

Decree №92/04 of the Governor of the National Bank of Georgia

June 22, 2017

Tbilisi

On approving the

Regulation on Disclosure requirements for commercial banks within Pillar 3

Pursuant to the requirements of subparagraph “g” of paragraph 1 of Article 15, Article 47 and paragraph 3 of Article 48 of the Organic law of Georgia on the National Bank of Georgia, Article 29 of the Law of Georgia on the Activities of Commercial banks, and subparagraph “b” of paragraph 1 of Article 25 of the Law of Georgia on Normative Acts, I hereby decree:

1. The regulation on “Disclosure requirements for commercial banks within Pillar 3” with the following edition is approved.
2. Decree N 145 of May 23, 2006 of the Governor of NBG on the approval of the “Regulation on Transparency of the Financial Condition of a Commercial Bank” is void.
3. This Decree will enter into force upon its publication.

Koba Gvenetadze

Article 1. General Provisions

1. The purpose of the Regulation on Disclosure requirements for commercial banks within Pillar 3 (hereafter: regulation) is to promote market discipline through regulatory disclosure requirements.
2. The disclosure requirements established by this regulation enable market participants to access key information in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.
3. This regulation sets out disclosure requirements that are mandatory for every commercial bank and branches of foreign banks operating in Georgia. (hereafter- the bank)
4. Disclosure requirements as laid down in this Regulation, concerning about capital adequacy and remuneration, are based on Pillar 3 disclosure requirements within Basel III framework by Basel Committee on Banking Supervision. If the regulation does not define any necessary instructions regulating certain questions or does not provide any definitions, commercial banks should apply standards of Basel Committee on Banking Supervision.
5. In case of abolish of the requirements defined by this rule, the National Bank of Georgia (hereafter - NBG) will apply sanctions imposed by the Georgian legislation.

Article 2. Definitions

1. Terms in this regulation and in the reporting forms published according to paragraph 9 of article 3 of this regulation (hereafter: reporting forms) are defined as followed:
 - a. Common equity tier 1 ratio – the ratio of common equity tier 1 capital over risk weighted assets according to NBG's rules;
 - b. Tier 1 Capital Ratio - the ratio of tier 1 capital over risk weighted assets according to NBG's rules;
 - c. Regulatory Capital Ratio – the ratio of regulatory Capital over risk weighted assets according to NBG's rules;
 - d. Risk-weighted Assets – risk weighted assets defined according to NBG's rules;
 - e. Total Assets – total assets as presented in the balance sheet of the bank;
 - f. Total Liabilities – total liabilities as presented in the balance sheet of the bank;
 - g. Share capital – share capital as presented in the balance sheet of the bank;
 - h. Liquid Assets – assets that can be converted into cash quickly in the financial market, with minimal impact or no impact to the price received.
 - i. Current and Demand Deposits – sum of current and demand deposits as presented in the balance sheet of the bank;

- j. Total Loans – total loans as presented in the balance sheet of the bank;
- k. LLR – Loan Loss Reserves as presented in the balance sheet of the bank made by the bank for covering expected losses from loans as well as for non-identified and identified losses;
- l. Nonperforming Loans – the sum of loans classified as substandard, doubtful and loss;
- m. Annual Growth Rate of Total Loans – the amount of total loans of reporting period less the amount of total loans at the beginning of the reporting year and divided by the amount of total loans at the beginning of the reporting year;
- n. Net Income- net income as presented in the balance sheet of the bank;
- o. Total Interest Income – annualized total interest income;
- p. Total Interest expenses – annualized total interest expenses;
- q. Operational income – the bank’s annualized operational income, which is calculated as a net interest income plus total non-interest income other than income/loss from dealing securities, investment securities, revaluation of currency funds and sale of property, and less total noninterest expenses;
- r. Net Interest Margin – the ratio of annualized net interest income to annual average assets;
- s. ROA – the ratio of annualized net income to average annual assets;
- t. ROE – the ratio of annualized net income to average annual share capital;
- u. Regulatory scope of consolidation – the consolidation of the Bank and its related undertakings (if any) defined by NBG’s rules, for which the minimum amount of supervisory capital is defined at the consolidated level;
- v. National Accounting Standards for banks – Accounting standards comprising of:
 - a. Book of individual accounts and usage instructions as published by Accounting Standards Committee operating under the parliament of Georgia.
 - b. Instructions on accounting matters in the written form enacted by NBG.
- w. Material information - Information shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of an interested person relying on that information for the purpose of making economic decisions
- x. Proprietary information - Information shall be regarded as proprietary to an institution if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable
- y. Confidential information- Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

