PILLAR 3 ANNUAL REPORT

2020

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1. Summary

According to the Order 92/04 of the President of the National Bank of Georgia "Rule for Disclosure of Information by Commercial Banks within the Framework of Pillar 3", commercial banks are obligated to disclose the qualitative and quantitative information related to their risk profile and risk appetite, corporate governance and remuneration policy on an annual basis.

This Pillar 3 Annual Report (hereafter "the Report") is prepared in Georgian and English languages and is available on the web pages of TBC Bank and the National Bank of Georgia.

2. JSC TBC Bank's Management Statement

The Management is required to prepare the financial statements of TBC Bank JSC (hereafter the "Bank") for each financial year in accordance with the International Financial Reporting Standards (the "IFRS"). The annual financial statements present fairly the financial position and performance of the Bank for that period. The Management must not approve the financial statements, unless they are satisfied that they give a true and fair view of the financial statements of the Bank for that period.

The Management consider, that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Management also believe, that the financial statements have been prepared on the going concern basis.

In addition, the Management is required to prepare report in line with all the requirements of "Rule for Disclosure of Information by Commercial Banks within the Framework of Pillar 3" (Hereafter the "Report") approved by the Order #92/04 of the President of the National Bank of Georgia, on 22 June, 2017. The Report is prepared in full compliance with the internal processes and controls agreed with the Supervisory Board of JSC TBC Bank. The rule does not require the Report to be audited by external auditor as a result the information given in the report in unaudited.

The Report was approved by the Board of Directors on 26 April 2021 and signed on its behalf by:

Giorgi Megrelishvili

Chief Financial and Operating Officer

Nino Masurashvili

Chief Risk Officer

3. Background and Group Structure

JSC TBC Bank (the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank is a parent of a group of companies (hereafter the "Group") incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

As at 31 December 2020, the Bank had 149 branches within Georgia (2019:148; 2018:146)

TBC Bank Group PLC ("TBCG" or the "Company") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank Group as at 31 December 2020 (2019: 99.88%, 2018: 99.88%), thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943.

The following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2020, 2019, and 2018 the Group had no ultimate controlling party.

Shareholders	**% of ownership interest held as of 31 December**		
	2020	**2019**	**2018**
TBC Bank Group PLC	99.88%	99.88%	99.88%
Other*	0.12%	0.12%	0.12%
Total	**100.00%**	**100.00%**	**100.00%**

* Other includes individual as well as corporate shareholders.

As of 31 December 2020, 31 December 2019 and 31 December 2018, the shareholder structure by beneficiary ownership interest was as follows:

Shareholders	**Ownership interest % as of 31 December**		
	2020	**2019**	**2018**
Mamuka Khazaradze	8.64%	10.26%	13.54%
Badri Japaridze	6.00%	6.00%	6.77%
Institutional and retail investors	74.79%	68.70%	66.91%
IFIs	7.84%	8.04%	8.18%
Other shareholders	2.73%	7.00%	4.60%
Total	**100.00%**	**100.00%**	**100.00%**

TBC Bank JSC is a parent company for the following subsidiaries (hereafter the "Group"):

Subsidiary name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
	2020	2019	2018			
JSC TBC Bank	99.88%	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	N/A	N/A	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	100.00%	Ramat Gan, Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management

The Group has investments in the following associates:

Associate name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
	2020	2019	2018			
CreditInfo Georgia JSC	21.08%	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Central Securities Depository JSC	22.87%	27.70%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Stock Exchange JSC	17.33%	17.33%	N/A	Tbilisi, Georgia	2019	Finance, Service
Kavkasreestri JSC	10.03%	10.03%	N/A	Tbilisi, Georgia	2019	Finance, Service
Online Tickets LLC	N/A	N/A	26.00%	Tbilisi, Georgia	2015	Computer and Software Services

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.

Company name	Proportion of voting rights and ordinary share capital held as of 31 December 2020	2019	2018	Principal place of business or incorporation	Year of incorporation	Principal activities
TBC Invest International Ltd[1]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development[1] Fund	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC[1]	25.00%	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
Mobi Plus JSC[1]	14.81%	14.81%	14.81%	Tbilisi, Georgia	2009	Data monitoring and processing
GRDC	1.75%	1.75%	1.75%	Tbilisi, Georgia	2008	Investment Real Estate
Georgian Card JSC	0.15%	0.15%	0.15%	Tbilisi, Georgia	1997	Plastic Card Services
Georgian Securities Central Depositor	0.01%	0.05%	0.05%	Tbilisi, Georgia	1999	Finance, Service
JSC Givi Zaldastanishvili American Academy In Georgia	14.48%	14.48%	14.48%	Tbilisi, Georgia	2001	Education
United Clearing Centre	18.75%	18.75%	18.75%	Tbilisi, Georgia	2008	Clearing Centre
Banking and Finance Academy of Georgia[1]	16.67%	16.67%	16.67%	Tbilisi, Georgia	1998	Education
Tbilisi's City JSC[1]	1.80%	1.80%	1.80%	Tbilisi, Georgia	2007	Education
TBC Trade	100.00%	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Mineral Oil Distribution Corporation JSC[1]	9.90%	9.90%	9.90%	Tbilisi, Georgia	2009	Data monitoring and processing

4. Corporate Governance

According to the Rule N 92.04 of the President of National Bank of Georgia on principles of disclosure of information, in the framework of Pillar 3 by the commercial bank (hereinafter – the "Rule"), in existence of holding governance structure, the Banks should disclose the information about the board of the holding and it's relevant committees, together with the process of decision-making in relation to the Bank itself.[2]

Therefore, since TBC Bank Group PLC (hereinafter "the Company") is the parent company of the JSC TBC Bank (hereinafter "TBC Bank" or "the Bank") registered in the UK, the following chapter will consist the information about the Company.

4.1 Board of Directors of the Company

The governing body of the Company is Board of Directors. At the same time, the main subsidiary of the Company – TBC Bank is also governed by the Supervisory Board of TBC Bank. Therefore, there are two supervisory bodies within the Group, however the competences of the Board of Directors, Supervisory Board and their respective committees are effectively balanced which ensures that their functions are divided accordingly, whether it concerns the matters related to the Company, or TBC Bank.

The Supervisory Board of TBC Bank is comprised of 7 members (Arne Berggren – the Chairman), Tsira Kemularia (Interim Senior Independent Member), Maria Luisa Cicognani, Nicholas Haag, Abhijit Akerkar, Eric Rajendra and Nikoloz Enukidze. In accordance with the criteria set out in the Georgian Corporate Governance Code, for the term "independence", all the members of the Supervisory Board, except Eric Rajendra are considered as independent.

The Board of Directors of the Company is comprised of a Chairman (Arne Berggren), one executive Director (Vakhtang Butskhrikidze), five independent non-executive Directors Tsira Kemularia (interim SID), Maria Luisa Cicognani, Nicholas Haag, Abhijit Akerkar and Eric Rajendra and Nikoloz Enukidze, the

[1] Dormant

[2] Article 6, subsection "c" of the Rule

former Chairman, a non-executive director who is not considered as independent under the UK Corporate Governance Code.

In accordance of the UK Corporate Governance Code, each member of the Board of Directors should immediately inform the Board of Directors about any event, which might affect his or her independence.

The competence of the Board of Directors, together with other important matters, also includes development of Company's strategy, long-term goals, risk appetite, annual budget, changes in the Group's capital, share buy-backs, important acquisitions and mergers. The document, which regulates the scope of the competence of the Board of Directors, could be found on the website of the Company, on the following link: https://www.tbcbankgroup.com/about-us/governance/overview

Composition of the Board of Directors of the Company

Changes to the Board in 2021

Following the publication of certain amendments to the Georgian Corporate Governance Code on 9 February 2021, which introduced requirements that as a regulated entity in Georgia TBC Bank had to adopt, the Board re-confirmed its decision to maintain its "Mirror Boards" governance structure introduced on 13 August 2019. Under this structure, key aspects of the Board of Directors and the Supervisory Board of its main subsidiary TBC Bank are aligned. The Board of Directors continues to hold the view that this structure is the most appropriate approach to allow for efficient governance within the TBC group. Under the structure:

(i) The Board of Directors of the Company and the Supervisory Board of the TBC Bank have the same non-executive members;

(ii) The Chairman of the Board of Directors also serves as the chairman of the Supervisory Board of the TBC Bank;

(iii) The Senior Independent Director ("SID") of the Company also serves as the SID of the Supervisory Board of the TBC Bank; and

(iv) The Committee chairs of Company's Board of Directors also serve as the equivalent committee chairs of the Supervisory Board.

