



ANNUAL PILLAR 3 REPORT

Year 2024

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1. Introduction

The report presented is based on the requirements set forth in the Basel Committee on Bank Supervision (BCBS) Pillar 3 Disclosure and EU Regulation No 575/2013, as well as respectively elaborated order by the National Bank of Georgia - „Procedure on Information Disclosure by Commercial Banks under Pillar 3 Framework“.

2. Management Statement

Hereby, VTB Bank (Georgia) JSC Board of Directors (BoD) confirms, that the information disclosed in the Pillar 3 Report is deemed valid and accurate. The report is prepared in full compliance with internal control procedures agreed with the Supervisory Board (SB). Present report complies with the requirements set forth in the „Procedure on Information Disclosure by Commercial Banks under Pillar 3 Framework“ (with amendments and additions) approved in June 22, 2017 by the order of the President of the National Bank of Georgia N92/04, as well as with the other rules and regulations established by the National Bank of Georgia. According to regulation information disclosed under Pillar 3 framework is not required to be audited.

3. Key Metrics

The table below presents key metrics of VTB Bank (Georgia) JSC as at 2024 and 2023 years in national currency (GEL)

	2024**	2023**
Capital Metrics Based on Basel III framework (Amounts, GEL)		
Common Equity Tier 1 (CET1)	273,905,731	261,350,407
Tier 1	317,094,231	312,207,607
Total regulatory capital	359,173,852	376,230,252
Risk-weighted assets (RWA)	538,309,916	584,844,829
Common equity Tier 1 ratio $\geq 22.85\%$ (2023: $\geq 21.19\%$)	50.88%	44.70%
Common equity Tier 1 ratio $\geq 25.84\%$ (2023: $\geq 24.15\%$)	58.91%	53.40%
Total Regulatory Capital ratio $\geq 29.81\%$ (2023: $\geq 28.07\%$)	66.72%	64.35%
Profitability and Asset Quality		
Return on Average Assets (ROAA)	2.06%	0.01%
Return on Average Equity (ROAE)	2.89%	0.01%
Non Performed Loans / Total Loans	59.98%	27.37%
Loan Growth-YTD	-7.33%	-20.97%
Liquidity		
Liquid Assets/Total Assets	36.25%	31.68%
Liquidity Coverage Ratio, LCR (%)	848.57%	631.44%
Net Stable Funding Ratio, NSFR (%)	162.26%	151.89%

**Numbers are calculated on the basis of IFRS

Bank's respective key metrics throughout different quarters of 2024 and 2023 years is available in Annexes hereto.

4. About Capital

1. Minimum Capital Requirements

Under the „Regulation on Capital Adequacy Requirements for Commercial Banks“ approved by the Presidential Order of the National Bank of Georgia No 100/04, dated October 28, 2013, all commercial banks shall meet minimum capital requirements. According to the supplementary Order of the National Bank N175/04 of December 18, 2017, the minimum capital requirements under the Pillar I are as follows:

- Common Equity Tier 1 (CET1) ratio - 4.5%;
- Tier 1 Capital ratio - 6%;
- Total Regulatory Capital ratio - 8%

Commercial banks are also subject to combined capital buffer requirements, consisting of the capital conservation buffer, countercyclical capital buffer and systematic buffer. The capital conservation buffer is defined as a 2.5% of risk weighed positions.

As part of Pillar 2, an additional capital buffer is required for the banks against the risks not covered by the requirements of Pillar 1 as set out in the „Regulation on Capital Adequacy Requirements for Commercial Banks“. The said risks are governed by the „Regulation on Capital Buffer Requirements for Commercial Banks within Pillar 2“. The Buffers determined within Pillar 2 comprise the following:

- Unhedged currency-induced credit risk buffer
- Credit portfolio concentration risk buffer, which comprises name concentration buffer and sectoral concentration buffer;
- Net stress test buffer determined through the regulatory stress tests/testing;
- Net GRAPE buffer determined in accordance with the National Bank of Georgia (NBG) General Risk assessment Program and internal capital adequacy assessment processes of the Bank;

2. Capital Instruments

According to Pillar 1 regulations, capital adequacy of a commercial bank is determined based on regulatory capital, which shall include such instruments that ensure stability and sustainability of the commercial bank.

Regulatory capital is a sum of the following elements:

- Tier 1 capital comprises elements such as
 - Common equity Tier 1
 - Additional Tier 1 capital
- Tier 2 capital (supplementary capital)

Tier 1 capital consists of the instruments that have the capacity to unconditionally absorb losses as they arise, allowing the bank to remain in business. The instruments, known as Tier 1 capital, must allow for fully discretionary payments, (such Tier 1 that non-payment is not an event of default) and for full principal loss absorption.

The Bank's Common Equity Tier 1 Capital shall be the primary source of the Regulatory Capital and shall equal the sum of Common Equity Tier 1 Capital elements less regulatory adjustments applied in the calculation of Common Equity Tier 1.

Additional Tier 1 capital is comprised of:

Perpetual subordinated loan for RUB 300 million received by the Bank which participates in capital calculation since December 29, 2016. The perpetual subordinated loan has an unlimited term and is redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 2.5%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the issuer before the payment date.

On 29 December 2021, the Bank received perpetual subordinated loan for the total amount of RUB 1,400 million. The perpetual subordinated loan has an unlimited term and is redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 5.89%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the creditor before the payment date.

Tier 2 capital is the supplementary component of the bank's core capital and includes subordinated loan that is attributable to Tier 2 capital and general reserves not exceeding the limit of 1.25% of credit risk weighted assets of the Bank.

The subordinated loan included in the bank's Tier 2 capital includes the following instruments:

On 13 October 2014, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 126,400 with interest rate of 11% payable on October 13, 2021. On December 15, 2020 subordinated loan was restructured with interest rate of 8.93% payable on October 29, 2027;

On 31 August 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 816,985, with interest rate of 10.5% payable on 29 August 2025. On August 31, 2020 subordinated loan was restructured with interest rate of 10.5% payable on August 29, 2027;

On December 31, 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 414,000 with interest rate of 11.5% payable on December 26, 2025. On August 31, 2020 subordinated loan was restructured with interest rate of 8.99% payable on December 29, 2027;

On December 29, 2020, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 455,394 with interest rate of 8.92% payable on December 17, 2027;

On 29 December 2021, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 900,000 with interest rate of 11.51% payable quarterly and maturity on December 25, 2028. In the case of a liquidation of the Bank, these loans are only repayable after all the obligations to the Bank senior creditors have been met.

The table below presents regulatory capital elements of the Bank for 2024 and 2023 years under Pillar 1 regulation in national currency (GEL):

	2024**	2023**
Common shares that comply with the criteria for Common Equity Tier 1	209,008,277	209,008,277
Accumulated other comprehensive income	12,471,274	11,740,026
Retained earnings (loss)	65,912,120	53,397,442
Common Equity Tier 1 capital before regulatory adjustments	287,391,671	274,145,745
Revaluation reserves on assets	12,471,274	11,740,026
Intangible assets (including goodwill)	1,014,666	1,055,312
Total Regulatory Adjustments of Common Equity Tier 1 capital	13,485,940	12,795,338
Common Equity Tier 1 after regulatory adjustments	273,905,731	261,350,407
Additional tier 1 capital before regulatory adjustments	43,188,500	50,857,200
Tier 1 Capital	317,094,231	312,207,607
Tier 2 capital before regulatory adjustments	42,079,621	64,022,645
Total regulatory capital	359,173,852	376,230,252

**Numbers are calculated on the basis of IFRS

5. Bank Structure

VTB Bank (Georgia) JSC (hereinafter – Bank) was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. Tbilisi Chugureti District Court gave the Bank registration number 202906427.