- z. Material risk takers - Employees identified by the bank whose professional activities have a material impact on the risk profile of the institution;
 - aa. Significant change – change which includes or is related to material information;
 - bb. Pillar 3 report:
 - a. Quarterly Pillar 3 report – report, which includes quantitative information in accordance with the fixed tables and instructions of reporting form N1 of this regulation;
 - b. Annual Pillar 3 report – report, which includes quantitative information in accordance with fixed tables given in reporting forms N1 and N2, and in addition, qualitative information set forth in Articles 5-7 of this regulation.
2. For comparison of the economic ratios, the financial data participating in their calculation shall be taken in average annual or annualized indices.
3. The average annual reported index shall be calculated as the average data of the last date of the previous year and from the beginning of the year up to the end of the reporting period by months, specifically:
- a. March – (the sum of the data of 31/12, 01, 02 and 03 months)/4;
 - b. June – (the sum of the data of 31/12, 01, 02, 03, 04, 05 and 06 months)/7;
 - c. September – the sum of the data of 31/12, 01, 02, 03, 04, 05, 06, 07, 08 and 09 months)/10;
 - d. Annual (December) – (the sum of the data of 31/12, 01, 02, 03, 04, 05, 06, 07, 08, 09, 10, 11 and 12 months)/13.

Where 31/12 denotes the last date of previous year.

4. the Income Statement indicators shall be annualized by multiplying the respective data of the income Statement for the reporting period by the following ratios provided below:
- a. March - $\times 4/1$;
 - b. June - $\times 4/2$;
 - c. September - $\times 4/3$;
 - d. Annual (December) - $\times 4/4$.

Article 3. Core Principles and Presentation of Disclosure Requirements

1. Pillar 3 disclosure requirements incorporate qualitative and quantitative information related to capital adequacy, corporate governance and risk management. The frequencies of reporting vary between quarterly and annual reporting.
2. Banks are expected to supplement the quantitative information with a narrative commentary to explain at least any significant changes between reporting periods and any additional information that is necessary

for proper understanding of the quantitative information provided, as well as any other issues that management considers to be of interest to market participants.

3. The disclosure requirements set out in this regulation strike an appropriate balance between the need for disclosure of the material information and the protection of proprietary and confidential information. In exceptional cases, disclosure of certain items required by this regulation may reveal the position of a bank or contravene its legal rights and obligations by making public information that is proprietary or confidential in nature. In such cases, a bank does not need to disclose those specific items, but must disclose more general information about the subject matter of the requirement instead. It must also explain in the narrative commentary, in reporting forms N1 and N2 of in annual Pillar 3 report, the fact that the specific items of information have not been disclosed and the reasons for this.

4. Bank's Pillar 3 report must be available for interested persons. For this purpose quarterly and annual Pillar 3 reports shall be published in Georgian and in English on the official websites of the bank and NBG. In order to increase availability of the information, Tables 1, 2, 3, and 6 shall be published in print media.

5. A commercial bank's Pillar 3 report shall be published:

- a. Quarterly Pillar 3 report – within 30 days after the end of reporting quarter. Quarterly report shall be published for all the four quarters.
- b. Annual Pillar 3 report – no later than annual financial report publication date.

6. The information provided by banks under Pillar 3 must be subject, at a minimum, to the same level of internal review and internal control processes as the information provided by banks for their financial reporting.

7. In certain circumstances, bank may disclose information required by this regulation in a document separate from their Pillar 3 report. In such cases, information presented shall completely correspond to the requirements set forth in this regulation and banks must signpost clearly in its Pillar 3 report where the disclosure requirements have been published.

8. Supervisory board and directorate are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar 3 disclosures.. Directorate must attest in writing that Pillar 3 disclosures have been prepared in accordance with the supervisory board-agreed internal control processes.