The amendments to the Georgian Corporate Governance Code will also affect the current composition of the Supervisory Board of the TBC Bank as:

(i) The chairman of the Supervisory Board must be independent; and

(ii) The period of time after which a member of the Supervisory Board shall be deemed to cease being independent has been reduced from 9 years to 7 years. That period should be calculated from the date of the relevant member's initial appointment to the Supervisory Board.

Nikoloz Enukidze has stepped down from the membership of the Remuneration Committee of the Board of Directors and the Supervisory Board of TBC Bank and Arne Berggren has replaced him as a member of the Remuneration Committee of the Board of Directors and the Supervisory Board. Nikoloz Enukidze continues to serve as a non-executive member of the Board of Directors and a member of the Supervisory Board of the Bank.

Arne Berggren has also stepped down from both, membership of the Audit Committee and as Chairman of the Risk Committee of the Board of Directors and the Supervisory Board of the TBC Bank. Abhijit Akerkar has been appointed as interim Risk Committee Chair. As of date of this report, Arne Berggren (current Chairman of the Board, who was considered independent on appointment) has been a member of the Remuneration Committee as well.

Tsira Kemularia has been appointed as interim Senior Independent Director for both Board of Directors and the Supervisory Board of the TBC Bank.

Nicholas Haag stepped down from his role as Chairman of both the audit committee of the Board of Directors and the Supervisory Board of the TBC Bank on 12 February 2021. He continues as a member of the Audit Committee of both Company and TBC Bank.

Maria Luisa Cicognani has been appointed as interim chair of the Audit Committee of the Board of Directors and the Supervisory Board of the TBC Bank with immediate effect. National Bank of Georgia granted temporary waiver (until the end of 2021) for the current Chair of the Current Remuneration committee to also chair Audit Committee of the Bank. The Bank through its Parent Company Nomination and Governance Committee is leading active search for the selection of a chair of the audit committee and the Group expects by the end of the year to have nominated and selected new permanent chair of the Audit Committee.

Following the amendments introduced to the Georgian Corporate Governance Code, and Board-level discussions relating to certain aspects of the Group's governance (including the Board of Directors' decision to maintain the "Mirror Boards" governance structure), a number of changes were made to TBC PLC's Board and the Supervisory Board of the Bank. Nikoloz Enukidze stepped down from his position as Chairman of the Board of Directors of TBC PLC and Chairman of the Supervisory Board on 1 March 2021 and Arne Berggren replaced him in both positions, having relinquished his role as Senior Independent Director.

Supervisory board member biographies

ARNE BERGGREN
Chairman

In March, 2021 Arne Berggren, was appointed as the Chairman of the Board (TBC Bank Group Plc) and Chairman of the Supervisory Board.

Mr Berggren has studied at a number of renowned academic institutions such as the Swedish Institute of Management, New York University Graduate School of Business, University of Geneva, University of Amsterdam and the University of Uppsala.

Arne Berggren currently serves as a member of the board of Bank of Cyprus and Piraeus Bank. Prior to his current roles, Mr Berggren served as a board member of Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd. He also has held a number of senior leadership and advisory roles at prominent financial intuitions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. During the Swedish banking crisis in 1991-1993,

Mr Berggren developed a strategic framework and a process for handling systemic banking crises and introduced a more effective tool for restructuring and portfolio management of complex NPLs. During the Asian crisis he assisted FRA in Thailand and FSC/ KAMCO in Korea to handle problem assets.

Mr Berggren was appointed to the Bank's Supervisory Board in July 2019 and to the Board as an independent non-executive Director in August 2019.

TSIRA KEMULARIA
Senior Independent Non-Executive Director

In March, 2021, Tsira Kemularia was elected as an interim Senior Independent Director for both the Board (TBC Bank Group Plc) and the Supervisory Board. She continues her current role as chair of Corporate Governance and Nomination Committee.

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance & Economics in 1999. Ms Kemularia has 21 years of international experience in financial services and risk management.

From 1999 to 2005, she held various market risk management roles both In Dynegy Inc. in USA and UK and at Shell International Trading & Shipping Ltd (STASCO) in London. From 2005 to 2008, she was Manager, M&A and Commercial Finance, in Group Treasury and Corporate Finance, at Shell International. From 2008 to 2011, she served as a Commercial Finance Manager, M&A in Group Treasury & Corporate finance, at Shell Exploration and Production Services (B.V) in Moscow, RF. Thereafter, she served as Finance Manager and a Country Controller at Shell Western Supply and Trading LTD in Barbados, West Indies from 2011 to 2016. From 2016 to 2019, Ms Kemularia was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. Since 2019, Ms. Kemularia is responsible for managing Internal Audit of Shell's global Trading and Supply organization, which is the world's biggest commodity trading and supply business.

From 2006 to 2010, Ms Kemularia was a board member of the British-Georgian Society. She was a chairwoman of the Georgian Community in the UK from 2004-2009. In 2011, she joined the board of Shell Western Supply and Trading Ltd. From 2016 to 2018 she served as a board member of British Gas General Partner Ltd and since 2016 she is a company nominated Trustee of the British Gas Trustee Solutions Ltd, a pension fund managed by Shell Group Treasury as a result of British Gas acquisition by Shell. Tsira Kemularia is a member of the Institute of Directors in London, UK, and is currently a pursuing chartered director programme.

Ms Kemularia was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018. She also serves as a Board's designated employee ambassador responsible for staff engagement.

MARIA LUISA CICOGNANI
Independent Non-Executive Director

In February, 2021 in addition to her current role as the Chairman of Remuneration Committee, Maria Luisa Cicognani has been appointed as the interim chair of the Audit Committee of the Board and the Supervisory Board.

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business Administration. She holds a master degree from the Int'l University of Japan in Japanese Economy and Business.

Ms Cicognani has extensive experience in the field of banking, financial institutions and corporate governance. She worked at the European Bank for Reconstruction and Development (London, UK) between 1993 and 2005. Subsequently, she was a director of Financial Institutions at Merrill Lynch and Head of Financial Institutions at Renaissance Capital in London and Moscow as well as a Managing Director of Mediobanca (London Branch). During 2014-2016, she served as a non-executive member of the board at Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg). She has been Chairperson of Moneta Money Bank (listed on the Prague Stock Exchange), NED of Arafa Holding (listed in Cairo Stock Exchange), and until recently member of the Board of UBI Banca (Italy) including as member of the Risk and of the Control Committees. She is currently Chairperson of Mobius Investment Trust, listed on LSE.

Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank

Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018. Maria Luisa Cicognani has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil her responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC.

ABHIJIT AKERKAR
Independent Non-Executive Director

In March, 2021 Abhijit Akerkar was appointed as an interim Risk Committee Chair.

Abhijit Akerkar graduated from the University of Pune, India with a degree in engineering. He holds an MBA from London Business School.

Mr Akerkar is an influential thought leader in Artificial Intelligence, in banking and has 25 years of cross-disciplinary global experience operating at a strategic level at the forefront of technology. He has gained advisory experience at McKinsey by engaging with leaders in taking strategic, operational, organisational, and investment decisions.

During 1993 - 2003, Abhijit held various management positions in Malaysia and India. He served at Maybank, the largest banking group in Malaysia, to digitally transform mortgage and trade finance. From 2003 to 2007, as the Director of Business Process Services in HCL Technologies, he launched a new line of business working directly with the Founder Chairman and the board. As an Associate Partner & Service Line Leader in Mckinsey & Co, between 2008-2016, Mr Akerkar was responsible for strategic and operational projects. He served companies around the world at the board and executive-committee levels across a diverse set of industries on corporate strategy, digital ventures, organisational restructuring, regulatory strategy, sustainability, and

M&A value enhancement. Most recently, until his appointment in July 2020, he was the Head of Applied Sciences Business Integration in the Group Transformation programme at Lloyds Banking Group. To gain efficiency, capital optimisation and growth across Retail, Commercial, and Insurance, he drove safe scaling and adoption of machine intelligence, aligned ways of working, and conquered the last mile by embedding analytics into decision-making processes.

Mr Akerkar has joined the Board of TBC Bank Group PLC as an Independent Non-Executive Director and as a member of supervisory board of JSC TBC Bank in July, 2020.

NICHOLAS DOMINIC HAAG
Independent Non-Executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in Modern Studies (Geography) in 1980.