The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking licence issued by the National Bank of Georgia (the “NBG”) on May 19, 1995.

As of December 31, 2024 the Bank has no subsidiaries.

6. About Shareholders

As at December 31, 2024, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	2024 %	2023 %
VTB BANK ojsc	97.38	97.38
Lacarpa Enterprise LLC	1.47	1.47
Others	1.14	1.14
Total	100.0	100.0

VTB Bank OJSC (hereinafter – Parent Company) is the immediate parent of the Bank. The ultimate controlling party for the Group is the Government of the Russian Federation (“RF”), acting through the Federal Property Agency, which holds 60% of issued and outstanding shares of the Parent bank as at December 31, 2024.

Shareholders Meeting Overview and Shareholder Rights

The supreme management body of the bank is the General Meeting of Shareholders which is called by Supervisory Council at least once a year. The General Meeting may be ordinary and extraordinary Annual General Meeting of Shareholders. In 2024 ordinary Annual General Meeting of Shareholders was not held.

Shareholder rights

Shareholders do not take responsibility for Bank’s liabilities and bear loss risk associated with Bank’s activities limited to the value of held shares. Each common stock of the Bank held by the shareholder provides the latter with equal share of rights. Holder of Bank’s common stock is entitled to:

1. Participate in Shareholders General Meeting with a right to vote and work on any and all issue within the competence of the latter.
2. Receive dividends based on a decision of the General Shareholders Meeting, in compliance with effective legislative requirements;
3. In case of Bank’s liquidation, receive a share from Bank’s property proportional to the value of held shares, in compliance with effective legislative requirements.

7. Corporate Management

Frequency of Supervisory Board Meetings, Supervisory Board members

During 2024, 8 meetings of the Supervisory Board were held, by absentee voting, by poll.

As at December 31, 2024, the Supervisory Board composed of the following 4 members:

Supervisory Board Chairman – Sergey Stepanov;

Supervisory Board Deputy Chairman - Ilmar Shaimardanov;

Supervisory Board member – Svetlana Koroleva;

Supervisory Board member - Asya Zakharova.

Education and Experience of Supervisory Board Members

Supervisory Board members are elected by the decision of General Shareholders Meeting. Education, experience and business reputation of SB members is in full compliance with respective legislative requirements.

Supervisory Board Chairman – Sergey Stepanov graduated from Economic Faculty of Higher School of Economics of State University with a major in Banks and Banking. The banking experience of Sergey Stepanov counts many years. Since 2013 he has been supervising VTB Bank (PJSC) Subsidiaries Coordination Service. Mr. Stepanov occupies a position of Vice President

Supervisory Board Deputy Chairman - Ilmar Shaimardanov graduated from Kazan State Medical University with a major in Social Service. He has also studied at Financial University under the Government of the Russian Federation majoring in Economics. Ilmar Shaimardanov boasts long experience of working in the banking field and since 2014 he has been occupying a position of Vice-President to VTB Bank (PJSC)

Supervisory Board Member - Asya Zakharova graduated from the Russian State University of Management majoring in National Economics. Asya Zakharova has long experience in the banking field. She has been working in VTB Group since 2010. Since 2018 she has been occupying a position of Managing Director at VTB Bank (PJSC)

Supervisory Board Member – Svetlana Koroleva graduated from Moscow State Industrial University majoring in Economics and Management of Mechanical Engineering Enterprises. Svetlana Koroleva has long experience in the banking field. Since 2015 she occupied different positions at VTB Bank. Since 2023 she has been occupying a position of Subsidiaries Business Coordination and Development Department Managing Director at VTB Bank (PJSC).

Audit Committee

Meetings of the Audit Committee were not held due to the termination of the powers of independent members of Audit Committee.

Risk Committee of Supervisory Board

Meetings of the Risk Committee were not held due to the termination of the powers of independent members of the Risk Committee

Competences of Supervisory Board, Board of Directors and CEO and System of Delegation of responsibilities

The competences of Supervisory Board, Board of Directors and CEO are regulated by the applicable Georgian legislation and VTB Bank (Georgia) JSC Statute. Responsibilities can be delegated by the decision of respective body. The Bank has in place the Regulation on Management of Conflict of Interest, approved by the Supervisory Board, that regulates responsibilities and limits for transactions with affiliated parties.

Board of Directors and Affiliated Committees

Board of Directors members

VTB Bank (Georgia) JSC is a collegiate management body which members (directors) are assigned and released from the holding position by the Bank Supervisory Board.

As at December 31, 2024 Board of Directors was comprised of 6 members:

- Chief Executive Officer - Archil Kontselidze;
- Chief Financial Officer – Mamuka Menteshashvili;
- Chief Retail Business Officer – Natia Tkhilaishvili
- Chief Corporate Business Officer – Vladimer Robakidze;
- Chief Risk Officer – Niko Chkhetiani;
- Chief Operating Officer – Irakli Dolidze.

During 2024 19 Meetings of Board of Directors were held.

Education and Experience of Board of Directors members

Board of Directors members are elected by the decision of Supervisory Board. Education, experience and business reputation of Board of Directors members is in full compliance with respective legislative requirements.

CEO - Archil Kontselidze graduated from Georgian Technical University with major in Car Construction. He also holds a Bachelor's degree in Corporate Financing at St. Bonaventura University, USA. Archil Kontselidze has long history of working in banking field and since 2009 he has been serving as a CEO of VTB Bank (Georgia) JSC.

CFO - Mamuka Menteshashvili graduated from Tbilisi State University majoring in Economics and Management of Car Industry, as well as Georgian Technical University with major in Engineering Economics. Mamuka Menteshashvili has long history of working in banking field and since 2009 he has been serving as a CFO of VTB Bank (Georgia) JSC.

CRBO – Natia Tkhilaishvili graduated from Tbilisi Technical University majoring in English executive assistant & interpreter. Besides, he holds Master's Degree in Banking and management received from Procredit Academy (Germany, Frankfurt). Natia Tkhilaishvili has long history of working in banking field and since 2022 he has been serving as a CRBO of VTB Bank (Georgia) JSC.

CCBO - Vladimer Robakidze graduated from Tbilisi State University with major in Economics and Management of Household Services. Besides, he has also completed bachelor's studies in law at the same university. Vladimer Robakidze has long history of working in banking field and since 2011 he has been serving as a CCBO of VTB Bank (Georgia) JSC.

CRO - Niko Chkhetiani graduated from Tbilisi State University with major in Finances and Banking. He holds the Master's degree in Economics. Niko Chkhetiani has long history of working in banking field and since 2008 he has been serving as a CRO of VTB Bank (Georgia) JSC.

COO - Irakli Dolidze holds Bachelor's degree in Business Administration awarded by Indianapolis University, USA. Besides, he graduated from Georgian Technical University majoring in International Economic Relations. Irakli Dolidze has long history of working in banking field. In 2009 he was appointed on a position of Vice-President, Head of HR Department and since 2015 he has been serving as a COO of VTB Bank (Georgia) JSC.