9. NBG shall place the relevant reporting forms of this rule on its official website.

10. NBG shall be authorized to change certain elements of the reporting forms corresponding to this rule.

Article 4. Quarterly disclosure requirements

1. Banks are required to disclose the following information on a quarterly basis:

- a. An overview of a bank's prudential regulatory situation, financial performance, on- and off-balance sheet exposures and risk weighted assets in accordance with the tables 1-5 of reporting form N1.
- b. Information about supervisory board, directorate, shareholders and beneficiary owners as set out in table 6 of reporting form N1.
- c. Linkages between financial statements and regulatory exposures:
 - c.a) Mapping of asset and liability values per standardized balance sheet used for regulatory reporting purposes with regulatory risk categories as set out in table 7 of reporting form N1.
 - c.b) The main sources of differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation, as set out in table 8 of reporting form N1.
- d. Regulatory capital:
 - d.a) Breakdown of regulatory capital as set out in Table 9 of reporting form N1;
 - d.b) Reconciliation of regulatory capital to balance sheet as set out in Table 10 of reporting form N1.
- e) Credit risk exposures
 - e.a) Breakdown of credit risk exposures by asset class and risk weight under the standardized approach as set out in Table 11 of reporting form N1.
 - e.b) The extent of use of credit risk mitigation techniques as set out in Table 12 of reporting form N1. Banks must include all CRM techniques used to reduce capital requirements and disclose all secured exposures.
 - e.c) On- and off-balance sheet exposure amounts before and after CCF and CRM as set out in Table 13 of reporting form N1.
 - e.d) Exposures subject to foreign currency induced credit risk as set out in Table 14 of the reporting form N1.
- f. Counterparty Credit Risk exposures which are taken into account in order to calculate counterparty credit risk exposures within Pillar 1 framework defined by the Regulation on Capital Adequacy Requirement for Commercial Banks, in accordance with Table 15 of reporting form N1.
- g. general information about loans:
 - g.a) General overview of main characteristics of loan portfolio as set out in Table 16 of reporting form N1.
 - g.b) Comprehensive information about credit quality of a bank's (on- and off-balance sheet) assets as set out in Table 17 of reporting form N1.
 - g.c) Loan information regarding monthly payments to income and loan to value ratios as set out in Table 18 of reporting form N1.

g.d) Information regarding to loan performance ratios by sectors and products as set out in Table 19 of reporting form N1.

Article 5. Annual Pillar 3 Report

1. Annual Pillar 3 report of the bank incorporates quantitative information according to reporting forms N1 and N2 of this regulation, as well as qualitative information defined by this article and articles 6 and 7 of this regulation.

2. For the purpose to provide an overview of differences between accounting and regulatory scopes of consolidation, as well as differences between financial and regulatory reporting frameworks, commercial banks are required to disclose in their annual Pillar 3 reports:

a) Comparison of values per statement of financial position of published IFRS financial statements with values of same line items per regulatory scope of consolidation (stand-alone basis), as set out in table 20 of reporting form N2. Commercial banks shall provide qualitative explanations to significant differences between the values.

b) Comparison of IFRS accounting values within statement of financial position per regulatory scope of consolidation (stand-alone basis) with values of same line items per local accounting rules used by commercial banks, as set out in table 20 of reporting form N2. Commercial banks shall provide qualitative explanations to significant differences between the values.

c) Reconciliation (allocation) of the values per local accounting rules per line items within statement of financial position of published IFRS financial statements with values per line items of standardized balance sheet used for regulatory reporting purposes, as set out in table 20 of reporting form N2.

d) List of all entities included in accounting and/or regulatory scopes of consolidation and respective consolidation methods as set out in table 21 of reporting form N2.

3. Banks shall disclose quantitative information related to operational risk in accordance with Tables 22 and 23 of reporting form N2.

Article 6. Disclosure requirements for qualitative information

1. Banks shall disclose information about ownership and group structure in the annual Pillar 3 report. This shall include information about investments made by the bank and its related companies, if any. If necessary, schematic illustrations shall be used to provide more clarity for interested persons.

2. Banks shall disclose the following qualitative information regarding to corporate governance in annual Pillar 3 report:

a) Assessment of shareholders and shareholders' meetings, their rights and regarding policies;

b) Assessment of supervisory board:

- b.a) Composition of the supervisory board and board committees, and responsibilities of their members;
- b.b) Policy and rules how independence is defined and rationale/argumentation for each member's independence;
- b.c) Assessment whether the board is balanced (education, qualification, key person risk, etc.)
- b.d) Description of board's engagement in the affairs of the bank. In particular, frequency the board approves and assesses the risk governance policy;
- b.e) Frequency of the board and committees meetings, brief overview of their discussions and individual attendance by members;
- b.f) Assessment of the board's performance and a statement of how performance evaluation of the board, its committees and its members has been conducted, including as self-assessment so external assessment;
- b.g) Rules for delegation of responsibilities - a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

c) In case of the holding structure, requirements of subparagraph "b" of paragraph 2 of this article includes the assessment of the supervisory board and board committees of the holding. In addition, the review of their decision making process about the bank.

d) Assessment of directorate:

- d.a) Composition of directorate and management committees;
- d.b) the recruitment policy for the selection of members of the directorate and their actual knowledge, skills and expertise;
- d.c) the assessment of the directorate with regard to the business lines they oversee.