Mr. Haag has 40 years of working experience in the financial services industry, with a significant emphasis on equity capital markets, corporate finance and technology banking. From 1980 to 1999 he held various capital markets and project finance roles at Barclays and Paribas Capital Markets. Between 1999 and 2001 he served at ING Barings as a managing director and global head of technology banking group. From 2001 to 2007 he served at ABN AMRO (London) as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; and from 2008 to 2012 he held positions of managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee at the Royal Bank of Scotland.

Since 2012, he was a senior independent adviser to the chairman of the management board and, from 2013 until November 2016, a member of the supervisory board of Credit Bank of Moscow. He also serves as a Non-Executive Chairman of Bayport Management Limited (pan-African and Latin American consumer lender) and since 2016 as a director of AS Citadele Banka in Riga. From 2012, he has acted as sole director of his own consulting company, Nicdom Limited.

Mr Haag was appointed to the Bank's Supervisory Board in 2013 and to the Board as an independent non-executive Director in May 2016. Nicholas Haag has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil his responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC. Until February, 2021 he held the position of the Senior Independent Director of the Board and the Chair of the Audit Committee.

NIKOLOZ ENUKIDZE
Non-Executive Director

Nikoloz Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996.

In 2006 – 2010 Nikoloz Enukidze served as the Chairman (and prior to that as Vice-Chairman) of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank in its successful IPO on the London Stock Exchange, the first ever IPO in London from the Caucasus region. He also serves as a member of the board of Yelo Bank in Azerbaijan. Prior to his roles at Bank of Georgia, Nikoloz worked at ABN AMRO Corporate Finance in Moscow and London, Concorde Capital in Kyiv and Global One Communications in Reston, Virginia.

Nikoloz Enukidze served as the Chairman of TBC Bank Group PLC and JSC TBC.

Bank since July 2019 and August 2019 respectively, until his resignation in March, 2021. Previous to that, Nikoloz was appointed as the independent member of the Supervisory Board of JSC TBC Bank in 2013 and as Senior Independent Director of the Board in 2016.

ERIC J. RAJENDRA
Independent Non-Executive Director

Eric Rajendra graduated from Brandeis University, earned his M.A.L.D. at The Fletcher School in 1982 (Tufts University, in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions.

Mr. Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. During 2005-2014, he held the position of Senior Advisor to the IFC and served as a board director or consulting adviser on selected emerging markets financial institutions where the World Bank Group had an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini (Paris HQ) and a Vice President at Electronic Data Systems (Plano, Texas); in both institutions, he was a key leader of the financial services practice.

During 2006-2014, he was a member of the Board of Directors of Locko Bank, where he was also the chairman of the Audit and Risk Committee. From 2010 to 2012, he was a member of the Board of Directors at Orient Express Bank and earlier was a member of the Board of Directors of ACLEDA Bank in Cambodia. He started his career as a commercial and investment banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company based in various offices in North America, Europe and Asia. Mr. Rajendra was first appointed to the Bank's Supervisory Board in 2010 and to the Board as an independent non-executive Director in May 2016.

Committees of the Board of Directors of the Company

There are four committees within the structure of the Board of Directors: Audit Committee, Remuneration Committee, Corporate Governance and Nomination Committee and Risk Committee. The competences of each committee are determined by their Policies. The Board of Directors mainly depend on the work of its committees. The Chairmen of each committee, by the end of each meeting, inform the Board of Directors in accordance of the importance of each topic discussed. Detailed functions of each committee could be found in their policies on the following link: https://tbcbankgroup.com/about-us/governance/committees/

In line with the Company's Mirror Boards Policy, Supervisory Board has the same committee structure including the same composition of the Committees.

Audit Committee

The Audit Committee is an advisory committee of the Board of Directors from which it derives its authority and to which it quarterly reports, to assist the Board of Directors in its oversight responsibilities with respect to audit, compliance/operational risk, and the implementation of financial reporting.

Its main responsibilities among other things, include supervision of internal control, compliance, internal audit, external audit, financial reporting and etc.

Risk Committee

The Risk Committee is responsible for taking decisions relating to the Company apart from those that are reserved for the Board of Directors. Namely, the committee carries out duties of reviewing and assessing of the Company's risk management strategy, risk appetite and tolerance, risk management system and risk policies; reviewing and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions;

annual self-assessment of the committee's performance and reporting of the results to the Board of Directors; reviewing of the key risk management framework and other policy documents and make recommendations to the Board of Directors for their approval.

Remuneration Committee

The Company's Remuneration Committee is constituted to determine and make recommendations to the Board of Directors the framework or broad policy for the remuneration as it is designated to consider.

The Remuneration Committee shall also oversee any major changes in employee benefits structures within the Company. The Remuneration Committee is also required to produce a report of the Company's remuneration policy and practices to be included in the Company's Annual Report and ensure each year that it is put to shareholders for approval.

Corporate Governance and Nominations Committee

The Corporate Governance and Nomination Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board of Directors.

The committee is required to give consideration to succession planning for the members of the Board of Directors and other senior executives; and make recommendations for new appointments of executive and non-executive members of the Board of Directors and on the membership of board committees to the Board of Directors. The committee will also oversee the annual review of board effectiveness.

Membership of board committees as at the 22 April 2021 is as follows:

Outside Directors	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risk Committee
Arne Berggren		Member		
Tsira Kemularia (SID)	Member		Chairperson	Member
Maria Luisa Cicognani	Chairperson	Chairperson		Member
Abhijit Akerkar			Member	Chairperson
Nicholas Haag	Member	Member	Member	Member
Nikoloz Enukidze			Member	
Eric Rajendra		Member	Member	

Member Chairperson

Division of Responsibilities

There is a clear division of responsibilities between the Chairman, the Chief Executive Officer and the senior independent member. As Chairman, Arne Berggren is responsible for leading the Board of Directors to ensure that the Board of Directors as a whole performs a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives. He also oversees the Board of Directors' decision-making processes. The Chief Executive Officer, Vakhtang Butskhrikidze, is responsible for the Company's day-to-day management and has the principal responsibility of running the Group's business. He is responsible for proposing, developing and implementing the Group's strategy and overall commercial objectives, which is done in close consultation with the Chairman and the Board of Directors. In addition, the Board of Directors has appointed, Tsira Kemularia as interim senior member, who provides a sounding board for the Chairman. This separation of responsibilities between the Chairman, the Chief Executive Officer and the senior independent non-executive Director ensures that no one individual has unfettered powers of decision-making. The full document detailing the division of responsibilities between the Chairman, the Chief Executive Officer and the senior independent member is available on our website at: https://tbcbankgroup.com/about-us/governance/overview/

Engagement Level

As mentioned, the topics of the Board of Directors' exclusive Competence include, among other important matters, the approval of the Group Strategy, Long-Term Goals, Risk Appetite, Annual Budget, Group Capital Changes, Share buy-back, Significant Acquisitions and / or Mergers, and Annual Reports.

The Board annually monitors the company's risk management and internal control systems in accordance with the requirements of the UK Corporate Governance Code. At the same time, each member of the Board of Directors is obliged to devote maximum time and attention to his / her duties, if necessary. This includes attending meetings of the Board of Directors and the relevant committee, as well as participating in conference calls, site visits, and effective e-mail communication. These directors are also required to familiarize themselves with the meeting materials in advance and devote additional time to group activities, especially during periods of high activity.

Board of Directors and Committee meeting attendance

In 2020, in response to the global pandemic the Board radically changed how it operated. In prior years the Board had met for two day review sessions, consisting of both Board and Committees meetings. After February 2020 the Board was unable to meet in person and operated by video conference call throughout the rest of that year and in 2021. This has resulted in a change of emphasis for Board meetings, where the normal review meetings have been supplemented by deep dives on topics of strategic interest, and matters requiring swift approval have been discussed in short calls.

In line with the Mirror Board structure utilized by the Board where directors of the Company are also members of the Supervisory Board of the Bank, all meetings are joint meetings of the Company and the Bank, apart from 29 meetings which were held which related to actions that needed to be taken by that entity alone.

