratio is 15.16% versus required 4.95%, 6.61% and 10.57% respectively.

Table 3 Risk Weighted Assets (RWA)

3	RWA (in gel)	31.12.2020	31.12.2019
3.1	*CREDIT RWA*	*996,989,379*	*765,231,485*
3.2	*MARKET RWA*	*1,286,239*	*5,598,939*
3.3	*OPERATIONAL RWA*	*250,750,724*	*225,728,198*
3.4	***Total RWA***	***1,249,026,342***	***996,558,621***

1. The total volume of risk-weighted assets increased by 25.4% compared to 2019, while the absolute volume increased by GEL 253 million. This increase was mainly due to the increase in credit risk weighted assets. The latest increased by 231.8 million GEL compared to the previous year, which was due to two factors: Increasing of credit portfolio compared to 2019 by 220 million GEL;
2. Weighting that risk positions, which can't satisfy PTI and LTV benchmark ratios according NBG's new retail crediting regulation, with higher weights- namely weighting in 100% or 150% instead of 75% depending on collateral sufficiency;

As for market risk weighted positions, their volume decreased compared to the previous year, while operational risk weighted positions increased, although the change in absolute indicators was relatively modest.

Also movement CICR from Credit risk weighted assets calculation to the Pillar II requirement, as it was determined by abovementioned amendments in the Regulation on Capital Adequacy Requirements for Commercial Banks (Decree N100/04), had significant positive influence in terms of reducing Credit Risk Weighted Assets.

As for market and operational RWA's their amount was also increased compared to the previous year.

CREDO bank uses long term credit ratings of following ECAIs - S&P, MOODYs, and FITCH. Abovementioned ECAIs are nominated by NBG. Mainly these ratings are used for domestic commercial bank assessment, because currently CREDO has small amount of credit exposures to foreign banks, except for the Risk Position of the Netherlands Development Bank (FMO) in the form of debt securities, which is weighted at 0% risk as the position of the counterparty with the highest credit rating (AAA).

Table 4 Liquidity Ratios

4	Liquidity Ratios	31.12.2020	31.12.2019
4.1	*LIQUID ASSETS / TOTAL ASSETS*	*18.80%*	*12.54%*
4.2	*LIQUIDITY COVERAGE RATIO (min.req. 100%)*	*506.31%*	*373.21%*

Liquid assets increased in total assets structure from 12.54% to 18.80%. Credo Bank satisfies the NBG requirement on Average Liquidity Ratio and exceeds its minimal 30% requirement by a lot. As for the LCR (Liquidity Coverage Ratio), it became obligatory for banks from September 2017. At the end of December 2020, LCR was 506.31%, which exceeds the minimum LCR requirement set by NBG 5 times.

Table 5 Portfolio Quality

5	Liquidity Ratios	31.12.2020	31.12.2019
5.1	*NON PERFORMED LOANS / TOTAL LOANS*	*1.83%*	*1.07%*
5.2	*LLR/TOTAL LOANS*	*3.61%*	*2.74%*

Credo Bank maintains high quality portfolio due its granularity and diversification in sectorial and geographical terms. Compared to 2019, in 2020 the portion of non-performing loans in total loan portfolio increased. Also increased reserves for possible loan losses in relation to the total loan portfolio and amounted to 3.61%, which is explained by the increase in the restructured loans due to COVID-19 and consequently increase in the reserve amounts. However, it should be noted that this figure of "Credo" is almost 2 times lower than the average value of the corresponding figure in the banking sector (6.37%).

2 OWNERSHIP STRUCTURE AND SHAREHOLDERS

2.1 Bank Shareholders and Beneficiaries

Established as a foundation in 1997 by World Vision and transformed into Microfinance Organization Credo (Credo) in 2005, Credo was acquired in October 2014 by Access Microfinance Holding (AMH), Berlin (60.2%); two investment funds managed by Triodos Investment Management BV (TIM, 19.8%); responsAbility Participation AG (RAP, 9.34%); and two funds managed by responsAbility Investments AG (RAI, 10.66%). In March 2017 Credo obtained its banking license from the National Bank of Georgia (NBG).

List of Shareholders owning 1% and more of Credo Bank issued capital indicating Shares, is represented below:

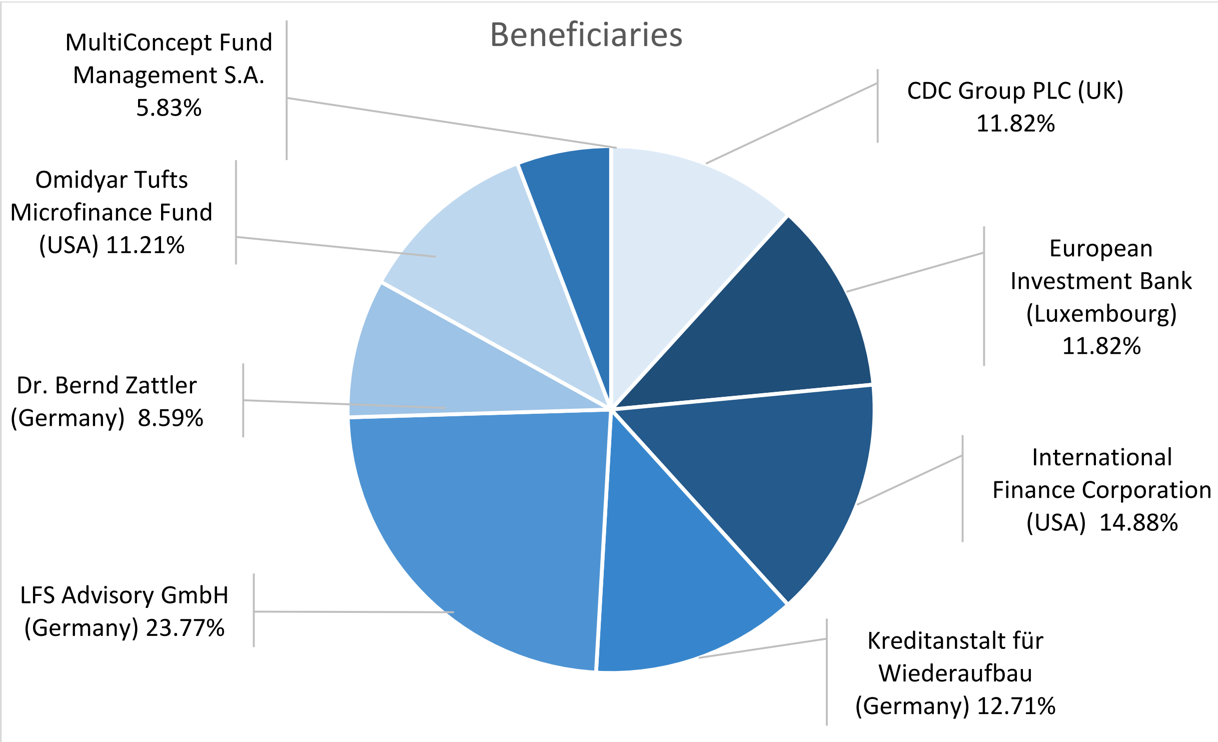
Table 6. Current ownership structure as of December 2020

Shareholder	Number, class and denomination of shares held	Share in Charter Capital
Access Microfinance Holding AG Berlin, Germany	264,880 ordinary shares of 10 GEL each	60.2%
Legal Owner Triodos Funds B.V. Zeist, The Netherlands	43,560 ordinary shares of 10 GEL each	9.9%
Triodos SICAV II (Triodos Microfinance Fund) Luxembourg, Grand Duchy of Luxembourg	43,560 ordinary shares of 10 GEL each	9.9%
ResponsAbility Participations AG Zurich, Switzerland	41,096 ordinary shares of 10 GEL each	9.34%
ResponsAbility SICAV (Lux) (Micro and SME Finance Leaders) Luxembourg, Grand Duchy of Luxembourg	8,228 ordinary shares of 10 GEL each	1.87%

responsAbility Global Micro and SME Finance Fund Luxembourg, Grand Duchy of Luxembourg	38,676 ordinary shares of 10 GEL each	8.79%