3. Commercial banks shall disclose the following information regarding to their risk governance and internal control systems, in order to enable users to gain a clear understanding of the bank's risk profile and risk appetite:

- a) Bank's strategy and how directorate and supervisory board assess and manage related risks;
- b) Interaction between the business model, bank's risk profile and the risk tolerance approved by the board;
- c) The risk governance structure by risk types (credit risk, market risk, liquidity risk, operational risk ect): oversight and delegation of authority, breakdown of responsibilities, policies and frameworks, description of relationships between the structures involved in risk management processes including supervisory board, executive management, separate risk committee, risk management structure, compliance function, internal audit function.
- d) Channels to communicate, decline and enforce the risk culture within the bank including code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions. The processes ensuring independence of risk management function;

- e) Description of the process of risk reporting provided to the board and directorate, in particular the scope and main content of reporting on risk exposure.
- f) Qualitative information regarding to the use of stress testing in risk management.
- g) The strategies and processes to manage, hedge and mitigate risks and the processes for monitoring the continuing effectiveness of hedges and mitigants.
- h) Information regarding mitigation of credit risk:
 - h.a) Core features of policies and processes for collateral valuation and management.
 - h.b) A description of the main types of collateral taken by the institution;
 - h.c) Information about credit risk concentrations under the credit risk mitigation instruments used;
 - h.d) The main types of guarantor and credit derivative counterparty and their creditworthiness.
- i) In order to supplement the information on a bank's use of the standardised approach with qualitative data on the use of external ratings, banks shall disclose the following information on an annual basis:
 - i.a) Names of the external credit assessment institutions (ECAIs) used by the bank, and the reasons for any changes over the reporting period;
 - i.b) The asset classes for which each ECAI is used.

Article 7. Remuneration Policy disclosure

1. For the purpose of enabling market participant to assess bank's compensation practice, commercial banks are required to disclose quantitative and qualitative information related to their remuneration practices in their annual Pillar 3 reports. Quantitative information on remuneration shall include aggregate amount of remuneration, broken down by senior management and other material risk takers in accordance with Tables 24-27 of reporting form N2 of this regulation.
2. Commercial banks shall disclose at least the following information, regarding the remuneration policy and practices for senior management and other material risk takers:
 - a) Information relating to the bodies that oversee remuneration. Disclosures should include:
 - a.a) Name and composition of the main body overseeing remuneration.
 - a.b) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.
 - a.c) A description of the scope of the bank's remuneration policy by business lines.
 - a.d) A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.
 - b) Information relating to the design and structure of remuneration processes. Disclosures should include:
 - b.a) An overview of the key features and objectives of remuneration policy.

b.b) In case of existence board-level remuneration committee, whether the committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.

b.c) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include:

c.a) An overview of the key risks that the bank takes into account when implementing remuneration measures.

c.b) An overview of the nature and type of the key measures used to take account of the risks set forth in subparagraph "c.a" of this article, including risks difficult to measure (values need not be disclosed).

c.c) A discussion of the ways in which these measures affect remuneration.

c.d) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.

d) Description of the ways in which performance during a performance measurement period is linked with levels of remuneration. Disclosures should include:

d.a) An overview of main performance metrics for bank as a whole, top-level business lines and individuals.

d.b) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.

d.c) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak

e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:

e.a) A discussion of the bank's policy on deferred remuneration and, if the fraction of remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.

e.b) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.

f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:

f.a) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms).

f.b) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees, a description the factors that determine the mix and their relative importance.

f.c) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;

g) the number of individuals being remunerated GEL 1 million or more per financial year.

h) Any income received by a shareholder or a beneficiary owner from a bank, the payment of which is related to the service rendered by a shareholder for the bank, is subject to publication in an annual Pillar 3 report. The aforementioned statement must include, at the very least, information regarding the volume of the received income, according to individual shareholders and types of income (e.g. salary, rendered service, the beneficiary of which is a given shareholder). For the purpose of this paragraph, the list of shareholders does not include those members of the executive management; whose shares do not exceed 2% of the bank's paid-in capital.

Article 8. Transitional provisions

1. Banks are obliged to take appropriate measures before June 2018 to upgrade/develop their reporting systems and relevant processes in order to ensure effective implementation of disclosure requirements defined by this regulation.
2. Banks shall publish the first Quarterly Pillar 3 Report, defined by this regulation, no later than July 31, 2017, as at the second quarter of 2017.
3. Banks shall publish the first Annual Pillar 3 Report, defined by this regulation, no later than May 15, 2018, as at 2017 year-end.
4. In the transitional period specified in paragraph 1 of this Article, the banks are exempt from fulfillment the requirements, set forth in subparagraph "g" of Article 4 of this regulation, while publishing quarterly and annual Pillar 3 Reports. In spite of the above, banks are obliged to submit the reports to NBG required by subparagraph "g" of Article 4.
5. Filling the data for the corresponding periods of the previous year in the reporting forms N1 and N2 of this regulation shall be compulsory only for tables 1-3 of reporting form N1 as defined in paragraph 1 of article 4 of this regulation.
6. Starting from 2018, banks shall not publish Basel I Tier 1 and Regulatory Capital ratios defined by decree N18/04 of February 12, 2015 of the Governor of NBG, as required in the 1st table of the reporting form N1.