Curatorial Fields of Board of Directors

Board of Directors members supervise over following fields: finances, corporate and small business, retail business, risk management, operations management.

8. Bank Strategy

Due to supervisory sanctions, the implementation of the bank's strategy was delayed for some time. Under the imposed sanctions, the bank serves only its existing portfolio.

9. Risk Management

9.1 Risk Strategy

The Bank's risk management was carried out based on the Risk and Capital Management Strategy of VTB Bank (Georgia) JSC (hereinafter –Risk Strategy), risk appetite framework documents and other fundamental documents for managing significant risks of the Bank

For the reasons described in the introductory part of this report, active credit, foreign exchange and investment activities were completely stopped by the bank, that had effect on risks associated with scope of personnel mitigation and process of managing the bank's risks.

Strategic Goals and Objectives

Based on the current situation, the bank maintained a strategy of avoiding and minimizing possible risks and performance risk/financial losses.

Key strategic objectives were compliance with regulatory and supervisory requirements; identification of risks that the Bank's activities are prone to, risk analysis; risk assessment, of the Bank's risks using risk-appetite indicators, establishing constant control over risk covering capital adequacy, securing the proper operation of the Bank.

Risk and Capital Management Organisational Structure

Risk and Capital Management functions within the Bank are carried out by the following collegiate bodies and other Risk and Capital Management System participants:

- General Meeting of Shareholders;
- Supervisory Board
- Board of Directors;
- Authorised Committees;
- Officials/ groups, organizational units.

The curtailment of active activities led to the suspension of the activities of a number of collegiate working bodies, which led to the concentration of residual risk management processes at the level of the Directorate and authorized officials/divisions.

9.2 Risk-appetite

One of the key principles of risk management is taking risk-appetite into account when managing Bank's activities.

Bank's risk-appetite is determined by the Supervisory Board.

Risk-appetite is a system of quantitative and qualitative indicators that define aggregated risk level (profile) that considering requests from stakeholders of the Bank is able and/or willing to take for accomplishing strategic goals and objectives in the future.

Risk-appetite comprises high-level risk-appetite, centralised (calculated at Group level) risk-appetite indicators that are allocated to the Bank by the Group, as well as local risk-appetite metrics, that are elaborated, based on regulatory requirements and internal needs.

Classification of risk-appetite quantitative metrics

Risk-appetite quantitative metrics are categorised under the following basic groups:

- Loss by risk types;
- Capital adequacy;
- Liquidity risk;
- Loss associated with market risk;
- Loss associated with operational risk
- Credit concentration.

Risk-appetite Benchmarks

Risk-appetite Quantitative Metrics are calculated using following benchmark system:

- **Target level (Green zone)** – optimal level of risks taken for achieving strategic objectives of the Bank;
- **Trigger (Yellow zone)** – violation of this benchmark implies escalation and necessity to elaborate measures for risk reduction;
- **Limit (Red zone)** – critical value that if violated threatens financial stability of the Bank and requires contingency plan

Risk-appetite performance indicators are reflected in Risk Reporting on monthly basis which is submitted to the Head Office and Bank management. This information is included in Risk Reporting prepared for Supervisory Board on quarterly basis.

9.3 Key Risks

Key Risks Overview

The Bank identifies the risks to which it is or may be exposed. As part of this identification, the types of key (material) risks to the Bank are also determined. Risk identification procedures are regulated under various internal documents of the Bank, taking in account regulatory requirements. The Bank, considering its size, nature and scope of activities, defines the following types of risks:

Essential risks

- Credit Risks (default risk, migration risk);
- Market Risks (interest rate risk in the banking book, currency risk in the banking book of net open currency position)
- Liquidity risk;
- Operational Risk (including risk subtypes excluding model risk);
- Risk of credit concentration of claims denominated in one currency (subtypes of concentration risk)
- Risk of industry concentration (subtypes of concentration risk).

The Bank classifies the following risks as significant risks:

- Risk of credit concentration on a group of borrowers
- Liquidity concentration risk;
- Real estate risks;
- Reputational risk.

The Bank classifies the following risks as low risks:

- Credit concentration risk (subtypes of the credit risk);
- Country credit concentration risk
- Risk of concentration of types of collateral
- Risk of concentration of financial instruments
- Regulatory (compliance) risk
- Strategic risk

Types of risks irrelevant for the Bank:

- Securitization risk (subtype of credit risk);
- Insurance risks;
- Pension risks.

Key Risk Management System implies an aggregate of separate key risk management system for each particular risk type and Bank's Risk Management System that operates in compliance with Group standards in place.

Basis of Risk Management

- Law of Georgia on Commercial Banks' Activities, other legislative acts, regulatory documents and requirements of NBG
- Respective regulatory documents of VTB Group
- Basel Committee recommendations, as well as European banking supervision-related recommendations and standards

Bank's Risk Management Approaches are being developed based on regulatory requirements and Group standards, considering correlation of Bank's risk profile to take risks.

During the reporting period, the risk identification system operated in reduced mode due to the suspension of active credit, market and investment activities.

Risk Management Structure

Risk assessment and management procedure and other conditions are regulated by resolutions of Supervisory Board, Board of Directors and other respective committees (Credit Committee, Asset and Liability Management Committee, Risk Management Committee). Due to supervisory sanctions, these committees did not function in 2024.

As a result of the above, the bank's risk management activities during 2024 were carried out within the scope of existing risks.

The authorities of different managerial bodies of the Bank are given below

1. General Meeting of Shareholders

- Introduction of amendments and additions to the Charter of the Bank or approval of the Charter in a new edition.
- Making decisions on reorganization, termination of the Bank activities;
- Determining the number of members of the Supervisory Board, appointing its members, terminating at any time the powers of one or all members of the Supervisory Board, as well as making decisions on the payment of remuneration to members of the Supervisory Board.
- Approval of the external auditor of the Bank to conduct an audit and confirm the reliability of the annual financial statements.
- Determination of the number and par value of authorized shares.
- Making a decision to cancel unplaced shares.
- Making a decision on segregation or consolidation of shares.

- Full or partial annulment of shareholders' rights to pre-emption of securities in the event of an increase in the Bank's capital by issuing additional shares;
- Approval of the reports of the Supervisory Board and the Board of Directors;
- Acceptance or rejection of the proposals of the Supervisory Board on the distribution of profits;
- Making decisions on the buyback of shares in accordance with the law;
- Making decisions on the acquisition, alienation (or such related transactions) or encumbrance of the Bank's property, the value of which exceeds 50 (fifty) percent of the value of the Bank's assets.
- Approval of internal documents of the Bank regulating the activities of the General Meeting of Shareholders of the Bank, the Supervisory Board of the Bank.
- Making decisions on participation in litigation against members of the Supervisory Board or the Board of Directors, as well as appointing a representative for this process.

II. Supervisory Board

- Defines and coordinates the general policy of the Bank in regard to particular types of key risks and elaborated strategic directions for risk management within the Bank;
- Approves the Bank's risk and capital management strategy, including the list of high-level risk-appetite and risk-appetite metrics;
- Determines the system of authorised collegial risk management bodies for the purposes of risk management
- Makes decisions on risk management matters not falling within the competence of other authorised (subordinated) management body of the Bank;
- Reviews risk reports within the scope of its competence.