- The Berlin-based investment company **Access Microfinance Holding AG ("AccessHolding")**, is a public-private partnership established in 2006 with the aim to make equity investments in start-up and early-stage MFIs in developing and transitional countries.
  AccessHolding was established in 2006 by a group of reputable international investors from the public and private sectors. It operates a network of nine banks and mfis, including in Azerbaijan and Tajikistan. AccessBanks focus on the target group of micro, small and medium-sized enterprises. In total, the AccessBank network employs more than 7,000 staff and manages a loan portfolio exceeding USD 1.4 billion and customer deposits of around USD 0.6 billion. Further information is available at www.accessholding.com..
- **responsAbility Investments AG** is one of the world's leading independent asset managers specializing in development-related sectors of emerging economies. They comprise the areas of finance, agriculture, energy, healthcare and education. responsAbility provides debt and equity financing to non-listed companies with business models that target the lower-income section of the population and can thus drive economic growth and social progress. responsAbility offers professionally-managed investment solutions to both institutional and private investors. Founded in 2003, responsAbility currently has USD 2.2 billion of assets under management, which is invested in 500 companies in 90 countries. responsAbility is headquartered in Zurich and has local offices in Paris, Lima, Mumbai and Nairobi. Its shareholders include a broad range of reputable institutions in the Swiss financial market as well as its own employees. responsAbility is registered with the Swiss Financial Market Supervisory Authority FINMA. Further information is available at https://www.responsability.com/en.
- **Triodos Investment Management** is a wholly owned subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management is a globally recognised leader in impact investing, managing investment funds in different sustainability themes ranging from renewable energy to sustainable real estate and inclusive finance in emerging markets, with combined assets of EUR 2.5 billion at year-end 2013. Since 1994, its assets under management in inclusive finance have increased to over eur 550 million, making it one of the leading investors in the industry. Through specialised funds Triodos Investment Management provides finance – both debt and equity - to 112 upcoming and well-established financial institutions in 44 countries. They hold equity stakes in 22 financial institutions; senior staff of Triodos Bank join the Board of Directors and actively contribute to the governance of these institutions. Further information is available at www.triodos.com.

Chart 1 List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares is as following:



- **CDC Group plc (CDC) 11.82%** - the United Kingdom's official development finance institution, owned by the UK's Department for International Development and based in London.
- **European Investment Bank (EIB) 11.82%** - a financing institution of the European Union, based in Luxembourg.
- **International Finance Corporation (IFC) 14.88%** - the private sector arm of the World Bank group based in Washington D.C.
- **KfW Development Bank (KfW) 12.71%** - the German development bank based in Frankfurt/Main.
- **LFS Financial Systems GmbH (LFS) 23.77%** - which founded AccessHolding in August 2006 and which is also the technical partner and manager of the company as well as its investees. LFS is an advisory and management firm based in Berlin, specializing in banking and financial sector projects in developing and transition countries with a focus on micro, small and medium enterprise (MSME) finance.
- **Bernd Zattler 8.59% -** is Chief Executive Officer of AccessHolding. He also serves as a member and chairman of some of the holding's investees. In 1994, Dr Zattler established the consulting firm LFS Advisory GmbH (former name LFS Financial Systems), the founding shareholder of AccessHolding.
- **Omidyar-Tufts Microfinance Fund (OTMF) 11.21%** - a microfinance investment fund created by Pierre and Pam Omidyar and managed by Tufts University in Boston.
- **MultiConcept Fund Management S.A. 5.83%** - acting on its own name but on behalf of ResponsAbility Global Micro and SME Finance Fund, based in Luxembourg.

2.2 Shareholders' Rights

The shareholders of the Bank are entitled to do the following:

- Attend or be represented at the General Meeting of Shareholders and take part in the voting (holders of common shares only);
- Receive the information about the activities of the Bank, check their accounts, books and other documentation (according to the provisions of the legislation);
- Participate in the process of profit distribution and receive their pro rata share dividends;
- Dispose of their shares in accordance with the rules defined by law;
- In case of liquidation of the Bank receive their pro rata share of the assets remaining after the payment of the claims of the creditors;
- Holder(s) of 5% (five percent) or more of the outstanding shares are entitled to request a special inspection of the business activities and the annual balance sheet if they believe in their reasonable judgment that material irregularities have taken place. Such request shall be submitted in writing to the Supervisory Board, which shall proceed with said inspection;
- Holder(s) of 5% (five percent) or more of the outstanding shares are entitled to request that an extraordinary General Meeting of Shareholders be convened.
- The shareholders of the Bank shall implement decisions of the General Meeting of Shareholders of the Bank.

3 CORPORATE GOVERNANCE

Governance is defined as the distribution of rights and duties among the stakeholders of an organization. Key objectives in designing the corporate governance structure of CREDO are to warrant the highest degree of transparency and accountability at all levels, and to incentivize agents (directors, officers) to act in conformity with the objectives of the business and its shareholders.

The governance structure was designed so as to warrant a clear distinction between the functions of the Supervisory Board (SB) and the Management Board (MB), which assigns to the former the definition of CREDO's commercial policies and the supervision of the management (´decision controlling´), and to the latter the responsibility for the operative business (´decision management´). Particular emphasis is also placed on establishing strong and independent supervision and audit structures, and to identify and contain potential conflicts of interest from the outset.

In line with Georgian laws and regulations, the governance structure consists of the following bodies with their respective tasks and functions:

General Meeting of Shareholders - the supreme governing body of the Bank is the General Meeting of Shareholders;

Supervisory Board (SB) - the supervision of the Bank's operations is conducted by the Supervisory Board. Members of the Supervisory Board are elected by the General Meeting of Shareholders;

Management Board - the Bank's day-to-day management and administration is carried out by the Management Board elected/appointed by the Supervisory Board. The Management Board is led by the Chief Executive Officer (the "CEO");

Audit Committee - administratively is subordinated (and reports) to the Supervisory Board. The main function of the Audit Committee include facilitation of activities of internal audit and external auditors.

3.1 General Meeting of Shareholders

The General Meeting of Shareholders conducts two types of meetings: Annual General Meeting of Shareholders and Extraordinary General Meeting of Shareholders.

Convening of the General Meeting of Shareholders:

- Annual General Meeting of the Shareholders shall be convened by the Supervisory Board annually, not later than 2 (two) months following the completion of the external audit of the Bank's books and in no case later than 6 (six) months from the end of the prior fiscal year;
- An Extraordinary General Meeting of Shareholders may be called from time to time by the Supervisory Board, the Management Board, or by written request of the shareholder(s) holding at least 5 % (five percent) of the Bank's shares.
- The time, place and the agenda of the General Meeting of Shareholders shall be published in printed media and sent to the shareholders at least 20 (twenty) days prior to the date of such General Meeting of Shareholders. Shareholders holding at least 1% (one percent) of the Bank's shares should be notified about the General Meeting of Shareholders via registered mail.
- An Extraordinary General Meeting of Shareholders may be called on a shorter notice, if the interests of the Bank require so. In such case, the notice will be forwarded at least 5 working days prior, provided that, none of the shareholders will object to such procedures by the time the meeting convenes.
- The Supervisory Board determines the record date for the General Meeting of Shareholders in accordance with the applicable laws.
- The General Meeting of Shareholders is authorized to take decisions and the quorum is established if the meeting is attended by the holders or their authorized representatives of at least 70% (seventy) of the voting shares. If the General Meeting of Shareholders is inquorate, a new General Meeting of Shareholders shall convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures of applicable laws. The new General Meeting of Shareholders shall be quorate if attended or

represented by the holders of at least 50% (fifty) +1 share of the voting shares. If the General Meeting of the Shareholders is still inquorate, a new General Meeting of Shareholders shall be convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures of applicable laws. Such General Meeting of the Shareholders shall be deemed quorate irrespective of the number of attending voting shareholders or their representatives;

- The General Meeting of Shareholders shall be presided over by the Chairman of the Supervisory Board, or in his absence by the Vice-Chairman of the Supervisory Board, in the absence of the members of the Supervisory Board, the General Meeting of Shareholders shall be presided over by the CEO;
- The minutes of the meeting shall be drawn up by the Secretary of the General Meeting of Shareholders in English and Georgian language and certified by a notary. The minutes shall be available to any shareholder and to members of the Supervisory Board.