Attendance at the various Board meetings in 2020 have been as follows:

Board of Directors Meetings

	Scheduled meetings	Meetings in relation to Covid-19	Meetings in relation to the strategy	Meetings in relation to FS and composition of the boards	Meetings in relation to policy approvals	Uzbekistan investments
Number of meetings (39)	**5**	**5**	**8**	**11**	**8**	**3**
Vakhtang Butskhrikidze (CEO)	5	4	8	11	8	3
Arne Berggren (Chairman)	5	4	6	10	8	3
Nicholas Haag	5	4	8	11	8	3
Maria Luisa Cicognani	5	4	8	11	8	3
Tsira Kemularia	5	4	8	11	8	3
Eric Rajendra	5	4	8	11	8	3
Nikoloz Enukidze	5	4	8	11	8	3
Abhijit Akerkar (after appointmet)	2/2	0/0	5/5	4/4	5/5	1/1

The Board of Directors' Committees meetings

	Audit Committee	Remuneration Committee	Corporate Governance and Nominations Committee	Risk Committee
Number of meetings	**9**	**11**	**11**	**14**
Arne Berggren	9	/	/	14
Nicholas Haag	9	11	11	14
Maria Luisa Cicognani	9	11	/	14
Tsira Kemularia	9	/	11	14
Nikoloz Enukidze	/	11	11	/
Eric Rajendra	/	11	11	/
Abhijit Akerkar[3]	/	/	/	/

The policy of appointing the members of the Board of Directors

The Group recognizes the importance of diversity in the composition of the Board of Directors and believes that balanced diversity can bring significant benefits to the Company's work. When selecting members of the Board of Directors and the Supervisory Board, as well as CEO and Deputy CEOs at the TBC Bank level, it is important for each member to bring diverse knowledge, culture and a different vision to the Board of directors, as well as the Supervisory Board, which also improves the quality of decision-making. The group continues to nominate candidates for relevant positions based on their achievements and required experience.

The relevant skills matrix is used in the process selection of the members of the Board of Directors and Supervisory Board to ensure that there is a representative with all the necessary knowledge and experience on the board. This aims to promote the effective functioning of the Board of Directors and Supervisory Board.

How does the Board monitor its performance

In 2020 the Board undertook an internal evaluation of its performance conducted by the Company Secretary under the supervision of the Governance and Nomination Committee (CGN). The format followed was similar to that used in 2019, and the individual directors completed a questionnaire seeking their views on how the Board had operated and how they assessed its performance; and that of the various board committees. Once completed the consolidated questionnaires were considered at three levels: (i) at a CGN Committee; (ii) between the Chairman of the CGN Committee and the Chairman of the Board; (iii) and at a full board meeting. Overall Board and Committee performance was deemed to be satisfactory.

At a meeting in February 2021 the Board of Directors agreed on a relevant action plan.

Term of membership of the Board of Directors and the Supervisory Board

In accordance with the requirements of the UK Corporate Governance Code, the members of the Board of Directors are re-elected annually for a term of one year at the General Meeting of Shareholders of the Company. According to the legislation of Georgia, the members of the Supervisory Board are elected for a term of four years.

[3] Abhijit AKerkar was not a member of any committee during 2020; Therefore he attended the meeting as an observer.

Annual General Meeting

The last Annual General Meeting ("AGM") of the Company was held on its registered office in London. 71.43% of total voting rights were exercised by shareholders. All resolutions put to shareholders were passed with votes in favors ranging from 85.62%% to 100.0% of the votes cast.

The 2021 AGM Notice will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our investor relations website: www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our investor relations website www.tbcbankgroup.com.

Directors' conflicts of interests

The Company, in accordance with the requirements of the Companies Act 2006 and the Company's articles of association, requires members of the Board of Directors to declare actual or potential conflicts of interest that could interfere with the interests of the Company. The Directors are required, prior to the Board meetings, to declare any conflict of interest they may have in relation to the matters under consideration and, if so, abstain from voting and decision-making, in relation to the matter in question.

Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of any potential or actual conflicts.

Shareholders' rights

None of the ordinary shares in the capital of the Company have special rights in relation to the governing the Company. One ordinary share means only one vote. In accordance with the company's charter and current legislation, there are no restrictions on the transfer of shares, except:

- Restrictions on insider transactions that may be imposed from time to time by law or regulation;
- Share Dealing Code, according to which directors and named employees require appropriate consent to trade in shares.
- In the event that a person interested in the Company's shares was notified of the disclosure of the information and that person did not provide the Company with information related to the shares;
- The Group's senior management compensation system, under which the system participant (as defined in the document itself) is given limited bonus shares, the right to dispose of which depends on the condition of continuing employment with the group and compliance with the relevant provisions within defined number of years.

All employees (including directors) who are considered as insiders by the Company meet the requirements set out in the Group Share Dealing Code. Restrictions on the exercise of voting rights do not apply unless the company is legally authorized to impose such restrictions (for example, by statute if the value of the shares is not paid by the shareholder despite the company's request or if the shareholder breaches any obligation to the company). The Company is not aware of any agreement between the shareholders that may impose restrictions on the transfer of shares or voting rights.

4.2 Management Board of JSC TBC Bank

Management's Biographies

VAKHTANG BUTSKHRIKIDZE
CEO

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

He served as a member of the Supervisory Board from September 2016 till April 2018. He is also a member of the supervisory board of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council.

Mr Butskhrikidze has been honoured with several prestigious awards, including "Best Businessman of the Year" award by Georgian Times Magazine and in 2001, "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award, CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019 he won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

GIORGI MEGRELISHVILI
Deputy CEO, Chief Financial Officer and Chief Operating Officer

Giorgi Megrelishvili joined TBC Bank as a Deputy CFO starting from March 2020.

Mr Megrelishvili became member of JSC TBC Bank's Management Board in October 2020, occupying the position of a Deputy CEO/CFO, COO of the Bank.

Before joining TBC Bank, Giorgi was Director, Head of Capital Risk and Stress Testing at Natwest Markets N.V. in Amsterdam, Netherlands. Prior to that, Mr Megrelishvili held various senior positions at Barclays Bank in London between 2008 and 2019. From 2008 to 2010, he was part of MBA Global Leaders Programme with rotations as a Head of Strategic Planning for Barclaycard UK and as an Associate Director for Barclays Corporate International Credit Risk, Business Support & Recoveries. From 2010 to 2014 he worked at Barclays Treasury as a Vice President of Capital Management and Later as a Director, Head of Internal Large Exposure. From 2014 to 2016 he served as a Director, Head of Central Planning at Barclays Finance. From 2016 to 2019 Mr Megrelishvili was Barclays Bank PLC Solo Capital and Leverage Management Lead at Barclays International Treasury.

In his earlier career, starting from 1998 to 2007, Mr Megrelishvli held various senior managerial positions including CFO of several Georgian organisations.

Mr Megrelishvili obtained an MBA from the University of Cambridge Judge Business School in 2008 and graduated with honours. He completed the undergraduate degree at European School of Management, ESM-Tbilisi with a degree in Business Administrations.

GEORGE TKHELIDZE
Deputy CEO, Corporate and Investment Banking

Following the structural changes in management board, starting from January 2021, George assumed responsibility for Wealth Management business and TBC Leasing.

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. Following acquisition of Bank Republic and creation of Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George overtook the responsibility for the CIB. George has more than 15 years of experience in financial services.

Prior to joining TBC Bank, George worked for Barclays Investment Bank, where he held the position of vice president in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an associate director in Barclays debt finance and restructuring teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions.

In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company during 2000- 2007, where he also served as chief executive officer.

George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and graduate diploma in Law from Tbilisi State University (2000).

NIKOLOZ KURDIANI
Deputy CEO, Marketing, Payments and Space

Following the structural changes in the management board, starting from January 2021, Nikoloz has been appointed as the chairman of TBC UZ and Payme and transferred his duties as lead of MSME Banking to Tornike Gogichaishvili. Nikoloz remains a Deputy CEO of the Bank and continues to lead marketing, payments and Space as well as assumed responsibility for international expansion.

Nikoloz joined TBC Bank in 2014 as a Deputy CEO in charge of Microbanking and CEO of Bank Constanta. After the merger with Bank Constanta in 2015, he became lead of Marketing and MSME banking. In addition, since 2018 Nikoloz has been leading the digital banking platform Space. In 2020 his duties were further expanded to include the payments business.

Nikoloz has more than fifteen years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Nikoloz was managing director at Kaspi Bank, a leading retail bank in Kazakhstan.

Earlier in his career, he served as head of the retail banking division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking.

Between 2008 and 2010, Nikoloz held the position of senior sales support expert at the CEE retail division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was head of the retail division of ATF Bank, UniCredit Group in Kazakhstan.

Nikoloz obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr University Bochum in Germany and the Caucasus School of Business.

TORNIKE GOGICHAISHVILI
Deputy CEO, Retail Banking and MSME

Following the structural changes in the management board, starting from January 2021, in addition to his current responsibilities, Tornike assumed the duties of the lead of MSME banking business from Nikoloz Kurdiani.

Tornike joined TBC Bank in 2018 as Chief Operating Officer and deputy CEO following 20 years of financial services and operations management experience. In 2020, Tornike was appointed to lead the retail banking business of the Bank.

Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010, Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia).

Between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004.

Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

NINO MASURASHVILI
Deputy CEO,
Chief Risk Officer

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002.

Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. In 2006 Nino was appointed as a deputy CEO and was in charge of retail banking until 2008. In addition, from 2008 to 2016 she assumed responsibility for MSME banking. Between 2016 and 2020 she served as a lead of retail banking. In 2020, Nino was appointed as the Chief Risk Officer of the Bank.

Between 2006 and 2008, Nino was the chairman of the supervisory board of UFC. During 2011-2015 she also held a position of a member of the supervisory board of Bank Constanta until its full merger with TBC Bank. During 2011- 2016, Nino has been a member of the supervisory board of TBC Kredit. During 2016-2020, Nino served as a member of the supervisory board of TBC Pay.

In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995, and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group.

Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

The Bank's Management Board Responsibilities

Deputy CEO, Chief Financial and Operating Officer

The Chief Financial and Operating Officer (CFO/COO) reports to the Chief Executive Officer and to the Supervisory Board and has a strategic role in the overall management of the Bank. The CFO/COO has the primary responsibility for planning, implementing, managing and controlling all finance and back office related activities. These include investor relations and fund raising, treasury activities, financial analysis, strategic planning and budgeting, financial accounting, regulatory reporting, taxation and all other relevant matters as well as cash management, loan administration, correspondent banking, procurement, logistics, collateral management and appraisal and cash center.

Deputy CEO, Corporate and Investment Banking

The Director of Corporate and Investment Banking reports to the Chief Executive Officer and to the Supervisory Board and assumes an important role in the overall management of the Bank. He has primary responsibility for planning, implementing, managing and controlling of the Bank's corporate and investment business. The Director of Corporate and Investment Banking manages the division to the end of provision of the wide range of financial services to its clients. Activities include lending, clearing, investing deposits as well as organizing specialized products for clients with high turnovers, such as financial institutions, major companies and commercial state companies.

Deputy CEO, Marketing, Payments and Space

The Director of MSME, Marketing, Payment and Space Banking reports to the Chief Executive Officer and holds the primary responsibility for designing and delivering the strategy for the Bank's MSME business, its product range, designated market, payment processes and space banking. The MSME, Marketing, Payment and Space Banking Director is hence responsible of developing new product and service delivery channels as well as planning and managing business activities for the MSME segment, such as sales, service quality, profitability, risk, branch operations, digital and other channels and MSME reporting, budgeting and analysis.

Deputy CEO, Retail Banking and Micro&Small and Medium Sized Entities (MSME)

The Director of Retail Banking reports to the Chief Executive Officer and holds the primary responsibility for designing and delivering the strategy for the Bank's retail business, its product range and designated market. The Retail Director is hence responsible of developing new product and service delivery channels as well as planning and managing business activities for the retail segment, such as sales, service quality, profitability, risk, branch operations, digital and other channels and retail reporting, budgeting and analysis.

Deputy CEO, Chief Risk Officer

The Chief Risk Officer (CRO) reports to the Chief Executive Officer and to the Supervisory Board. The CRO holds the primary responsibility for managing the Bank's risk management-related activities, including risk identification, measurement, mitigation, monitoring and reporting.

The following committees are functioning at the Bank's Management Board level that assist the Management in day to day management:

Committee Member	Managing of Conflict of Interests Committee	Information Security Steering Committee	Assets and Liabilities Management Committee (ALCO)	Management Board Risk Committee	Operational Risks Committee
CEO	X	X	X	X	X
CFO/ COO			X	X	X
CIO		X			
CRO	X	X	X	X	X
Deputy CEO, Retail and MSME			X	X	X
Deputy CEO, Marketing and Payments and Space					X
Deputy CEO, Corporate and Investment Banking			X	X	X
Head of Operational Risks		X			X
Head of Compliance Risk Department	X	X			X
Head of Compliance Risk and Control Unit	X				
Head of Analytic Department of Security Service		X			
Head of Information Security		X			X
Head of Financial Risk			X		
Head of Debt Capital Markets			X		
Head of ERM			X		
Head of Strategic Planning and Budgeting			X		
Head of Treasury			X		
Head of IT Operations		X			

5. Bank Strategy

We have a customer-centric business model focused on providing the best customer experience in servicing the everyday needs of our clients. Our strategy is centered on the core principles of sustainable development, digitalization, innovation and efficiency, and is designed to create value for all our stakeholders.

In light of the COVID-19 pandemic, we reviewed our strategic priorities in March, 2020 given the increased pressure on capital and people, as well as emerging opportunities. It was agreed that, in line with our vision of making people's lives easier, our main focus for the year would be supporting our customers by leveraging our market-leading digital capabilities, advanced data analytics and providing superior customer experience. In parallel, we have been safeguarding our colleagues by providing them with a safe working environment and, where possible, enabling them to work remotely. We have also continued to roll out our agile transformation project across the company, since it helps to develop such skills as autonomy, responsibility and flexibility, which proved to be crucial during the crisis.

In terms of financial measures, we have prioritized prudent management of our capital and liquidity positions, proactive management of our asset quality, as well as cost optimization. We have also concentrated our efforts on maintaining sound revenue streams despite the economic slowdown by giving careful consideration to our customers' needs and offering them the most relevant products and services at suitable prices.

Our 4 key strategic priorities

1. Creating a market leading digital experience

We continue to harness our best-in-class digital capabilities to create end-to-end digital experiences for our customers. This year, we enriched our internet banking applications for retail and business customers with a number of new, useful features and added several upgrades to our retail mobile app. In addition, we rolled out a number of new digital lending platforms for our retail customers, which are very user-friendly and help people to get a loan in a simple and fast way. Another important development was the introduction of a brand new mobile banking app for businesses. This app features a similar interface to our award-winning retail mobile banking application and is also equipped with specifically created upgrades to meet the needs of business owners. On the corporate side, we launched a digital platform for factoring, which significantly simplifies the process for all parties involved. Furthermore, we continue to enhance our digital experience by introducing new digital payment solutions and more closely integrating our digital channels with our core banking products and services.

In parallel, in order to support our digitalization efforts, we have continued to strengthen our in-house IT competences and architecture by investing in the newest technology, developing IT talent and updating our legacy systems with modern technologies, as well as increasing the automatization of internal processes.

2. Utilizing our advanced data analytical capabilities

We aim to strengthen our leading position in the country through enhancing our advanced analytical capabilities. This will help us to build more appealing, personalized, timely and effective value propositions in different touch points. This, in turn, will lead to improved margins and an increased wallet share across all segments. For this purpose, we continue to follow our 3-year analytical roadmap, which has been developed in 2018, with the support of the world's leading consultant and is comprised of 23 data analytical projects across the bank and targets to generate an extra GEL 100 million annual net profit by 2023. In 2020, we successfully rolled out several projects in retail, corporate, MSME and risks departments, which were mainly aimed at improving our customer centricity.

In parallel, we continue to build a competence center that will unify all business data and analytical capabilities and will enable us to create a competitive advantage. Within our data analytics academy "Avalanche", we have conducted various trainings for our dedicated team of 50 employees in order to keep abreast of new technological developments in this field. Moreover, in June 2020, we conducted TIDA (Tbilisi International Data Analytics Conference), the first business data and analytics conference in the Caucasus, to attract new talent and learn from the world's industry-leading experts. The event attracted over 400 attendees rom over 100 companies and 25 industries. In addition, to raise awareness about the importance of data analytics across the company and get a better understanding of business needs, our data analytics specialists regularly meet with representatives of different departments and present their work. This year, we also developed Big Data multi-tenancy technology capabilities to enable advanced analytics within TBC Bank.

3. Delivering superior customer experience

We aspire to become even more customer-centric and provide the best customer experience in the country. This is becoming more and more challenging since customer demands and expectations are increasing. We have therefore come up with truly innovative products and services that are relevant, personalized, simple and adequately priced. In doing so, we listen carefully to our customers' feedback through various surveys and focus groups, as well as utilize our advanced digital and analytical capabilities to create the most up-to-date and suitable offers. In parallel, we are polishing our digital channel experience through upgrading our branch design, introducing modern co-working space for our affluent customers and enhancing our digital banking with new features. We are also streamlining our internal processes to decrease "time to market" and "time to yes" for our products. Given the critical importance of fostering a customer-centric culture, we have updated our incentive system for frontline staff and carried out different internal promotional events and celebrations for important customer-centricity projects. Furthermore, we conduct on regular basis a "voice of the internal customer" survey, which allows each employee to assess the quality of service of other departments, which ultimately has an impact on external customer service.