III. The Board of Directors

- Reviews the Bank's risk and capital management strategy, identifies the priority areas of the Bank's risk management activities;
- Submits recommendations to the Bank's Supervisory Board on the Bank's risk appetite, as well as the effectiveness of the Bank's risk strategies and policies, including the maintenance and allocation of capital to identified risks;
- Introduces a reasonable risk culture at all levels of the Bank;
- Evaluates the effectiveness of the risk management system in the Bank
- Monitors the implementation of effective measures to minimize risks.
- Approves regulatory and methodological documents in the area of risk, except for the documents that define Bank's policies and strategic directions;
- Makes decisions on risk management issues that are not within the competence of the Bank's Supervisory Board and other authorized bodies;
- Reviews risk reports within the scope of its competence.

IV. Credit Committee

- Makes decisions on risk bearing deals
- Discussing and making decisions on credit risk bearing other issues.

V. Assets and Liabilities Management Committee and Risk Management Committee did not function during 2024 due to the supervisory sanctions. If necessary, the functions of the mentioned committees were performed by the Board of Directors.

VI. The functions of Risk Department were focused on the management of the main and residual risks of the bank, fulfillment of statutory requirements, risk analysis and preparation of risk reports.

VII. Compliance Control and Financial Monitoring Department

- Contributes to the creation of an effective compliance risk management system;
- Develops basic requirements related to compliance risk management;
- Ensures the implementation of the system/program to combat money laundering and terrorist financing (ML/TF), including the development of internal policy-procedures, and monitoring of transactions, training/training of employees, compliance with the regime of international sanctions.
Taking into account the risk-based approach, ensures the management of ML/TF risks, including the policy of accepting customers, evaluation of products and services, as well as the identification of risk factors related to supply channels;
- Ensures effective management of the risk of impact on the bank by regulatory bodies, loss of the bank's reputation or risk of financial losses to the bank, which may be caused by non-compliance with legislation, rules and standards (compliance risks);
- Carries out ongoing monitoring and control of compliance (including ML/TF) risks and submits a report to the Bank's governing/collegial bodies on the management of compliance risks identified as a result of such control;
- Analyzes factors that may increase compliance risk and have a significant impact on the bank, such as the bank's business activities, the extent and importance of non-compliance with business activities and ethical standards, the number and importance of litigation and customer complaints/complaints.

VIII. Audit Committee

- Defines the bank's financial reporting approaches and policies on internal control issues, carries out the monitoring on current process of financial reporting and approves issued Financial Statements; carries out the monitoring and actively cooperates with both internal and external audits of the bank;
- Assesses the effectiveness of the external audit, presents opinion on the candidacies of external auditors, makes appropriate recommendations to the Supervisory Board regarding their candidacy, appointment, official salary or dismissal;
- Oversees the Bank's accounting policies and practices;
Considers third party opinions on the Bank's risk management overall framework, as well as on the effectiveness and structure of its internal control system;
- Ensures the adequacy of functions, the independence and mutual cooperation between internal and external auditors and their functional interoperability;
- Reviews a recommendation prepared by external auditors and monitors implementation by the BoD of appropriate measures to address the deficiencies.

The Bank establishes the control system over the operation of the risk management system. The system includes separate procedures for the monitoring of each major risk.

Information regarding the results of such monitoring is sent to the Bank's senior management and respectively authorised units of the Bank, to analyse the effectiveness of key risks management and take appropriate measures (to eliminate detected breaches, errors and deficiencies or to improve processes).

The key risks management procedures and methods are governed by internal documents of the Bank that are approved by the authorized collegiate body of the Bank.

9.4 Credit Risk

Credit Risk is defined as a risk of incurring loss due to non-performance, non timely performance or underperformance of the counterparty on contractual obligations undertaken in favor of the Bank

In particular, Credit Risk is associated with operations such as:

- Lending;
- Issuing guarantees, opening and confirming letters of credit;
- Purchasing debt securities;
- Purchasing contractual (demand) rights;
- Borrowing gold and securities;
- Selling (purchasing) financial assets in installments (delivering financial services)
- Carrying out trade operations on derivative Instruments;
- Leasing transactions;
- Factoring transactions.

During the reporting period, the above-mentioned operations were completely suspended. Only from March 2023, the supervisory authority allowed to restructure existing loans to a limited extent.

In this situation, the credit risk profile (structure) taken by the bank was determined by the credit requirements of the medium business corporate and small business clients, who were still provided loan service. The suspension of active lending activities led to a reduction in the use of risk management tools, methods and information technologies that the bank was actively applying before sanctions were imposed

Risk Assessment System

The universal approaches (standards) for assessing the credit risk of the Bank are as follows:

1) In terms of corporate credit risk assessment

For each significant type/class of a counterparty (defined under respective classification acting within the Bank) respective internal methods of counterparty creditworthiness assessment (rating) is applied to determine the counterparty's internal rating and its hypothetical probability of default for the next 12 months (probability of default). The Bank's internal rating system is subject to periodic review/confirmation in accordance with the rules established by the Bank.

2) In terms of retail credit risk assessment (suspended)

Risk Limitation and Minimisation Methods

The main areas (methods) employed by the Bank for the credit risk management are set forth in the Group's credit risk management standards.

The main instrument for limiting and controlling the credit risk level is a Credit Limits System /risk-appetite aggregated indicators. However the suspension of lending and other restrictions greatly limited the use of levers for managing limit system of the bank.

The Bank uses collateral, including the following main types of collateral, mortgages, sureties, bank guarantees, state and municipal guarantees, to reduce the credit risk taken under the Bank's unified and local approach. Availability of a collateral that satisfies Bank's requirement and its sufficiency are taken into account when determining terms and conditions for credit deal pricing, as well as during decision-making with regard to a particular credit deal.

Monitoring Procedures

The Bank performs monitoring of the loan portfolio within the scope of existing procedures.

To monitor the level of credit risk, the Bank's risk appetite and control values (target level, trigger, limit, all together or in either case, as appropriate) and standardised measures required to achieve risk are set by the control appetite indicators.

Internal Reporting

In order to keep the shareholders, creditors and other stakeholders informed about the Bank's financial condition and risk management system, the Bank regularly produces external reports in compliance with IFRS standards, including credit risk management issues.

The credit risk reports prepared by the Bank include the information required for the management of credit risk, the dynamics and structure of the loan portfolio, risk appetite (credit risk) indicators, reserve level, including, if necessary, the information on scheduled/performed measures for eliminating the violations of the prescribed limits.

Internal reporting is submitted to the management of the Bank and Head Office in accordance with established procedure.

9.5 Market Risk

Market Risk entails a risk of Bank's financial results deterioration as a result of disadvantageous changes to value of its assets and liabilities (payables/ receivables) incurred due to the impact of market indicators – risk factors (such as foreign currency exchange rates, interest rates, credit spreads, quotation of stocks and so on)

Depending on the nature of market risks assumed by the Bank and approaches to their management, the Bank's transactions are divided into either banking and trading book operations. In 2024 due to the known events the trading book transactions was not carried out.

Due to the complete termination of foreign exchange operations, the Bank performed only residual market risk management functions.

The functions related to market risk management were limited to the minimum tools, within the framework of which the risk appetite parameters, the norms of the National Bank and other requirements of the group were met

Risk Assessment Methodology

Market Risks are assessed based on following components:

- Interest rate risk assessment on banking book transactions that are sensitive to changes in interest rates;
- Currency risk assessment on banking book transactions that are sensitive to exchange rate changes.