Representation at the General Meeting of the Shareholders:

- All the shareholders registered with the share registrar as of the record date of the General Meeting of Shareholders shall have the right to attend and vote at the meeting;
- A shareholder can assign his/her/its rights to another shareholder, or any third party on the bases of a power-of-attorney certified by a notary. If the representative of the shareholder fails to present such power-of-attorney, he/she/it will be deprived of the right to attend and vote at the meeting. Representation of shareholders at the General Meeting of Shareholders may also be carried out in any other manner unless prohibited by the applicable laws.

Competencies of the General Meeting of Shareholders:

Unless otherwise required by the laws of Georgia, the General Meeting of Shareholders reviews and adopts the following resolutions applying the vote requirements set out below:

- Changes and amendments to the Charter (by 75% of owners' votes);
- Change to the Business (by 75% of owners' votes);
- Increase or decrease in the number of the Shares, changing class of the Shares, giving options (by 75% of owners' votes);
- Imposing restrictions on transfer of the Shares (by 75% of owners' votes);
- Any type of reorganization of the Bank, including transformation, consolidation, merger, amalgamation, winding up or liquidation of the Bank (by 75% of owners' votes);
- Approval of any merger or acquisition (by 75% of owners' votes);
- Purchase of other companies (by 75% of owners' votes);
- Approval of the audit financial statements (by 75% of owners' votes);
- Approval of the liquidators upon dissolution of the Bank, other than in case of insolvency (by 75% of owners' votes);
- Payment of dividends and other dividend related decisions (by 75% of owners' votes);
- Selection and change of the external auditors (by 75% of owners' votes);
- Approving the Regulation of the Supervisory Board of the Bank (by 75% of owners' votes);
- Determination of compensation for the Supervisory Board members (by 75% of owners' votes);
- Election and dismissal of members of the Supervisory Board (by 75% of owners' votes);
- Determination of subscription price/placement value of the Shares in relation to a new issue (by 75% of owners' votes);
- Approval of agreements or transactions with affiliates, related parties or entities having common related parties with the Bank, in the event that such approval is referred to the

General Meeting of Shareholders by the Supervisory Board in accordance with Sub-Article (10) of Article "Competencies of the Supervisory Board" below. (By 75% of owners' votes).

The vote requirements shall refer to the issued voting shares.

Decisions on all other issues shall be made by the Supervisory Board and/or Management Board and/or CEO within their respective capacities and subject to applicable laws.

3.2 Supervisory Board

The Supervisory Board consists of at least 5 (five) members. Members of the Supervisory Board are elected and dismissed by the General Meeting of Shareholders in accordance with the Georgian legislation.

Unless otherwise specified by the General Meeting of Shareholders, each member of the Supervisory Board shall be elected for a period of four years, provided that its authority is continued after the expiration of mentioned period, until the next General Meeting of Shareholders.

Members of the Supervisory Board may not be employees of the Bank.

An individual cannot be a member of the Supervisory Board or he/she shall be dismissed from the Supervisory Board, if he/she does not comply with the criteria for bank administrators set by the National Bank of Georgia.

The Supervisory Board elects the Chairman and the Vice-Chairman from its members in accordance to the Charter and Georgian legislation. The Chairman (in absence of Chairman – the Vice-Chairman) convenes the meeting of the Supervisory Board and determines the agenda. Any member may add items to the agenda or request that a meeting of the Supervisory Board is convened.

Meetings of the Supervisory Board shall be held at least once per quarter at the address of the Bank or any other location as determined by the Chairman. A written notification with the respective agenda shall be sent at least eight working days prior to the anticipated date of the meeting.
The members of the Supervisory Board may be represented by other members of the Supervisory Board. Each member may represent only one other member. The matters requiring approval of the Supervisory Board may be approved by circulation of a written resolution which shall be effective when approved by all members and signed by the Chairman (in absence of Chairman – the Vice-Chairman) except for cases which require notary attestation for effectiveness of such resolution.

The Supervisory Board is deemed quorate and shall be authorized to adopt resolutions if at least three members are attending or represented at the meeting. If the Supervisory Board is not authorized to proceed, the Chairman (in case of his/her absence, the Vice-Chairman) is entitled to call a new meeting within three working days, which shall be authorized to adopt resolutions if attended by at least two members of the Supervisory Board. If the Supervisory Board is not authorized to proceed, then Chairman (in case of his/her absence, the Vice-Chairman) shall convene the General Meeting of Shareholders.

Each member of the Supervisory Board has one vote.

The minutes of the meeting and resolutions of the Supervisory Board shall be drawn up by the Chairman of the Supervisory Board or Corporate Secretary in Georgian and/or English languages. The minutes will be sent to all members of the Supervisory Board and approved at the earlier of (I) written agreement by all members or (II) approval at a subsequent meeting.

The Supervisory Board may decide by simple majority to create committees. The composition of such committees and their tasks shall be determined by the Supervisory Board. Committees shall report their conclusions and recommendations to the Supervisory Board.

Unless otherwise required by the laws of Georgia, the Supervisory Board passes resolutions by a simple majority of votes of the members attending/participating or represented at the meeting.

Competencies of the Supervisory Board:

(1) Appointing and discharging the CEO and other Management Board members, concluding and terminating service contracts with them;
(2) Approving/changing the Regulation of the Management Board of the Bank;
(3) Preliminary recommendation of decisions to be presented to the General Meeting of Shareholders;
(4) Determination of general principles of business strategy and the business plan of the Bank and the approval of the annual budget;
(5) Acquisition, transfer and encumbrance of real estate and property ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds USD 10 000 000 (Ten Million);
(6) Borrowing of funds, if such borrowing falls outside the scope of ordinary course of business of the Bank and is in excess of USD 15 000 000 (Fifteen Million);
(7) Election of a Chairman as well as Vice-Chairman of the Supervisory Board;
(8) Convocation of the General Meetings of Shareholders and extraordinary General Meeting of Shareholders, if necessary, for the Bank's benefit;
(9) Recommendations for the amount of remuneration and compensation to be paid to the external auditors;
(10) Approval of agreements or transactions with affiliates, related parties or entities having common related parties with the Bank; being however specified that, by exception to this rule, such agreements or transactions shall be subject to the approval of the General Meeting of Shareholders (and not the Supervisory Board's approval) if at least two (2) members of the Supervisory Board request so;
(11) Approval of the Management Board personnel decisions, including approval of their appointment and remuneration as well as contract terms which may refer to performance targets;
(12) Quarterly review and evaluation of performance of the Bank's management team against key operational and financial targets;
(13) Approval of proposals by the Management Board which would foreseeable result in the exceeding of the operating cost budget by more than twenty percent (20%);
(14) Approval of changes in the Bank's product pricing parameters if these lead to material deviations from the product conditions underlying the annual budget;
(15) Establishment and liquidation of branches/service-centers and appointment/dismissal of the branch managers except of heads/managers of service-centers who are appointed/dismissed by the Management Board;
(16) Determination and approval of internal core policies for lending, investing, foreign exchange, assets and liabilities management, their classification and adequate provisioning and other regulatory documents;
(17) Launching new banking activity(ies) or terminating or suspending existing banking activity(ies);

The Supervisory Board may inspect the Bank's books and property, including without limitation, inspecting the conditions of the Bank's cash, securities and goods personally, or through its members or invited experts.

The Supervisory Board may request reports on the Bank's activities from the Management Board (including dealings with the associated companies and subsidiaries) and review the information provided by internal audit or external inspections.
Certain responsibilities of the Supervisory Board can be delegated to the Management Board to the extent permitted by the law. The responsibilities of the Management Board may not be delegated to the Supervisory Board.