4. Transforming ways of working

We strive to create a corporate culture that enables the transformation and agility of the group. The ability to quickly and efficiently reconfigure strategy, structure and processes in order to adjust to new realities is becoming essential in today's highly dynamic and challenging world. The COVID-19 pandemic proved that established working practices can collapse overnight and that businesses need to find new ways to survive.

Naturally, this comes down to corporate culture and the readiness of people to embrace change rather than resist it. We firmly believe that our agile culture played an important role in helping us to quickly transform our working practices during the pandemic with minimal disruption to our daily operations. Therefore, we have continued to expand our agile structure to more departments within the Bank, as well as fine-tune agile working practices in the departments that have already embraced it. By the end of the year, around 86% of headquarter delivery functions* have become part of the agile transformation process, as well as some parts of the support functions including finance and risks. Next year, we plan to add more support functions to the agile transformation process.

At the same time, maintaining a high team spirit and caring about our employees' wellbeing remained at the top of our agenda and we carried out various initiatives in this regard, the most important of which was the introduction of remote working practices for back office employees and call center employees, while ensuring the full safety of our front office employees during the pandemic.

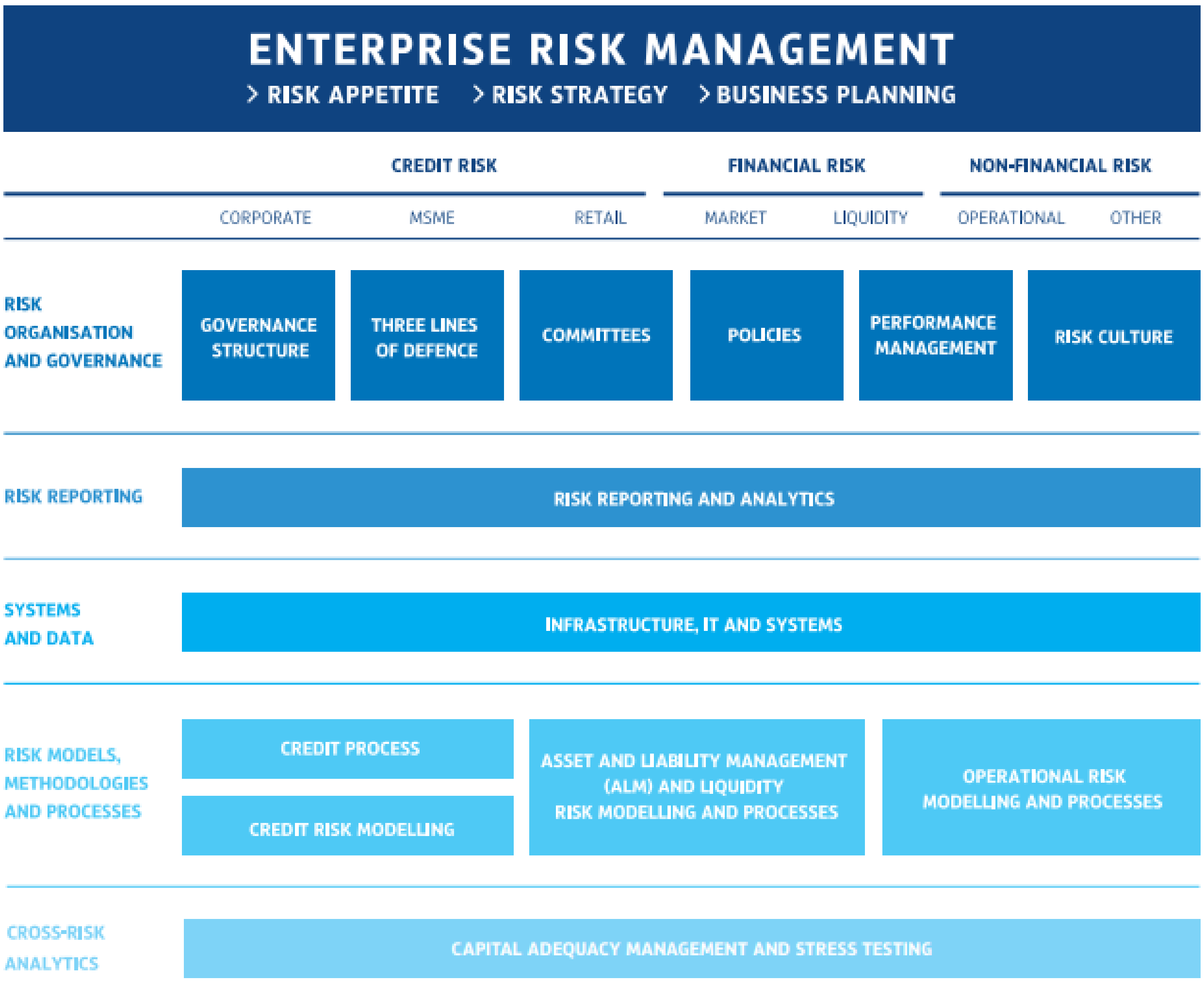
* HQ delivery functions include product development, IT, segment management, central sales management, marketing, excluding support functions such as HR, Finance, Legal, Risk, Compliance, Accounting, etc.

6. Risk Management

Risk Management Framework

The risk management framework incorporates all necessary components for a comprehensive risk governance. It is comprised of the enterprise risk management, credit, financial and non-financial risk management, risk reporting and supporting IT infrastructure, cross-risk analytical tools and techniques such as capital adequacy management and stress-testing.

The diagram below illustrates the risk management framework:



Risk Governance

The Bank conducts its risk management activities within the framework of its unified risk management system. The involvement of all levels of governance, the clear division of authority, and the effective communication between the different entities facilitates the accuracy of the Bank's strategic and risk objectives, the adherence to the established risk appetite, and the sound risk management.

The Bank's governance structure ensures an adequate oversight and accountability, as well as a clear separation of duties. The Supervisory Board hold the joint overall responsibility to set the tone at the Bank's top and monitor the compliance with the established objectives, while the Management Board governs and directs the Bank's daily activities.

The Supervisory Board's oversight is coupled with the permanent involvement of the senior management in the Bank's risk management and the exercise of top-down risk allocation by the enterprise risk management function. This ensures a clarity of the risk objectives, a constant monitoring of the risk profile against the risk appetite, and a rapid response and actions to address a prompt escalation of risk-related concerns.

The risk governance structure consists of two board levels: the Supervisory Board and the Management Board, each with their dedicated risk committees. The Supervisory Board and the Bank's senior management govern the risk objectives through the Risk Appetite Statement (details about Risk Appetite Framework are given in the TBC Bank Group Plc's annual report for 2020).

The Supervisory Board features two committees:

- **The Risk Committee** supervises the risk profile and risk governance practice within the Bank;
- **The Audit Committee** is responsible for implementing key accounting policies and facilitating both internal and external auditor activities.

The Management Board comprises of four committees:

- **The Risk Committee** was established to guide the Bank-wide risk management activities and monitor major risk trends in order to ensure that the risk profile complies with the established risk appetite;
- **The Operational Risk Committee** takes decisions related to the operational risk governance;
- **The Assets and Liabilities Management Committee (the ALCO)** is responsible for the implementation of asset-liability management policies;
- **Information security committee** is responsible for managing the security of the Bank's IT systems.

The individual risks' daily management is based on the "three lines of defence" principle. Business lines are the primary risks' holders. Risk teams act as the second line of defence by sanctioning transactions and developing tools and techniques for risk identification as well as the required analysis, measurement, monitoring and reporting.

The committees established at the operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority based on the "four-eye" principle. All new products and projects pass through risk teams to ensure risks are comprehensively analysed. These control arrangements guarantee that the Bank makes informed decisions that are adequately priced and that no risks exceeding the Bank's established targets are taken. Dedicated teams manage credit, liquidity, market, operational and other non-financial risks.

Apart from these risk teams, the risk governance includes the centralized Enterprise Risk Management (ERM). The ERM Department is tasked to ensure the effective development, communication, and implementation of the risk strategy and risk appetite across the Bank. Its function facilitates cross-risk activities such as aggregation, analytics and reporting and also addresses issues that are not specific to a single type of risk. Accordingly, the ERM complements the role of other risk actions to ensure the coverage of key risk activities and responsibilities and builds capabilities in a centralised team.

The Bank's strong and independent risk-management structure enables to fulfil all required risk management functions within the second line of defence by highly skilled professionals.

In addition to the risk teams subordinated to the Chief Risk Officer, the Compliance Department reports directly to the Chief Executive Officer and is specifically in charge of anti-money laundering and compliance risk management.