Key parameters against which the interest rate risk can be assessed are the following:

- The sensitivity of the Bank's interest rate position towards changes in interest rates that are measured by (1) the amount of the decrease in the net discounted value of the interest rate position and (2) the amount of net interest yield in the event of an unfavourable parallel deviation of the yield curve by 100 basis points;
- The economic capital required for interest rate risk coverage – evaluation of currency position net discounted value reduction during possible disadvantageous change

The currency risk of the banking book is managed by the Bank based on approved regulatory and methodological documents ensuring the conformity of assets and liabilities currency with the limitations on the open currency position, including with the regulatory limits for the risk-appetite and open currency position.

Internal Risk Reporting

The reports on Bank's market risk is prepared by Risk Management Department with frequency regulated under internal regulatory and methodological documents of the Bank.

9.6 Liquidity Risk

Liquidity Risk shall be defined as risk of incurring loss by the Bank due to the latter's inability to fully and/or timely perform under its obligations.

Liquidity Risk Management implies an aggregate of Bank's asset and liability management activities targeted at maintaining current solvency of the Bank under condition of ensuring optimal correlation between liquidity risk level and profitability of transactions.

The restriction of active banking operations had a significant impact on the functioning of the liquidity management system, as the bank lost important liquidity management tools, such as short-term and long-term financial resources and other internal sources. As a result, the absolute amount of liquid assets was concentrated in counter cash.

In the conditions of excess liquidity, during 2024, all supervisory regulations and internal limits were met with a large excess.

9.7 Operational Risk

Operational risk shall be interpreted as a risk of Bank incurring loss due to inadequate and improper internal processes and systems, personnel violating them or impact of external factors

The definition above covers legal risk, but excludes strategic and reputational risks.

The guiding documents of the Bank in terms of operational risk management are: NBG Regulation on Operational Risk Management by Commercial Banks, documents adopted by the Basel Committee on Banking Supervision in the field of operational risk management, as well as respective regulatory and methodological documents approved by VTB Bank.

The operational activities of the Bank are based on the Regulation on Operational Risk Management, Regulation on Operational Risk Assessment Procedures, Instruction for collection of data regarding Compliance Risk Metrics and preparation of Operational Risk Report, Bank Business Continuity Policy (Regulation) and Business Continuity Plan framework documents.

Operational risk is associated with all products, activities, processes and systems, therefore effective operational risk management is one of fundamentals of Bank's operational risk management program.

Sanctions led to significant changes in operational management, as, on the one hand, the number and volume of risk-generating operations were reduced, on the other hand, the outflow of personnel employed in this field and the shortening of operational risk management tools led to the suspension of the development of a complete operational risk management system.

The bank's goals with respect to the operational risk management are:

- Detection, assessment and determination of the acceptable level of operational risk
- Ensuring implementation of timely measures to support acceptable level of operational risk
- Reduction of the probability of the bank's financial results from the realization of operational risk events;
- Control over the effectiveness of operational risk management;
- Ensuring compliance with legislation and regulatory requirements

Based on the objectives of operational risk, the bank decides such tasks as obtaining operational and objective information on the level of operational risk; qualitative and quantitative assessment (measurement) of operational risk level; Ensuring the operation and development of the operational risk management system, which responds to the normative and legal requirements in the field of operational risk management and control and minimizing the consequences of the realization of risk events. Ensuring the operation and development of the operational risk management system, which responds to the normative and legal requirements in the field of operational risk management and control and minimizing the consequences of the realization of risk events; analysis and assessment of the bank's operational risk at the level of products, processes and systems; Ensuring the operation and development of the operational risk management system, which responds to the normative and legal requirements in the field of operational risk management and control and minimizing the consequences of the realization of risk events..

The procedure for collecting data on risk indicators and forming the operational risk report is regulated in accordance with the relevant instructions.

The collection of information about the risk event and its related consequences is carried out continuously in the bank and covers all areas of activity

In order to control the level of operational risk, the following basic approaches are used in the bank, such as distribution of functions and responsibilities, limitation of powers, collegial decision-making, use of the principles of double control mechanisms; limitation of access to information within the framework of information security, use of multi-level protection of information; limiting access to tangible assets; outsourcing; Carrying out other relevant measures.

Risk-appetite

In terms of operational risks risk-appetite may be interpreted as an amount of loss the Bank is ready to endure in accordance with the particular strategy and key factors having significant impact on Bank's financial performance.

Risk-appetite benchmarks and respective calculation principles are elaborated at the Group level and later is allocated to the Bank. Supervisory Board approved operational risk benchmarks within the united framework of risk-appetite metrics.

Report On Operational Risk

is an integral part of Operational Risk Management Process and ensures **keeping respective management bodies up to date for proper decision - making. In this particular case, report on opartional risk** ensures transparency of the risk and makes operational risk management a day-to-day continuous process.

The Bank submits information on Operational Risks to the NBG on monthly basis in compliance with established form and procedure.

Business Continuity Plan (BCP)

The Bank has corresponding to its scale Business Continuity Plan that is comprised of Business Continuity Policy and Crisis Management Instruction.

Business Continuity Management implies aggregate of standards and procedures targeted at maintaining functioning banking business processes and their timely restoration to minimize material loss and avoid risks of market share loss, business loss, damaging reputation and facing legal liabilities.

The core objective of Business Continuity Plan of the Bank is to arrange and implement Business Continuity measures for guaranteeing Bank's Business Continuity and imminent restoration of business activities ceased as a result of unusual or emergency developments that may make carrying out core functions impossible.

The Purpose of Business Continuity Plan of the Bank is to establish clear general rules for cooperation between Bank units/ employees during unusual and emergency situations, as well as setting out Procedure for restoration of critical structural units to normal mode.

The Bank elaborates the list of scenarios and describtion of unusual and emergency situations and factors of everyday violation of operationg mode related to them. The bank handles the situation within the Business Continuity management framework.

During the financial year of 2024 no significant events associated with operational risk took place and the bank did not uncur operating loss.

9.8 Other risks

9.8.1 Compliance Risk

Compliance Risk Management implies managing the risks of legislative and regulatory sanctioning, incurring – financial losses or reputational damage that may arise from non-compliance with legislation, regulatory requirements and standards. Compliance Risk is an integral part of the banking risks, such as credit risk related to minimum capital requirements, quality of return on assets and allowance for potential asset losses and lending limits, market risk inherent in the general open currency position, annual business plan and the Bank's balance sheet and other associated risks.

The basic principles for the effective performance of the compliance system are the following: The Principle of independence – availability of independent structural compliance unit responsible for the coordination of compliance risk management within the Bank; Risk Based Approach – ensuring the compliance system through the operable and efficient allocation of resources.

Compliance Risk Management

For purposes of compliance risk management the Compliance Control and Financial Monitoring Department:

- Identifies potential and realised compliance risks;
- Classifies and assesses compliance risks;
- Elaborates and incorporates measures for management of identified compliance risks;
- Monitors the implementation and effectiveness of measures to mitigate the identified compliance risks and takes remedial measures (as needed);
- Ensures the Bank's compliance with relevant standards (ethical principles) of market conduct;
- Manages interest conflict;
- Researches and analysis, along with respective structural units of the Bank, factors that may inflate compliance risk and have significant impact on the Bank.