3.3 Management Board / Chief Executive Officer

Management Board:

- The Bank's day-to-day activities are carried out by the Management Board. The CEO leads the activities of the Management Board;
- The Management Board consists of at least 3 (three) members and in any case an odd number of members. Members of the Management Board are elected and dismissed by the Supervisory Board. The rules of nomination and the election of members of the Management Board are according to the Charter and Georgian legislation;
- An individual cannot be a member of the Management Board or he/she shall be dismissed from the Management Board, if he/she does not comply with the criteria for bank administrators set by the National Bank of Georgia;

Management Board is obliged to:

- Conduct and carry out the Bank's current activities;
- Review all items prior to putting them on the agenda of the General Meeting of Shareholders or Supervisory Board meetings, obtain all necessary information, prepare proposals and draft resolutions;
- After the end of the fiscal year draft and present to the Supervisory Board for approval the business plans for the current year. Such business plan shall include budget, profit and loss forecast and the Bank's investment plan;
- Supervise lending, settlements, financing, cash services, security, accounting and reporting of cash and valuables of the Bank, internal controls and accounting and supervise all other major activities of the Bank;
- Supervise the functioning of the Bank's branches and service centers, ensuring that the managers fulfill their tasks and functions;
- Review the information provided by internal audit or external inspections, the reports submitted by the branch managers and heads of the service centers, and make appropriate decisions based on this information;
- Ensure the fulfillment of resolutions made by the General Meeting of Shareholders and the Supervisory Board;
- Develop policies, office rules and all other regulations and propose such to the Supervisory Board for approval and ensure compliance with such polices, rules and regulations;
- Decide on the selection, dismissal, training and remuneration of staff subject to the restrictions set out in the Charter;

- Deal with any other issue assigned to the Management Board by the Supervisory Board (or its individual members) and/or the General Meeting of Shareholders and Fulfill the requirements set forth in the Charter and the applicable laws.

Chief Executive Officer (CEO):

- The activities of the Management Board are led by the CEO. For this purpose, the CEO delegates tasks to the members of the Management Board;
- The CEO is entitled to act on the Bank's behalf without a power of attorney. In the absence of the CEO one of other members of the Management Board shall act on the Bank's behalf on the basis of a power-of-attorney issued by the CEO;

The CEO is responsible for the following:

- Chairing meetings of the Management Board, supervising the implementation of decisions of the Management Board, Supervisory Board and the General Meeting of Shareholders, organizing tasks among the Management Board members and other managers of the Bank, and issuing relevant orders, instructions and other directives for these purposes;
- Acting independently on the Bank's behalf, subject to any possible consents and approvals of the Supervisory Board provided in the Charter;
- Submitting (where necessary) for approval by the Supervisory Board, recommendations on the remuneration and bonuses of the Bank's Management Board;
- Appointing and dismissing employees in accordance with the employee recruitment plan;
- Carrying out any other activity required for attaining the Bank's goals, except for the functions imposed on to the General Meeting of Shareholders or the Supervisory Board;
- Ensure the fulfillment of the resolutions adopted by the General Meeting of Shareholders or the Supervisory Board.

The CEO has the right to:

- Independently conclude contracts, subject to any possible consents and approval of the Supervisory Board and/or the shareholders;
- Pay bonuses to and impose penalties on the Bank’s employees in accordance with the provisions in the Charter and internal policy;
- Prepare all necessary information/reports and present it to the Supervisory Board and General Meeting of Shareholders;
- The CEO of the Bank is entitled to delegate his direct tasks to the Management Board members;

3.4 Supervisory Board Members' Background

Name, Surname	Position	Member Since	Background
Thomas Engelhardt	Chairmanr	2015	Mr. Engelhardt is AccessHolding's Chief Business Officer. He joined LFS Advisory GmbH as a Partner in 1996 and has served on the AccessHolding management board since its foundation in 2006. He was also the first General Manager of AccessBank Azerbaijan and held other managerial positions in Berlin and abroad. He is also Chairman of the Board of Access Microfinancebank Tanzania and AB Bank Zambia. Mr Engelhardt has an M.Sc degree in Economics, and speaks German, English, Russian and SerboCroat.
Franciscus Bernardus Martinus Streppel	Deputy Chairman	2014	Frank Streppel started his banking career in 1992 with ABN AMRO Bank in the Netherlands, where he held several positions. In 1998 he joined Médecins Sans Frontières in Sri Lanka as a Financial Controller. Since 2000 Frank Streppel has been working for Triodos Investment Management first as a Senior Investment Officer for East and Southern Africa and as Fund Manager of the Hivos-Triodos Fund. In 2008 he became Deputy Director, responsible for the Financial inclusion portfolio. He is currently Head of Investments of Triodos Investment Management - Emerging Markets. Frank has been serving on the board of several banks in Africa and Asia for over 15 years.
Paul - Catalin Panciu	Independent Member	2015	Paul Panciu has over 15 years of finance services experience in Retail & SME Banking and Non-Bank Financial Institutions in nonexecutive and executive roles in Romania, Moldova, Georgia, Poland and Albania. He has extensive operational expertise in organizational diagnosis, strategy optimization and execution at country and multi-country level: Sales efficiency and organization, Credit Risk, Collections, Audit, Compliance. Currently he acts as Executive Chairman at OMRO IFN SA. He has a Certificate in Global Management from INSEAD and holds Masters in International Business from Norwegian School of Economics and Business Administration.
Johannes Mainhardt	Member	2017	Johannes Mainhardt, Member (AccessHolding). Mr. Mainhardt is the Head of Group Portfolio & Investments at AccessHolding. He has worked in several microfinance banks in different geographical regions. He served as Finance & Risk Director at Credo Bank (Georgia), as well as the Chief Credit & Operating Officer at AB Microfinance Bank Nigeria and held various senior positions in other AccessHolding network banks. Mr. Mainhardt started his career at Deutsche Bank AG in Frankfurt (Germany). He serves on the boards of AccessBank Tanzania and AB Microfinance Bank Nigeria. Mr. Mainhardt has a degree in Business Administration specialized on Banking and is fluent in German, English and Russian.

Pospielovsky Andrew	Independent Member	2019	Dr Andrew Pospielovsky has twenty-years' international management, consulting and Board experience in Microfinance and SME Banking in Eastern Europe, Asia and Africa. He also serves as a director for MSME focused Banks and MFIs in Ukraine, Serbia and Kazakhstan and advises on strategy, institutional transformation and risk management. Dr. Pospielovsky holds a PhD in Modern History from the University of London, and is fluent in English and Russian.

3.5 Management Board Members' Background

Name, Surname	Position	Works Since	Background
Zaal Pirtskhelava	CEO	2003	Zaza Pirtskhelava is the General Director of JSC Credo Bank since 2014. In 1992 he graduated from Tbilisi State University, Faculty of Economic Statistics. After that he continued to get an education in Free University Business School ESM and in 2004 he became a Master of Financial Management. Zaza graduated from Harvard Business School's 2012 General Management Program (GMP). He has also successfully completed more than 25 training courses in business, finance, banking and general management in Georgia and Europe. In 1994, he started his career as an expert in the financial analysis department of JSC "Ponto-Polis" Bank. From 1997 he was an expert in the credit department of JSC "IntellectBank". In 2002 - 2003, he took up the position of Head of Financial Analysis and Planning Department of "IntellectBank". In 2003 he joined Credo's team as Operations Management Director. Since 2013, he has been the Deputy Executive Director's duties and responsibilities. Due to successful activities, Zaza Pirtskhelava is headed by one of the leading organizations in the Georgian financial sector - JSC "Credo Bank" and is Director-General from 2014 to present. Since 2018, he is also a member of the Supervisory Board of one of the AccessHolding's network banks - AccessBank Madagascar.

Erekle Zatiashvili	Finance Director	2017	Irakli joined the position of Financial Director in 2017. His working experience in the banking industry counts 17 tireless years. Before joining to Credo Bank's management board Irakli was chaired by the First Division of National Bank Supervision in 2015-2016, where he was actively overseeing the operations of companies in the business group of the Bank of Georgia. In 2014-2015 he was appointed Executive Director in the Holding Company Agro Business Group. Prior to 2011 -2014, he was the financial director of ProCredit Bank and a member of the Management Board. Prior to 2012 was the executive director of "ProCredit Proof of LLC", where he actively participated in the company's assets management. From 2008 to 2011, ProCredit Bank held a high-level managerial position in financial direction. Irakli Zatiashvili has received a Bachelor Degree in Business Administration (ESM) in 2002. In 2008-2009 he had a 1-year program in ProCredit Holding Management in Macedonia. In 2010-2012, he has undertaken a 3-year program in ProCredit Holding Management in Germany. In 2016 he has undergone macroeconomic and financial stability programs in Austria in the International Monetary Fund.
Zaza Tkeshelashvili	COO Credit Operations	2003	Zaza Tkeshelashvili is the Credit Operations Director of Credo Bank. In 1997 he completed the Faculty of Finances and Credits of Tbilisi State University and in 2015 he became Master of Free University ESM Business School. Zaza has undergone a number of training courses in management, risk management, business administration and agro financing, both in Georgia and in Europe. Zaza's career began in 2000, from the position of credit officer in World Vision International's. With his Successful work, he became the best credit officer. In 2003-2006 he held the position of the Loan Manager in Vision Fund. His career has moved to the new stage since 2007 when he became the Project Manager of "Triquest International Group". During the work in Credo, Zaza successfully completed several important steps - Branch Manager, Regional Operations Manager, Deputy Operations Manager. Since 2014 Zaza Tkeshelashvili is the director of Credit Operations and board member.