As the third line of defence, the internal audit department is responsible for providing an independent and objective assurance, as well as recommendations, to the Bank about how further improve operations and risk management.

Key Risks

The Bank's performance may be compromised by adverse developments in the economic environment, particularly due to the COVID-19 pandemic

A further slowdown in economic growth and the delayed recovery in Georgia due to the COVID-19 virus containment taking longer than expected or the emergence of other shocks, will likely have an additional adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Bank's portfolio quality and profitability, and would also impede portfolio growth rates. Negative macroeconomic developments could compromise the Bank's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in the neighboring countries and main trading/economic partners could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

According to the preliminary estimates of National Statistics Office of Georgia (Geostat), GDP decreased by 6.2% in 2020. Going forward, in the baseline scenario, considering the impact of prolonged lockdown as well as Geostat's significant downward revision of Q2 and Q3 GDP indicators, based on TBC capital calculations, economy is estimated to recover by 4.0% in 2021. According to the IMF's latest projections[4], Georgian economy is forecasted to grow at 3.5% in 2021 before the growth accelerating to 5.8% in 2022. The negative impact of the COVID-19 pandemic was also evident on the GEL exchange rate. Throughout 2020, the GEL real effective exchange rate depreciated by 7.4%. The US$ strengthened against the GEL from 2.87 to 3.28, or by 14.3%.

By the end of 2020, despite a weaker GEL, consumer prices went up by just 2.4%, which can be primarily explained by the government subsidy programme for household utilities. Throughout 2020, the NBG decreased its policy rate from 9% to 8%. On March 17, 2021, NBG decided to increase the policy rate by 50 basis points to 8.5%, considering inflation pressures substantially above-target.

In addition to use of the interest rate policy tool, in 2020 the NBG also intervened heavily in the FX market. In total, the central bank sold US$ 873.2 million. The interventions were primarily financed through external government borrowing. As a result, fiscal deficit which stood at around 9.1% of GDP in 2020, predominantly financed externally, was a major source of financing for the worsened CA deficit. The fiscal deficit also significantly supported the overall growth as well as assisting the businesses and households impacted negatively by the pandemic. According to the budget plan, the fiscal deficit is expected to again be sizeable in 2021, with a deficit to GDP ratio of 7.6%.

[4] IMF, WEO: Managing Divergent Recoveries, April 2021

Bank credit growth weakened to 9.1% YoY in FX adjusted terms by the end of December 2020, compared to 16.1% YoY growth by the end of 2019.

To decrease its vulnerability to economic cycles, the Bank identifies cyclical industries and proactively manages its underwriting approach and clients within its risk appetite framework. The Bank has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia, as well as in neighboring countries, to identify early warning signals indicating imminent economic risks. This system allows the Bank to promptly assess significant economic and political occurrences and analyze their implications for the Bank's performance. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress-testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the Bank to have an advance evaluation of the impact of macroeconomic shocks on its business. The resilience towards a changing macroeconomic environment is incorporated into the Bank's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.

Taking into account the impact of the COVID-19 crisis on Georgia's economy, the Bank has adjusted its risk management framework leveraging its already existing stress testing practices. This included more thorough and frequent monitoring of the portfolio as well as stress testing, to ensure close control of the changes in capital, liquidity, and portfolio quality at times of increased uncertainty.

Credit risk is an integral part of the Bank's business activities

Credit risk is the greatest material risk faced by the Bank, given the Bank is engaged principally in traditional lending activities. The Bank'scustomers include legal entities as well as individual borrowers. Thus, the Bank allocates significant resources to its management.

Due to the Georgian economy's significant reliance on foreign currencies, the currency-induced credit risk is significant and it relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the portfolio. Credit risk also includes concentration risk, which is associated to the quality deterioration of the credit portfolio, due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in specific economic industries.

The credit risk management's major objectives are to develop a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement.

The Bank's credit portfolio is highly diversified structurally across customer types, product types and industry segments, which minimizes credit risk at Bank level. As of 31 December 2020, the retail segment represented 39.0% of the total portfolio, which was split between mortgage and non-mortgage exposures 66.2% and 33.6%, respectively. No single business sector represented more than 9.6% of the total portfolio at the end of 2020.

In response to the COVID-19 pandemic, the Bank has identified its highly vulnerable clients and outlined a strategy for payment holidays, refinancing or restructuring across all segments. Since the outbreak of the pandemic, the Bank has granted payment holidays on both principal and interest payments to individual and MSME customers as well as to corporate borrowers that have been adversely affected by the government lockdowns. According to the strategy, some clients were given payment holidays only on interest, while other clients received them on both interest and principal amounts. The government elaborated a special support programme for the affected sectors: restaurants and small and medium sized hotels received subsidies in the amount of 70-80% of interest payments.

Additionally, the Bank actively performed stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions. The stress tests entail assumptions on the depreciation of the local currency, GDP growth, sectoral growth, unemployment, inflation, changes in real estate and commodity prices, changes in interest rates and loan and deposit portfolio developments.

The Bank is carrying out intensive financial monitoring to identify the borrower's weakened financial and business prospects in order to offer them a restructuring plan that is tailored to their individual needs.

The Bank revised credit underwriting standards across all segments in light of the COVID-19 pandemic and tightened them, where applicable. The revision and tightening of the standards, among other measures, included: changes in the delegation on decision-making and approval particularly for borrowers from vulnerable sectors, applied haircuts to the revenues of individual borrowers from affected sectors, and the integration of macroeconomic sectoral expectations into the assessment process for business borrowers.

The Bank faces currency-induced credit risk due to the high share of loans denominated in foreign currencies in the Bank's portfolio

Currency induced credit risk is one of the most significant risks that could negatively impact the Bank's portfolio quality given that a large part of its exposure is denominated in foreign currency. As of 31 December 2020, 59.2% of total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies. In January 2019, government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting their exposure to currency induced credit risk. The NBG eased the above-mentioned regulation from April 2020 for hedged borrowers. For unhedged borrowers, however, PTI and LTV thresholds will stay significantly more conservative. Apart from the measures, which are in place throughout the underwriting process, the Bank regularly monitors and assesses the quality of foreign currency denominated loans to assess potential impact of currency depreciation on the portfolio. Based on this assessment the Bank ensures that it holds sufficient capital buffers against unexpected losses. The Bank applies conservative lending standards to un-hedged borrowers to ensure that they can withstand a certain amount of currency depreciation without credit quality deterioration.

Given the experience and knowledge built throughout the recent currency volatility, the Bank is in a good position to promptly address and mitigate emerging exchange rate depreciation risks.

The Bank is exposed to concentration risk

The Bank is exposed to concentration risk, defined as potential deterioration in portfolio quality due to large exposures or individual industries. Deterioration of financial standing of individual borrowers, with large outstanding liabilities may entail increased credit losses and high impairment charges. Credit losses may also increase due to negative macroeconomic developments in certain industries in case the Bank's concentration in this industry is relatively high.

In order to manage concentration risks effectively, as a part of its risk appetite framework, the Bank limits both single-name and sector concentrations. Lower limits are assigned to industries with perceived higher risks.

Stringent monitoring tools are in place to ensure compliance with the established limits. The Bank constantly checks the concentrations of its exposure to single counterparties, as well as sectors. Significant counterparties are assessed on an individual basis, and in-depth analysis of industries is undertaken. These processes ensure that the Bank's concentration levels and associated risks are in compliance with predefined limits.

Along with managing concentration levels in the portfolio, the Bank estimates unexpected losses and respective capital for concentrations of both single name borrower and sectors using the Herfindahl-Hirschman Index (HHI), thus ensuring that sufficient capital is held against concentration risk.

Liquidity risk is inherent in the Bank's operations

The liquidity risk is the risk that the Bank may either not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or be only able to access those resources at a high cost.

Both funding and market liquidity risks can emerge from various factors that are beyond the Bank's control. Due to the financial market instability, factors such as a downgrade in credit ratings or other negative developments may affect the price or ability to access funding necessary to make payments in respect of the Bank's future indebtedness.

Liquidity risk is managed by the financial risk management and treasury departments and is monitored by the Management Board's Risk Committee or the Assets and Liabilities Management Committee (ALCO) within their predefined functions. The principal objectives of the Bank's Liquidity Risk Management Policy are to: ensure the availability of funds to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; recognise any structural mismatch existing within the Bank's statement of financial position and set monitoring ratios to manage funding in line with the Bank's well-balanced growth; and monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the Bank's risk profile. The Management Board reviews the Liquidity Risk Management Policy, which is then presented to the Supervisory Board for approval.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding Liquidity Risk

The Funding liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. To manage funding liquidity risk, the Bank uses liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), set forth under Basel III and defined further by the NBG. In addition, the Bank performs stress tests, what-if and scenarios analysis.