Compliance Risk Monitoring and Control

Compliance risk monitoring is targeted at elimination of compliance risk bearing violations (shortcomings) and implementation of comprehensive and timely measures by responsible structural unit for purposes of compliance risk management.

The Bank reviews results of inspections carried out by internal and external auditors, regulatory body or respective structural unit, as well as consequential remarks and recommendations and elaborates the plan for their elimination and takes steps to prevent them from reoccurring in the future.

The Bank has established the compliance risk self-assessment system, and potential/realised risk assessment system for the Bank's business/activities. The Bank determines KRIs and analyses them for the future prevention. The planning and management of compliance risk level monitoring/ adjustment measures is carried out on a quarterly/annual basis. Reporting system is in place.

9.8.2 Reputational Risk

Reputational risk is a risk that is caused by, inter alia, negative public statements about the Bank's activities or negative representations of the Bank. Reputational risk is based on the credibility of the bank by employees, clients, regulatory authorities and the public. Certain events can undermine the trust in the Bank and adversely affect its operations. It is therefore important that the Bank is protected against such events

Reputation risk factors

Reputation risk factors include noncompliance with legislative and supervisory requirements, nonobservance of business activity, professional ethical standards, repeated violation of contractual agreements with respect to creditors, depositors and other clients, lack of efficient system, which enables to minimise negative factor, related to conflict of interests, customers claims, supervisory sanctions, suits, and other action measures, the Bank's low rating assigned by International Rating Agencies and other registered organisations, international sanctions and restrictions set for the Bank, lack of effective means of combating money and terrorist -financing, shortcomings in Bank risk management affecting the Bank's reputation, implementation of high-risk activities by the Bank, high level of operational risk, weakness of internal control system and etc .

Methods of minimising reputation risk

- Creation of internal regulatory framework to manage the conflict of interests between Bank employees and customers and counterparties
- Continuous control over legislative and supervisory standards and requirements;
- Ongoing analysis of the impact of reputational risk factors on bank activities;
- Ongoing analysis and monitoring of customer relations-sensitive business areas from a public relations perspective
- Control over -financial and other types of published information, submitted to shareholders, clients and wide range of publicity, including ads.
- Control over -financial and other types of published information, submitted to shareholders, clients and wide range of publicity, including ads.

Roles and Responsibility of Bank Bodies and Structural Units

The Bank's Authorised Body (Supervisory Board, Board of Directors) ensures approval of the reputational risk management procedures, including reputational risk control and capital impact policies, reputational risk minimisation measures, monitoring and control of reputational risk, including in areas of operations that can have significant effect on the Bank's financial position

Roles and Responsibility of Structural Units of the Bank

The respective responsible units of the Bank ensure organisation of information disclosure to clientele, as well as to other stakeholders, collecting and analysing data containing reputation risk events, preparation of proposals for minimisation of reputation risk instigated by negative articles in the media and information posted online, formulation and management of effective media strategy, organisation and management of personnel matters, as well as taking measures for preventing other reputational risks

9.8.3 Strategic Risk

Strategic risk is a risk that together with other factors is instigated by the weak strategic planning within the Bank or poor execution, weak business decisions or failure of the Bank to respond to external changes. The strategic risk is also a risk of unfavourable changes in the performance of the Bank's activities, resulting from incorrect decisions of the Bank's management, including inadequate implementation of the decisions taken in elaborating, approving and implementing the development strategy, as well as from the failure to take into account changes in external factors

At this stage, the bank has not defined the main goals, management principles and ways of implementing strategic risk, due to the current situation, although the strategic risk management system developed in the past years is subject to immediate restoration, following the removal of the sanction against the bank

9.8.4 Model risk

Model risk - the risk of loss that may be incurred as a consequence of business decisions based on incorrect Model outputs (risk underestimation), due to errors in the development, implementation or use of such models, as well as due to data errors.

The Model life cycle includes the stages of development and approval, use, evaluation of effectiveness and introduction of changes to reduce risk. At each of those stages, the corresponding tasks of model risk are solved.

The Model Risk Management involves identification, assessment, monitoring and control of the model risk. The above activities also include the risk minimization measures.

The Bank forms a control system for the operation of the Model Risk management in accordance with the normative documents of the Bank, the Group and the regulatory body

9.9 Mitigation Measures

In order to reduce credit risk, the Bank makes use of collateral such as pledges, mortgages and third-party guarantees. The Bank's collateral structure is as follows:

Assets accepted as collateral (mln. GEL)					
	2024			2023	
	Amount	Share %		Amount	Share %
Cash	0.8	0.13%		3.3	0.50%
Precious metals and stones	0.1	0.01%		0.1	0.02%
Immovable property	432.0	67.24%		434.2	66.12%
Movable property	145.1	22.58%		157.3	23.96%
Collateral shares	56.1	8.74%		53.8	8.19%
Securities	7.9	1.22%		7.5	1.14%
Other	0.5	0.08%		0.4	0.06%
Total	642.4	100.00%		656.6	100.00%

The amount and types of collateral accepted by the Bank as security depends on counterparty credit risk assessment. The Bank establishes principles for acceptable types and appraisal parameters of collateral. Typically, a bank will request one or more liquid collateral during the loan approval process. Approaches to requested collateral depend on customer, product and business strategy. Minimum standards for acceptable types of collateral and approaches to their appraisal are determined by the Bank's security policy.

The policy sets forth acceptable for risk mitigation collateral types and appraisal criteria.

Requirements towards the collateral are based on factors such as bond structure, quality, market value and liquidity. The Bank periodically revises the list of acceptable collateral types.

List of collateral which the bank accepted as security for extending a loan are periodically reviewed by the bank. In cases where a loan is secured by a guarantee, the bank analyses the financial implications of the guarantor's activities.

In cases where a loan is secured by a guarantee, the bank analyses the financial implications of the guarantor's activities. The bank has developed requirements for each type of loan. The value of the assets pledged as collateral is determined taking into account a liquidity discount derived from their market value. The appraised value of the assets pledged as collateral must be sufficient to cover the cost of servicing the principal, interest, fees and collateral. The liquidity discount varies from 10% to 70% depending on the type of collateral.

When the loan is secured by a mortgage, the borrower has to insure respective asset.

It is the Bank's policy to sell the pledged assets upon realisation of the claim in accordance with the law and the Bank's regulations. Proceeds from sale of property will be used for full or partial repayment of outstanding debt.

9.10 External Credit Assessment Institutions

The Bank assesses capital and calculates capital components in compliance with the Procedure for Using Data of External Institutions for Credit Rating.

For the purposes of capital assessment the Bank relies on rating of below agencies:

- Standard & Poor's Corporation
- Moody's Investor Services
- Fitch Ratings

Ratings assigned by External Credit Assessment Institutions (ECAI) are applied to following asset classes:

- Central governments and central banks;
- Multilateral Development Banks;
- International organizations and institutions
- Commercial banks

Under Credit risk –The Standardised Approach the Bank uses rating grades of rating agencies recognized by the NBG, that are arranged according to NBG mapping and available in the tables below:

Table 1. Recognised long-term ratings and equivalent credit rating grades

Credit rating grade	Standard & Poor's Corporation	Moody's Investor Services	Fitch Ratings
1	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
2	A+	A1	A+
	A	A2	A
	A-	A3	A-
3	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
4	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
5	B+	B1	B+
	B	B2	B
	B-	B3	B-
6	CCC+	Caa1	CCC+
	CCC	Caa2	CCC
	CCC-	Caa3	CCC-
	CC	Ca	CC
	C	C	C
	D		D

Table 2. Recognised short-term ratings and equivalent credit rating grades

Credit rating grade	Standard & Poor's Corporation	Moody's Investor Services	Fitch Ratings
1	A-1	P-1	F-1
2	A-2	P-2	F-2
3	A-3	P-3	F-3
4	Others	Others	Others

Multiple assessments

- If there is only one ECAI rating in regard with particular demand, the latter shall be used to weigh the demand by the risk;
- If there are two ECAI ratings with different weights by the risk, the one with the highest risk weight shall be applied;
- If there are three ECAI ratings with different weights by the risk, the two with the lowest risk weight shall be selected and from them the one with the highest risk weight shall be applied.