Nikoloz Kutateladze	Chief Commercial Director	1999	Nikoloz Kutateladze is the Commercial Director of JSC Credo Bank. Nikoloz graduated from Tbilisi State University, Faculty of Economics in 1998. In 2010, he became a Master of Business Administration at ESM Business School. Nikoloz has successfully completed a number of trainings and management programs in Marketing Research, Customer Relationship, Management and Leadership, Finance and General Management, both domestically and abroad, at leading European business schools. Nikoloz Kutateladze started his career in 1997 in the microfinance program of World Vision International from the position of a Loan Officer. He was soon promoted to the rank of the Senior Officer at Credo, a microfinance organization, from 1999 to 2005. At the same time, he served as a Marketing Officer. In 1999, he was a project coordinator at the Norwegian Refugee Council. Nikoloz Kutateladze, from 2005 to May 2020, headed one of the priority directions of the leading organization in the financial sector of Georgia and held the position of Head of Marketing and Sales Department of JSC Credo Bank. Due to the successful performance, since June 2020, he has become the Commercial Director of JSC Credo Bank and a member of the Board of Directors.
Aleksandre Kumsiashvili	Chief Information Officer	2005	Alexander Kumsiashvili holds the position of Chief Information Officer at Credo Bank with 15 years of microfinance/banking and over 25 years of experience in the IT field. Graduated from Georgian Technical University in 1995, he started his career as an Inspector-Programmer in the National Bureau of Interpol. In the NCB, several innovative IT projects were implemented with his direct involvement in communication, data processing, image recognition, and automation fields. In 1998 Alexander joined the International Rescue Committee, a global humanitarian aid, relief, and development organization, as a Database and Assets Manager responsible for IT Operations and management. Right after the closure of the IRC mission in Georgia in June 2003, he moved to World Vision Georgia, and from the year of 2005, he became an IT and MIS Manager at MFI Credo. Alexander completed various professional, finance, management, and leadership programs, both in-country and abroad, in leading European business schools. Considering high performance and

			importance of the field, since June 2020 he joined the Board of Directors of JSC Credo Bank.

3.6 Audit Committee and Internal Controls

The General Meeting of Shareholders shall annually elect/approve the external auditor, which shall be economically and legally independent from the Bank. The obligatory annual audit review conducted by such auditor shall include accounting procedures, balance sheet and business practice of the Bank. Immediately upon the completion of the annual audit, the full report shall be presented to the National Bank of Georgia. The Bank's financial statements and auditor's report shall also be published in accordance with the rules set by the National Bank of Georgia.

The Bank's Audit Committee shall be formed by the Supervisory Board. The Audit Committee is comprised of at least three members, but in any case an odd number, all of whom are appointed by the Supervisory Board.

Rights and obligations of the Audit Committee are as follows:

- Audit Committee shall set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the internal audit department of the Bank;
- Supervise the compliance of the Bank with the applicable laws;
- Approve the regulations governing the Bank's internal audit department and ensure the functioning of the internal audit department of the Bank;
- Ensure the independence of the internal audit department from the Bank's Management Board;
- Approve the operation plan of the internal audit department for the following fiscal year;
- Review the quarterly reports of the internal audit department, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- Supervise the activities of the internal audit, ensure its compliance with quarterly and annual operation plans;
- Assess the activities carried out by the internal audit department;
- Together with the Bank's Supervisory Board and Management Board ensure the cooperation of the internal audit department with other structural units of the Bank;
- Make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of internal audit department;
- Facilitate the activities of the external auditors; and
- As per request of the Supervisory Board of the Bank, submit specific reports to it.

Meetings of the Audit Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit Committee passes resolutions by the simple majority of votes. The attending members do not have the right to abstain from voting. The Audit Committee is presided over by the Chairman who is elected by the Supervisory Board.

4 RISK MANAGEMENT

4.1 Bank Strategy

CREDO's strategy has been to provide innovative financial and non-financial products and outstanding quality services throughout Georgia to preferably rural micro and small, entrepreneurs, their families and their employees.

In the short and medium term CREDO will focus on efficiency gains for its clients, with the aim to continue to improve access to financial and non-financial services for the Georgian low and middle income strata. This will entail offering a more diversified spectrum of products and services to meet client needs, and among other offerings will include new insurance products, current and savings accounts, mobile banking, and agricultural training services.

Risk strategy of Credo is derived from its business strategy and all factors of the business model are taken into account for the purpose of defining risk profile of the institution.

Bank plans stable but active growth, which will be mainly expressed in growth of credit portfolio. Bank fully acknowledges risks associated with its business model and active growth and ensures a proper platform for mitigating these risks by setting adequate regulatory and economic capital as well as proper structure, policies, procedures and reporting.

4.2 Risk Owners

Risk management in Credo Bank is performed at three different levels, and each risk category has a responsible structural unit. In the first level, particular risk owners exist for defined risks. At the second level, a specialized risk management unit takes respective actions, and at the third and more macro level, responsibility lies with various committees, the Management Board and the Supervisory Board.

4.3 Functions / Responsibilities of Owners

The first defense level in risk management exists at the following structural levels:

- **Credit Operations** - is the core function in daily communication with customers, is responsible for sales and business targets. This function is supervised by the Chief Operations Officer. Credit Operations is managed by Credit Operations Manager. The credit operation function is regulated by the Operations Policy;

- **Litigation and recovery** - is responsible for loan recovery in compliance with internal procedures and Georgian legislation. The department is also in charge of auctions and the sale of collateral in order to cover defaulted borrowers' liabilities. This function is supervised by the Chief Operations Officer. The litigation and recovery function is regulated by the Operations Policy;
- **The Treasury Department -** ensures the undertaking of operations within established limits related to foreign exchange, interest rates, and liquidity. This function operates under the Chief Executive Officer. Regulations related to treasury activities are approved by the Management Board;
- **Credit Committees** - exist at two hierarchical levels. Depending on different limits and loan types, their composition may vary. Credit Committees may be comprised of both members from business operations as well as from non-business lines (Credit Risk Unit, Management Board, and Supervisory Board). Credit Committees take decisions on loan applications, on the restructuring and refinancing of existing loans, and on actions related to problem loans. Limits to the decision making authority of Credit Committees are regulated by the Operations Policy;

The second line of defense in risk management exists at the following structural levels:

- **Credit Risk Unit -** is responsible for quality targets of the Bank's credit activities and for the independent loan review and approval. The Credit Risk Unit ensures the critical review of loan applications and is responsible for the identification and analysis of credit risks. This function is supervised by the Chief Operations Officer. The Credit Risk Unit is managed by the Head of the Credit Risk Unit, and regulated by the Operations Policy;
- **The Financial Analysis & Risk Unit** - is independent of risk-taking units and reports to the Finance Director. The unit is responsible for the ongoing analysis and regular assessment of risks, reporting on financial and nonfinancial risks, and comparing them with strategic objectives and risk profile. The unit covers market risk, liquidity risk, credit risk and capital planning. It also assesses other risks which might not be material at this stage but may become material for Credo Bank in the future.
- **Operational Risk Unit** – it covers operational risk appetite and KRIs, the classification of operational risk types, business process identification and mapping, operational risk assessment tools and methods, and bank-wide operational risk monitoring, reporting and mitigation. The unit reports to the Chief Executive Director.
- **The Compliance Function** - it exists in various structural areas depending on the type of compliance area. Credo Bank has an AML/CFT compliance, a tax compliance and an NBG regulations compliance function. Compliance functions ensure effective and routine monitoring of the Bank's compliance with laws, regulations, codes and policies, and are regulated by regulations of respective structural units.