10. About Remuneration

Remuneration Policy Disclosure Requirements

Determining terms and conditions for remunerating labor of CEO and other Board of Directors members, including salary envisaged under labor contract, payment schedule, variable components of remuneration and others fall under competence of the Supervisory Board.

As for the Employee Remuneration Policy (except for BoD members), systems and motivation models – those are within the scope of BoD competence. In particular, the Board of Directors approves Remuneration Fund, reviews and approves proposals pertaining improvement of remuneration system and other models of motivation, reviews assessments and reports of remuneration system monitoring bodies (both internal and external) and so on.

Remuneration Policy of the Bank prescribes guiding principles and general elements of labor remuneration.

Motivation and Labor Remuneration System is targeted at:

- Achieving strategic objectives set by the Bank corresponding to the present level of development and fulfilment of Key Performance Indicators that are used to assess mentioned achievements;
- Increasing performance, interest and performance awareness of the Bank employees

Remuneration System of the Bank is constructed on the following basic principles

- Transparency: full and clear introduction of used approaches and principles to each employee of the Bank
- Flexibility: ability to adjust Remuneration System to business development and changes to external market
- Dynamism: Constant improvement and development of the system
- Unity: performance of the Remuneration System as of a unity of interconnected elements
- Complex approach: employee performance evaluation
- Competitiveness: maintaining competitive remuneration and motivating qualified personnel for purposes of maintaining them/ attracting new professionals.

Fixed and variable remuneration are components of remuneration system of the bank

Remuneration System is being adjusted and improved in accordance with guiding principles and standards elaborated within VTB system, within the available budget limit

VTB Bank (Georgia) JSC. management is Supervisory Board members, CEO, Board of Directors members.

10.1. Components/elements of the remuneration system

10.1.1 Remuneration for the members of the Board of Directors consists of two components - fixed and variable remuneration.

a) fixed remuneration -a remuneration that is assigned to members of the Board of Directors for performing relevant functions and reflects the relevant professional experience and organizational responsibility of the director; the amount expressed in the monetary equivalent of a fixed remuneration is predetermined and unchangeable, not related to performance criteria, and the bank cannot reduce and/or cancel it. Fixed remuneration includes pension payments accrued on the fixed remuneration (if any)

b) Variable remuneration: bonus remuneration at the end of the year (hereinafter referred to as the “Annual remuneration”), which is not a guaranteed pay, the amount of which is determined based on the actual period of work (days) in the bank and an assessment of work efficiency taking into account performance evaluation results according to the main performance indicators during the reporting year (the period of formation of variable remuneration). The financial results of the bank’s activities for the corresponding period, approved in accordance with the Rules, are taken into account according to consolidated statements prepared in accordance with international standards.

10.2. Basic principles for calculating the annual bonus for members of the Board of Directors

10.2.1 Bonuses for members of the Board of Directors are paid in the reporting period (the period of formation of variable remuneration) based on the results of the evaluation of their performance, on the basis of an individually determined target bonus amount (calculation base), taking into consideration the following parameters:

- achievement of financial results planned by the bank;
fulfillment of key performance indicators of general banking activities (hereinafter referred to as “KPI”);
- fulfillment of KPI within the limits of responsibility
- Evaluation of a member of the Board of Directors by the Supervisory Council

10.2.2 The total amount of annual remuneration for members of the Board of Directors is defined as follows



where,

- The calculation base - is N times the director’s monthly salary, which is used to calculate his annual bonus. It is defined individually, on the basis of an employment contract, in proportion to the period worked.
- Marginal coefficient - an indicator by which an annual bonus pay/non pay is defined, in accordance with the bank’s achievement of the minimum mandatory level of financial results
- KPI assessment – assessment by member of the Board of Directors of performance results in general of banking activities and individual KPI.
- The assessment of the Supervisory Council is a corrective indicator calculated by the assessing party that qualifies the assessment of the performance of a member of the Board of Directors.

10.2.3 Marginal coefficient

The bank calculates the financial result (net profit/loss) according to IFRS. The rule for assessing the marginal coefficient is shown in Table 1.

Table 1

Financial result	Implementation of the plan according to the bank's financial results	Marginal coefficient
Profit	> 100%	1
	80-100%	(0,8 -1) Net profit fact/plan
	< 80%	0
Planned loss	$\leq 100\%$ (i.e. actual loss \geq lanned)	Defined by Supervisory Council (0,5-1)
	< 100% (i.e. actual loss > planned)	0

10.2.4 Key performance indicators (KPI)

A system of key performance indicators (KPI) has been defined for members of the Board of Directors, composition and weight of which are approved annually by decision of the Supervisory Council.

KPI for members of the Board of Directors should be based on the following principles:

- be transparent and quantifiable;
- must reflect a comprehensive description of the bank's activities
- must maintain a balance of performance indicators and indicators of fulfillment of the bank's strategic objectives;
- must enable the bank to consider significant risks and profitability, return on equity, the ratio of income and expenses;
- be a guide for the bank in terms of improving performance;
- KPI of the General Director must be related to the achievement of targeted level of performance of the bank, provided for by the bank's business plan;
- The main list of KPI should be sufficient, but not excessive (the weight of each KPI should not be less than 10%).

The methodology for calculating KPI should be defined by the Heads of subdivisions of the leading bank responsible for business planning and financial control, based on the available data source, taking into consideration the features of recording indicators. The list of KPI set for the reporting year (composition, weights and target indicators of KPI) is approved by the Supervisory Council. KPI include both bank-wide KPI and KPI within area of responsibility: quantitative/qualitative/project objectives.

The rules for assessing KPI for members of the Board of Directors are shown in Table 2.

Table N2

KPI		KPI - value	
		Actual	Used for calculation of bonuses (make allowance for KPI weight)
Quantitative, according to which the exceeding of the actual value of the indices over the planned indices is rated as outperformance,	Fact/plan	> 150%	150%
		80-150%	80-150%(equals to actual)
		< 80%	0%
Quantitative, according to which the exceeding of the actual value of the indices over the planned indices is rated as not performing perfectly,	2 –fact/planned	> 150%	150%
		80-150%	80-150% (equals to actual)
		< 80%	0%
Qualitative/ project objectives	Supervisory Council	0-100%	0-100% (equals to actual)

10.2.5 Evaluation of the Supervisory Council

Evaluation of Supervisory Council is a corrective indicator and is defined in the range of 80-120%, reflects a subjective assessment of the activities of the members of the Board of Directors, including the level of fulfillment of certain additional tasks/goals.