The third line of defense in risk management exists at the following levels, with responsibilities outlined below:

Supervisory Board (SB):

- Receives, discusses and approves the Bank's risk appetite and reviews the Bank's risk profile;
- Approves the Risk Management Framework and ICAAP framework annually;

- Reviews the adequacy and effectiveness of the Bank's risk management framework;
- Ensures that ICAAP fully reflects all the material risks inherent to the Bank's strategy, business model and business activities;
- Decides on risk mitigation matters that have been escalated by the Management Board based on the regular risk and ICAAP reports.

Management Board (MB):

- Structures business to reflect risks;
- Ensures adequate segregation of duties;
- Ensures adequate procedures are in place, including final approval of all policies (prior to submission to the Supervisory Board) and procedures before implementation;
- Defines operational responsibilities of subordinated staff;
- Ensures that ICAAP is communicated and implemented throughout the Bank and supported by sufficient decision-making authority and resources;
- Decides on risk mitigation based on the ICAAP reports when judged to be necessary;
- Leads the Banks operations, and is responsible for implementation of strategy and for performance.

Risk committee:

- Monitors the Bank's risk profile;
- Approves minimum control requirements for principal risks, including evaluation, monitoring and limits for the risks;
- Debates and agrees on actions for the risk profile and risk strategy across the Bank;
- Evaluates effectiveness of the Bank's internal control and risk management systems;
- Reviews the risk analysis results and stress tests that are conducted by the Risk Management Unit, and elaborates corresponding recommendations.

ALCO (Asset/Liability Committee):

- Reviews current and prospective liquidity positions and funding sources;
- Reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing;
- Develops parameters for the pricing and maturity distributions of deposits, loans and investments;
- Develops alternative strategies deemed appropriate, which take into account changes in interest rate levels and trends, deposit and loan products and related markets, Banking regulations etc.;
- Performs an independent review of the input, assumptions, and output of the ALM model(s) and procedures;

- Approves limits and structure for counterparties subject to limitations established by the Supervisory Board.

Audit Committee:

- As it was mentioned in the section of "Corporate Governance", it is a sub-committee of the Supervisory Board and is the body responsible for overseeing the internal and external audit;
- Reviews the Bank's internal control and risk management system (including Internal Audit department) and makes recommendations to the Supervisory and Management Boards on possible improvements;
- Monitors compliance of the Bank with procedures and controls as well as applicable laws and regulations;
- Receives and discusses activity reports including major findings and recommendations from the Internal Audit department.

Internal Audit:

- Assesses the adequacy and effectiveness of the Bank's system of risk management, internal control and governance structure;
- Prepares periodic reports to the Audit Committee summarizing audit activities, findings and recommendations.

4.4 Main Risks

This section will provide the information on the material risks embedded in the operations of the Bank.

Credit risk

The Bank's credit strategy is to create a diversified and profitable loan portfolio in rural as well as urban areas while maintaining a high portfolio quality. In order to build and maintain a healthy portfolio, lending processes and rules were developed in a prudent manner.

Credit risk is obviously the most material type of risk for Credo. Credo uses the following steps to measure and manage credit risk:

- **Establishment of an appropriate credit risk management environment** – This is achieved through written Operations Policy with annexes covering target markets, portfolio mix, price and non-price terms, the structure of limits, approval authorities and exceptions, processing and reporting. Bank emphasis on regular staff trainings in own training academy, on regular workshops and operations meetings to improve controls and quality. Career and promotion paths are linked to portfolio quality. All incentive schemes including management have quality targets components.

  All credit decisions are taken by a credit committee comprising of at least two members or by a dedicated risk management department, i.e. no individual can enforce a loan decision.

Credit risk is monitored by credit department. There are several levels of approval based on loan amount.

The Institution seeks to create behavior of prompt loan repayments by rewarding those clients that adhere to loan conditions with the opportunity for further loans. Loan officer's assessment of the client's ability to repay a loan always involves not only calculating the enterprise's cash flows and analyzing its liquidity planning, but also evaluating the figures presented in its official books and/or records (if available).

A dedicated recovery department staffed with legal advisors supports the recovery activities of problem loans. Credo is using standardized score cards which are regularly updated and reduce the risk of frauds.

- **Operating under a sound credit-granting process -** Credit granting involves consideration of different elements, that is described in the Operations Policy. It also takes into consideration cooperation with insurance companies to reduce default risk (e.g. crop insurance, life insurance etc.). These insurance products serve to mitigate the possible default risk of a loan portfolio. Loan analysis focuses strongly on the prospective client's ability and willingness to pay, primarily through a thorough computation of the cash flows of the businesses. While there is a professional evaluation of the assets pledged as loan security, this aspect of the analysis is awarded only a secondary rank in the decision making hierarchy.

- **Maintenance of appropriate credit administration, measurement and monitoring processes** - This involves regular monitoring of a number of key items related to the condition of individual and group of borrowers. It includes the current financial condition of the borrower or counterparty, compliance with existing covenants and collateral coverage, monitoring of loans in the credit portfolio, monitoring of specific types of borrowers as well as connected borrowers to avoid concentrations of risk. Specific attention is addressed to the risk of refinanced / restructured borrowers, where the Bank applies adequate covenants by setting limits, eligibility criteria, intensified credit control and careful monitoring of refinancing / restructuring behavior to maintain high quality of loan portfolio;

- **Maintenance of appropriate portfolio quality reporting -** Portfolio quality and lending limits determined are regularly reported to the management of the Bank via portfolio reporting. Bank classifies its credit facilities into performing and non-performing loans, and builds adequate provisions for expected loan losses in accordance with local regulations. Portfolio report contains information about the distribution of the portfolio by amounts and types of arrears, by exposures to sectors and regions, by currencies, by products etc.

Registered Collateral – one type of means for mitigation the credit risk is a collateral. The types of collateral used for loans might be: precious metals, movable property, immovable property and third person guarantees. Before using any of the listed types of collateral, it should be properly evaluated by the expert. Operations Policy covers detailed rules, how each of the collateral should be appraised. The immovable property should be owned by the borrower, if it is owned by the third person he/she should become the guarantor if a client. Immovable property is being appraised by the independent expert, independent experts serving concrete service centers are being changed quarterly. Collateral appraisal detailed rules and steps is the integral part of the Credo Bank's Operational Policy. By the end of 2020 Registered Collateral summed as 700 mln GEL. Structure of collateral types are given below in the Table 7.

Table 7. Structure of Collateral

Type of Collateral	Share %
Immovable Property (Mortgage)	97.96%
Movable Property	1.21%
Precious Metals	0.01%
Third Person Guarantees	0.82%

Foreign Exchange Induced Credit Risk

Currency-induced credit risk is relevant for the whole portfolio of the Bank denominated in foreign currencies except for cases when the Bank has evidence that the client has income source in the same currency as the loan. The following rules are implemented into the credit processes in order to reduce foreign exchange risk of the credit portfolio:

- Credo has a conservative approach to the CICR risk - keeping buffers on loans disbursed in foreign currency by dividing client's income by a more conservative foreign exchange rate compared to the actual foreign exchange rate (more conservative debt service ratio compared to loans denominated in local currency).

Counterparty Credit Risk

Risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Counterparty credit risk is interpreted as the credit risk connected to interest rate and foreign-exchange rate derivatives (i.e. futures, forwards, swaps, options, and other off-balance sheet liabilities originating from other similar contracts), according to the CAR.

- The Bank operates counterparty limit system for treasury deals with Bank partners, which is defined by Financial Risk Management Policy and approved by ALCO and Supervisory Board. Limits are reviewed on a yearly basis and in any case when relevant information about the partner is noticed by the Bank. All counterparty limits are approved and regularly reviewed by the Supervisory Board.

Operational Risk

Operational risk may derive from inadequate internal processes or systems, external events, inadequate employee performance or from the breaching of or non-compliance with statutory provisions, contracts and internal regulations. Operational risk includes legal risk but excludes reputational and strategic risk.

To measure and manage operational risk, Credo Bank uses following steps:

- **Risk mapping -** Bank's operational risk policy provides a comprehensive framework for operational risk identification, measurement and management. The policy lays down the principles on how operational risk has to be identified, assessed, monitored, and controlled or mitigated;
- **Operational risk identification, assessment, monitoring and mitigation -** It involves a system of checks to identify strengths and weaknesses of the operational risk environment; provision of sufficient operational risk environment is ensured by effective and independent internal audit/Operational Risk Manager which is adequately trained and well-staffed.

Operational risk activities in the Bank include:

- **Loss data collection** - collection of observed losses through the involvement of business units (decentralized data collection);
- **Self-assessment -** assessment of existing risks and the possible occurrence of losses (frequency and severity also measured) through the involvement of business units and interviews of respective business process risk owners;
- **Definition and monitoring of risk mitigation actions** - based on loss data collection and results of self-assessment.

The operational risk management in the Bank takes place at three levels (business units / departments level, Operational Risk Unit level/ Risk Committee and Audit level), which ensures regular control of operational risk.

Market risk

Two types of market risk are relevant – interest rate risk of the Banking book and foreign exchange risk. Both of them are described in details below.

Interest rate risk of the Banking book - Interest rate risk is taken to be the current or prospective risk to both the earnings and capital of institution arising from adverse movements in interest rates. As Credo does not have a trading book, only Banking book exposures are relevant.

Types of interest rate risks relevant for the Bank:
- re-pricing risk, i.e. risk deriving from the different maturity structure of receivables and payables and from pricing that is based on different interest rates or different periods;
- yield curve risk, i.e. risk originating in changes of the shape and steepness of the yield curve;

A re-pricing risk occurs when there is a mismatch between the maturity structure of assets and liabilities and if pricing takes place at different intervals or at differently based interest rates (e.g. receivables at a fixed interest rate and liabilities at a variable interest rate). Credo manages and monitors its interest rate risk through the interest rate maturity gap.

Foreign exchange risk - It rises from open or imperfectly hedged positions in a particular currency as a result of unexpected movements of foreign exchange rates (that may lead to losses in the home or reporting currency of the Bank).

Foreign exchange positions are managed according to the Financial Risk Management Policy of the Bank. 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.

Liquidity risk

Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of Banks in the maturity transformation of short-term deposits into long-term loans makes Banks inherently vulnerable to liquidity risk, both from institution perspective and market perspective as a whole. Virtually every financial transaction or commitment has implications on a Bank's liquidity.

Effective liquidity risk management helps to ensure a Bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other stakeholder's behavior. Liquidity risk management is of paramount importance as a liquidity shortfall at a single institution may have system-wide repercussions.

However, relating these general principles to Credo in medium term, deposits will rather play a limited role in funding. The main source of liquidity risk comes from the renewal of institutional ("market") funding. The maturities of these funds are planned and managed in detail, which constitutes the main element of Credo's liquidity risk management:

- Funding decisions are made on regular ALCO meetings that are held at least monthly or more frequently if required;
- Liquidity position is assessed on monthly basis by liquidity ratios that are defined by Financial Risk Management Policy;
- In addition, Bank's Treasury department monitors liquidity position on daily basis and ensures that appropriate liquidity positions are maintained in accordance with the internal limits that are set based on historical data and consider relevant internal and external factors, such as funding cost and disbursement seasonality.
- To avoid holding excessive liquidity, Bank assigns liquidity exposure limits to its counterparts which are approved by the Supervisory Board and regularly reviewed and reported. The Bank tries to diversify its counterparts whenever possible, preferably top rated Banks in Georgia are used.

Reputational risk

Reputational risk is the current or prospective indirect risk to earnings and capital arising from adverse perception of the image of the financial institution by customers, counterparties, shareholders, investors or regulators. It is manifested in the fact that the external opinion on the institution is less favorable than desired.

Reputational risk may originate from the lack of compliance with industry standards, failure to honor commitments, lack of fair market practices, low or inferior service quality, inappropriate business conduct or unfavorable authority opinion and actions.

Reputational risk is managed by several processes and organizational units of the Credo Bank:

- Credo has strong and reputable shareholders and debt investors which ensure high commitment and adherence to best international standards and practices, in particular

related to: Customer Protection, AML, Governance, and Environmental and Social Risk Management;
- Access Holding AG, the parent company of Credo, introduced a globally binding customer protection policy in all its institution which requires a regular reporting on customer protection related matters;
- Credo has a strict Environmental and Social Performance Policy which among other topics is regulating employee working conditions, child labor and the investment policy of Credo. Bank's lending activities are limited by the Exclusion List, all potential clients and businesses are screened against the exclusion list prior to funding. Credo is regularly reporting on Environmental and Social issues to its shareholders and majority of its funding partners. The ES policy is regularly updated and reviewed and is subject to frequent due diligence by investors;
- Credo's shareholders impose an Operating Policy which clearly defines minimum standards for the institution related to customer focus, investment policy, credit underwriting standards, the treatment of employees and other external stakeholders, and governance;
- Credo is obliged by its shareholders to select only the top audit companies for the external audit of its financial statements and to maintain insurances with reputable companies covering employee fidelity, cash, electronic fraud, fixed assets, public liability; and directors and officer's liability;
- Credo has a call center unit, which enlarges responsiveness of customers related to feedback and complaints;
- Credo owns a training academy, where it trains and re-trains staff during the whole year. Training areas include mission of Credo, target groups, credit underwriting standards, code of conduct, Environmental and Social management and AML;
- Credo has written detailed customer service standards for its staff and branches. Standards are regularly monitored and evaluated by a dedicated unit for customer service control and annually by external mystery shoppers;
- Credo conducts annual focus group researches and regular researches on market, products and existed clients. The client retention rate is monitored on monthly basis.

Reputational risk is managed by policies and processes, no capital is allocated.

5 RISK APPETITE FRAMEWORK

5.1 Stakeholders

Bank determines risk appetite according to regulatory framework and business model of the institution reflected in its business and risk strategy. Therefore, monitoring of operations based on given risk appetite is led by the Management Board assisted by relevant functions which report and assess how close the Bank is to established limits and what additional capacity exists to take additional risks. Risk appetite is a guideline for all level managers in the Bank in order to ensure compliance with the defined risk strategy.

Risk strategy is reflected in limits, giving possibility to managers to analyze each decision they make and to evaluate how they comply with the Bank's risk taking targets and attitude. Risk appetite helps stakeholders such as management, shareholders, employees, rating agencies, regulators and others to assess how much risk the Bank is willing to take, not just how much Bank currently takes.

Risk appetite guides decision making towards the amount of risk a Bank is willing to accept to be in alignment with strategy for the purpose of maximizing value for shareholders and provides a clear reference point to monitor risk taking and to trigger appropriate actions as the limits are approached or breached. It also minimizes the likelihood of “surprises” when adverse risk events occur.

5.2 Factors determining Risk appetite

In determining risk appetite, various external and internal factors are taken into consideration such as:

- Current capital situation of Credo;
- Current risk profile of Credo and limits set to Bank’s management;
- Current economic condition, future expectations and forecasts for Georgia and region;
- Competition environment in the sector and shareholders expectations about development of the Banking sector;
- History and experience of the institution regarding performance in various economic and competitive environments;
- Requirements set by regulations of National Bank of Georgia regarding capital adequacy;
- Minimum covenants set by National Bank of Georgia;
- Internal capital adequacy assessment process (ICAAP) annually required from Banks by National Bank of Georgia.

5.3 Risk Appetite statement

Bank is reasonably confident that risk appetite is well communicated and understood by all stakeholders. It is directly linked to Bank’s strategy and business model, addresses the Bank’s material risks under both normal and stressed market and macroeconomic conditions and sets clear boundaries and expectations by establishing quantitative limits and qualitative statements for risks that are difficult to measure. Credo sets Bank-wide risk appetite and applies aggregate limits to set the overall tone for Bank’s approach to risk taking. Although several sub-limits also exists in Bank’s various business lines, they are not considered as risk appetite limits, but rather they are management tools to experiment products, segments, sub-sectors etc. under the aggregate risk limits. Key elements of Bank’s risk appetite statement are that:

- It is linked with Bank’s short and long term strategic, capital and financial plans, as well as compensation programs;
- Establishes the amount of risk Bank is prepared to accept in pursuit of its strategic objectives and business plan, taking in to account the interests of customers, employees, supervisors, shareholders, business partners as well as capital and other regulatory requirements;
- Determines for major risks the maximum level of risk that Bank is willing to operate within, based on its risk appetite, capacity and profile;
- Includes quantitative measures that can be translated into risk limits;
- It is forward looking and subject to scenario and stress testing to ensure that the Bank understands what events might push the Bank outside its risk appetite and/or risk capacity;
- Ensures that the strategy and sub-limits of each business line align with the Bank-wide risk appetite statement as appropriate.