10.3. Procedure for granting annual bonuses

10.3.1 Annual remuneration for the members of the Board of Directors, calculated in accordance with Clause 10.2.2 of the rules herein, is calculated as follows:

10.3.1.1 Principle of deferment:

- For persons whose bonus does not exceed 100% of the annual fixed remuneration and the bonus amount does not exceed GEL 500,000 (equivalent in any currency), 40% will be deferred in accordance with Clause 10.3.1.2 of this article ;
- For those persons whose bonus amount exceeds 100% of the annual fixed remuneration, and/or bonus amount exceeds GEL 500,000 (equivalent in any currency), 60% will be deferred in accordance with Clause 10.3.1.2 of this article

10.3.1.2.1 If a director's variable remuneration is of a significant amount (exceeds 20% of the individual's annual fixed remuneration), the deferred portion of the variable remuneration during the earnings period is divided into three equal installments and granted during three years as follows:

- the first deferred part – no later than 1 year (t+1) after the end of the reporting year and no later than the end of

the first quarter of the second (t+2) calendar year;

- The second deferred part – no later than 2 years (t+2) after the end of the reporting year and no later than the end of the first quarter of the third (t+3) calendar year;
- the third deferred part – no later than 3 years (t+3) from the end of the reporting year and no later than the end of the first quarter of the fourth (t+4) calendar year;

10.3.1.2.2 If the director's variable remuneration is insignificant (does not exceed 20% of the person's annual fixed remuneration), then the deferred part can be paid in full until the end of the next (t+1) calendar year of the reporting year (t).

10.3.2 Both the immediate and deferred portion of the directors' annual bonus are paid in cash and are denominated in the currency in which the director's remuneration is defined, in accordance with the official exchange rate set by the National Bank of Georgia as of the last day of the reporting period on the basis of which the annual bonus is calculated

10.3.3 The maximum coefficient of the annual variable remuneration for the directors shall not exceed 100% of the fixed component of their annual remuneration, unless, in the presence of sufficient grounds, a higher coefficient than the maximum coefficient is set forth by the decision of the majority of shareholders in accordance with the requirements of the Code, provided that the annual variable remuneration does not exceed the annual 200% of the fixed component. The process of acceptance of the said resolution by the shareholders will be conducted making allowances for following requirements:

- a) Shareholders must act on the basis of the bank's recommendation on the reason for increasing the coefficient, and also have complete information about how many employees will be affected by the decision to change the coefficient, what their roles and responsibilities are, and how this change will affect the bank's capital. The Bank is obliged to inform about upcoming changes all shareholders in advance and in a timely manner
- b) At least 50% of the shareholders must be represented, and the decision must be made with the consent of at least 66% of those present. If the number of those present is less than 50%, the decision must be made with the consent of at least 75% of those present, and persons whose remuneration is affected by the change, in the case of holding shares with voting rights, must not participate in vote;
- c) The bank is obliged to immediately inform the National Bank about the planned change, as well as to provide it with information about the proposed new maximum ratio and justify that if the decision is approved by the shareholders, the new maximum ratio will not prevent the bank from meeting the requirements, including compliance with capital adequacy requirements. In addition, if this decision is made, the information must be immediately reported to the National Bank.

10.4. Adjustments to the deferred portion of variable remuneration

10.4.1 The Supervisory Council makes decision to define variable remuneration subject to the deferral arrangements of the reporting year for members of the Board of Directors (hereinafter referred to as “Deferred remuneration”), its components and terms of payment (in line with the requirements of Clause 10.3.1.2).

10.4.2 The Supervisory Council makes a decision on granting part of the deferred bonus of the previous period to members of the Board of Directors during three years from the date the decision on deferring is made

10.4.3 The Supervisory Council decides to adjust/non-pay the annual bonus or return part of it in the following cases:

10.4.3.1 Action of the members of the Board of Directors that caused significant losses to the bank; for the purposes of this subclause, a significant loss is a loss of 1% or more of a bank's total assets or a loss that would cause the bank to violate NBG requirements for total regulatory, Tier 1 or Common Equity Tier 1.

10.4.3.2 Member of the Board of Directors no longer meets the set compliance standards;

10.4.3.3 inappropriate behavior or significant misconduct of member of the Board of Directors, including violation of ethics/code of conduct or other internal rules;

10.4.3.4 significant deterioration in the financial indicators/individual business indicators of the bank; it may be a case where the bank violates NBG requirements for total regulatory, Tier 1 or Common Equity Tier 1.

10.4.3.5 significant violations/problems in the bank's risk management; if the bank suffers material damage as a result of intentional misconduct or gross negligence of a member of the Board of Directors, the bank is entitled to recover the paid remuneration in full. For the purposes of this subclause, a significant loss is considered to be a loss of 1% or more of the bank's total assets.

10.4.3.6 Significant deterioration in the bank's economic/supervisory capital adequacy standards. These errors/problems may be caused either by the participation of the director or by general exogenous economic factors (without the direct participation of the director). A case when a bank violates the requirements of the National Bank for the minimum amount of the total regulatory, Tier 1 or Common Equity Tier 1 may be considered a significant deterioration of standards.

10.4.3.7

Actions or gross negligence of a member of the Board of Directors that resulted in the imposition of sanctions on the bank according to the law/regulator.

10.4.3.8 . in cases provided for in subclauses 10.4.3.4, 10.4.3.5 and 10.4.3.6 of the Clause herein even if these cases are not caused by the direct participation of the Board of Directors, a reduction in deferred remuneration (malus) may be applied. It is also possible to return the entire amount of deferred variable remuneration (clowback), but this is only possible if the cases described in these clauses are caused by the direct participation of the director.

10.4.4 10.4.3 In addition to the cases specified in clause 10.4.3, the Supervisory Council also considers the following qualitative and quantitative characteristics for making a decision on the adjustment of the annual bonus:

10.4.4.1 Economic capital, profit, return on risk-weighted assets

10.4.4.2 Regulatory compliance, violations of risk limits, characteristics identified by internal control.

10.4.4.3 . Requirements of Article 84 of the Regulation “On Capital Adequacy Requirements for Commercial Banks”, approved by Order of the President of the National Bank of Georgia dated October 28, 2013 N. 100/04.

10.4.5 Leaving a position held by a member of the Board of Directors in the bank (at his own request or by agreement of the parties) does not constitute grounds for early termination of the deferment of variable remuneration or its adjustment, unless there are other grounds for adjustment (in accordance with clause 10.4.3).

10.5. Members of the Board of Directors are not entitled to use insurance related to variable remuneration and corresponding liability, as well as personal hedging strategies in respect of deferred variable remuneration in order to reduce risk.

10.6. For members of the Board of Directors who are as well employed at group enterprises, the remuneration policy set forth in this rule for remuneration paid for activity carried out in the bank must be applied at the group level.

Based on the actual/current situation of the bank, including restrictions on the bank's operating/credit activities, the specified rule for remuneration of members of the directorate does not apply at the moment.

Profit and expenses earned and incurred by the shareholder(s) (Parent Company) are given in thousands of GEL in the table below:

	2024	2023
Interest yield under Effective Interest Rate	-	-
Interest expenses	(8,148)	(8,642)
Commission expenses	-	-
Net income from deals in foreign currency	-	-
Other operational expenses	-	-

11. Annexes to Pillar 3 Report

Other metrics associated with the Bank's activities are available in separate annexes.