For the purpose of risk appetite, risk limits are the allocation of Bank’s aggregate risk appetite statement to specific risk categories, concentrations, and as appropriate, other levels. In order to facilitate effective monitoring and reporting of the risk limits, Credo uses specific, measurable, frequency-based, reportable assumptions. Having measurable risk limits, it assists Credo to prevent unknowingly breaching risk limits as market conditions change and be an effective brake against excessive risk taking.

Risk limits are:

- Set at level to constrain risk-taking within risk appetite based on an estimate of the impact on the interest of customers and shareholders, as well as capital regulatory requirements, in the event that a risk limit is breached and the likelihood that each material risk is realized;
- Expressed relative to capital, liquidity, credit risk and other relevant measures;
- Used to measure material risk concentrations at the Bank-wide level;
- Not strictly based on comparison to peers, default to regulatory limits, be overly complicated, ambiguous, or subjective and be monitored regularly.

The major risk for Credo is credit risk, its appetite is largely expressed in risk limits related to credit operations of the institution defined in this risk appetite statement and aligned with Credit Policy:

- Profitability is a key objective but credit standards must not be compromised in the pursuit of operating income. A well-balanced and high quality credit portfolio is of the highest priority;
- Where borrowing is classed as prohibited, there is no appetite to pursue this type of business, and any exceptions must be referred to the Supervisory Board;

- Unsecured lending will continue in various segments as result of the specific customer base, but the Bank will carefully monitor its share in total credit portfolio;
- Sectorial concentrations in loan portfolio will be an increasingly important area and management will use specific risk limit levels for managing these risks;
- Currency concentrations will be an important focus area and management will use specific risk limit levels for managing these risks.

Bank also puts aggregate limits on other risks such as market (particularly FX risk) and Liquidity risk.

Functions and Responsibilities in Risk Appetite

The Supervisory Board:

- Approves the Bank's RAF and ensures it remains consistent with the Bank's short and long term strategy, business and capital plans, risk capacity as well as compensation programs;
- Holds the CEO and other executive management accountable for the integrity of the RAF, including the timely identification, management and escalation of breaches of established limits and of material risk exposures;
- Ensures that annual business plans are in line with the approved risk appetite and incentives/disincentives are included in the compensation programs to facilitate adherence to risk appetite;
- Includes an assessment of risk appetite in their strategic discussions including decisions regarding growth in business lines or products;
- Regularly reviews and monitors actual versus approved risk limits;
- Discusses and determines actions to be taken, if any, regarding "breaches" of risk limits;
- Obtains if necessary an independent assessment of the design and effectiveness of the RAF and its alignment with supervisory expectations;
- Ensures that there are mechanisms in place to monitor that executive management acts in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures, in particular those that are close to or exceed the approved appetite statement and risk limits;

- Ensures that adequate resources and expertise are dedicated to risk management as well as internal audit in order to provide independent assurances to the Supervisory Board and executive management that they are operating within the approved RAF;
- Ensures risk management is supported by adequate IT and MIS to enable identification, measurement, assessment and reporting of risks in timely and accurate manner.

The Management Board:

- Reviews and suggests a prudent risk appetite for the Bank which is consistent with the Bank's short and long-term strategy, business and capital plans, risk capacity, as well as compensation programs and aligns with supervisory expectations;
- Is accountable for the integrity of the RAF, including the timely identification and escalation of breaches of risk limits and of material risk exposures;
- Ensures that the risk appetite is appropriately translated in to risk limits and they are incorporated in the strategic and financial planning, decision making processes and compensation decisions;
- Ensures that the Bank-wide risk appetite statement is implemented by senior management through consistent risk appetite statements or specific risk limits for business lines;
- Provides leadership in communicating the risk appetite to internal and external stakeholders;
- Sets an example by empowering and supporting relevant risk units and departments and effectively incorporating risk appetite in to their decision-making processes;
- Ensures business lines have appropriate processes in place to effectively identify, measure, monitor and report on the risk profile relative to established risk limits on a day to day basis;
- Dedicates sufficient resources and expertise to risk management and IT infrastructure to support effective oversight and adherence to the RAF;
- Notify the Supervisory Board of serious breaches of risk limits and unexpected material risk exposures.

Risk Committees:

- Oversee the Bank's process and policies for determining risk tolerance and review management's measurement and comparison of overall risk tolerance to established levels;
- Receive regular reports from executive management and risk units on the categories of risk that the Bank faces, the exposure in each category, significant concentrations within those risk categories, the matrices used to monitor the exposures and management's view on the acceptable and appropriate levels of those risk exposures;
- Review the adequacy of RAF and RAS.

Risk Management Unit:

- Supports the development of a prudent risk appetite for the Bank that meets the needs of the Bank and aligns with the expectations of Supervisory Board and the supervision authorities;
- Regularly reports to RC and Management Board on the Bank's risk profile relative to risk appetite;
- Actively monitors the Bank's risk profile relative to its risk appetite, strategy, business and capital plans and risk capacity;
- Establishes a process for reporting on risk;

- Establishes appropriate risk limits (in collaboration with MB and SB) that are prudent and consistent with Bank's risk appetite;
- Acts in time to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite and/or risk limits;
- Escalates immediately to RC and Management Board any material risk limit breach that could seriously put in danger the financial condition, capital and liquidity of the Bank.

Business lines (units):

- Ensure alignment between the approved risk appetite and planning, compensation and decision making process of the business units;
- Incorporate the risk appetite statement and risk limits into their activities and day to day management of the risk to ensure prudent risk taking and adequate risk culture;
- Actively monitor adherence to approved risk limits;
- Cooperate with the risk units and departments not interfering with its independent duties;
- Implement controls and processes to be able to effectively identify, monitor and report against allocated risk limits;

Internal Audit

- Independently assesses the design and effectiveness of the RAF and its alignment with supervisory expectations;
- Identify whether breaches in risk limits are appropriately identified, escalated and reported, and report to the Audit committee and Supervisory Board as appropriate.

6 REMUNERATION

Remuneration is one of the most sensitive issues in the human resource policy of an organization. The determination of staff salaries and benefits not only affects the operating expenses of the bank, but also has implications on staff motivation, internal working relationships, and employee propensity to perpetrate fraud.

The remuneration policy of Credo Bank is based on the following principles:

- Job evaluation is based on both the individual performance of the employee as well as the HAY guideline profile methodology. Each job has a defined grade and salary scale with minimum and maximum remuneration levels;
- The salary matrix is composed in local currency based on Georgian financial market compensation data to ensure competitive salary levels;
- Salary increases are predefined in a salary matrix for each job and is performance-based, ensuring internal equity in compensation;
- Job grading system is basis for employee benefit programs: each employee benefit is linked to job grade and not individual employee ensuring transparency and fairness of remuneration system.

Salary and employee benefits administration procedures are clearly defined and accessible to all employees.

Selection and Recruitment of Bank Administrators

Administrators of the bank should satisfy the following requirements to be recruited on a certain position:

- He/she should have the higher education in one of these fields: Economics, Finance, Banking, Business Administration, Audit, Accounting, Law and Legal studies etc.;
- The member of Directorate should have minimum 4 years of work experience in the financial sector, from which minimum 2 years should be on managerial position;
- The manager of the service center must have at least 3 years of work experience in the financial sector, including 1 year of work experience in a managerial position.
- A senior management team member should not be the first and second tier successor of another senior management team member or supervisory board member.
- Must not have an unfulfilled financial obligation in any financial institution;
- Should not be convicted for serious or especially serious offense

In case of meeting the above mentioned criteria, the Supervisory Board selects/recruits the members for the Management Board. Other Administrators, after being selected, are recruited upon the approval of the Board of Directors / General Manager.