The LCR was introduced by the NBG in 2017, where in addition to the Basel III guidelines, the ratio applies conservative approaches to the deposit withdrawal rates depending on the client Bank's concentration. Since September 2017, the Bank has also monitored compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies. The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. To promote larization in the country of Georgia, NBG defines lower limit for GEL LCR than that for FX LCR. From October 2019 FC Mandatory Reserves are considered at 100% within HQLA for NBG LCR purposes. In addition, in the same period, NBG lowered FC mandatory reserves requirements from 30% to 25%.

In September 2019, the NBG introduced a Net Stable Funding Ratio ("NBG NSFR") for funding liquidity risk management purposes. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the Bank to rely on more stable sources of funding on a continuing basis. On a monthly basis, the Bank monitors compliance with the set limit of NSFR.

Market Liquidity Risk

The market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage it, the Bank follows the Basel III guidelines on high-quality liquidity asset eligibility in order to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in price and with minimum value loss.

In addition, the Bank has a liquidity contingency plan, which forms part of the overall prudential liquidity policy. The plan is designed to ensure that the Bank can meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

As a result of COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to liquidity requirements:

- In April 2020, NBG has opened USD/GEL FX swap lines with unlimited amounts;
- NBG removed GEL LCR (>=75%) for 1 year;
- Business loans could be pledged with NBG for liquidity support.

In addition to above, the NBG announced on additional potential countercyclical measures, if necessary:

- decreasing LCR limits,
- decreasing mandatory reserve requirements in foreign currency,
- Updating criteria for security or repo pledging to support GEL liquidity.

The Bank is exposed to Market Risk

The market risk is the risk of losses in on- and off-balance-sheet positions arising from movements in market prices.

The Bank's strategy does not foresee the involvement in trading financial instruments or investments in commodities. Accordingly, the Bank's only exposure to market risk is the foreign exchange risk in its banking book, comprising its regular commercial banking activities, which have no trading, arbitrage or speculative intent.

The Bank is exposed to Foreign Currency Risk

Due to the Georgian economy's significant reliance on foreign currencies, movements in foreign exchange rates can adversely affect the Bank's financial position. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The National Bank of Georgia requires the Bank to monitor both balance sheet and total aggregate balance (including off-balance-sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. As of 31 December 2020, the Bank maintained an aggregate open currency position of 3.4% of regulatory capital (2019: 0.5%). According to NBG regulation, from March 2019, special reserves assigned to FX balance-sheet assets started to be deductible gradually for OCP calculation purposes and as of March 2020 25% of special reserves is deductible.

As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: postponing the phasing-in of special reserves planned to be fully implemented by July 2022.

In addition, the Supervisory Board sets further limits on open currency positions delegated further at different levels of Management Board. The ALCO has set limits on the level of exposure by currency and for total aggregate position that are more conservative than those set by the NBG. The heads of the treasury and financial risk management departments separately monitor the Bank's compliance with these limits daily. Compliance with these limits is also reported daily to the Management Board and periodically to the Supervisory Board and its Risk Committee. On a Bank-wide level, foreign-exchange risk is monitored and reported monthly. To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the bank's income determined by possible worst movement of currency rates against the GEL, with all other variables held constant. During the years ended 31 December 2020, 2019 and 2018 the sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Changes in market interest rates can adversely affect the value of the Bank's financial assets and liabilities

This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. The deposits, and a part of the loans offered by the Bank, are at fixed interest rates, while a portion of the Bank's borrowing is based on a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement.

The Bank employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. From September, 2020 the NBG introduced regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of NBG IRR methodology are in line with Basel standards and EBA guidelines developed for IRR management purposes. As of 31 December 2020 the Bank was in compliance with the regulatory requirement with EVE=3.5%. According to NBG guidelines the Net Interest Income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under 6 predefined stress scenarios of interest rate changes and the limit is applied for the worst case scenario result.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

Any decline in the Bank's net interest income or net interest margin (NIM) could lead to a reduction in profitability

Any decline in the Bank's net interest income or net interest margin could lead to a reduction in profitability.

The net interest income accounts for the majority of the Bank's total income. Consequently, fluctuations in its net interest margin affect the results of operations. High competition on the local banking sector could drive interest rates down, compromising the Bank's profitability. At the same time, the cost of funding is largely exogenous to the Bank and is derived based on both the national and international markets.

The majority of the Bank's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Bank's results. In 2020, the NIM decreased by 0.8 pp YoY to 4.5% driven by a decrease in loan yields, increase in GEL deposit costs, as well as currency depreciation due to the COVID-19 pandemic. The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced from September 2020. As of 31 December 2020, GEL 3,846.1 million in assets (18%) and GEL 2,788.12 million in liabilities (14%) were floating in GEL currency, whereas GEL 8,045.1 million of assets (37%) and GEL 1,606.1 million of liabilities (8%) were floating, related to the LIBOR/Euribor/FED/ECB rates. The Bank was in compliance with the EVE (Economic Value of Equity) sensitivity limit set by the NBG at 15% of Tier 1 Capital, with the ratio standing at 3.5% by 31 December 2020.

In 2020, the cost optimization was the main mitigation against margin decline. However, the expected strong increase in net fee and commission income and other operating income, as well as efficient cost discipline, helps to safeguard against margin declines and profitability concerns for the Bank going forward.

To mitigate the asset-liability maturity mismatch, in cases where loans are extended on fixed rather than floating terms, the interest rate risk is translated into price premiums, safeguarding against changes in interest rates.

The Bank is exposed to Counterparty Risk

TBC Bank performs banking services such as lending in the interbank money market, settling a transaction in the interbank foreign exchange market, entering into interbank transactions related to trade finance or investing in securities. Hence, the Bank is exposed to the risk of losses due to the failure of a counterparty bank to meet its obligations. To manage the counterparty risk, the Bank defines limits on an individual basis for each counterparty and as well on a portfolio basis by limiting the expected loss from both treasury and trade finance exposures. As of 31 December 2020, TBC Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch Ratings, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

External and internal fraud risks are part of the operational risk inherent in the Bank's business. Considering the increased complexity and diversification of operations, together with the digitalisation of the banking sector, fraud risks are evolving. Unless proactively managed, fraud events may materially impact the Bank's profitability and reputation

One of the main risks that the Bank faces is operational risk, which is the risk of loss resulting from inadequate or failed processes and systems, human error, fraud or external events. However, reputational risk management is also given high importance and priority and is an integral part of the organisation's overall risk culture.

The Bank is exposed to many types of operational risk, including: fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with the intention of making the Bank's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardise sensitive information and the financial transactions of the Bank, its clients, counterparties or customers.

Moreover, the Bank is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures etc., which may result in losses or reductions in service to customers and/or economic losses to the Bank.

The operational risks discussed above are also applicable where the Bank relies on outside suppliers of services. Considering the fast-changing environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Bank.

To oversee and mitigate operational risk, the Bank has established an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework. The Management Board ensures a strong internal control culture within the Bank, where control activities are an integral part of operations. The Supervisory Board sets the operational risk appetite and the Operational Risk Committee oversees compliance with the limits. The Operational Risk Committee discusses the Bank's operational risk profile and risk minimisation recommendations on a regular basis. The operational risk management department acts as second line of defence. It is responsible for implementing the framework and appropriate policies and procedures to enable the Bank to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. The department is also responsible for the day-to-day management of operational risks using various techniques. These include, but are not limited to:

- running risk and control self-assessments, which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions;
- forming an internal risk event database for further quantitative and qualitative analysis;
- performing new risk assessment and validating the launch of new products, procedures including critical outsourcing.
- obtaining insurance policies to transfer the risk of losses from operational risk events.

The operational risk management department has reinforced its internal control, risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions directed to homogenise operational risk management processes throughout the Bank's member companies. The operational risk management department reports to the Chief Risk Officer. Various policies, processes and procedures are in place to control and mitigate operational risks, including:

- the Operational Risk Management Framework and its complementing policies were updated to ensure effective execution of the operational risk management programme. Additionally, the Bank has developed a Bank-wide operational risk registry
- enacting an outsourcing risk management policy, which enables the Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor;
- the Risk and Control Self-Assessment (RCSA) Policy, which enables the Bank to continuously evaluate existing and potential risks, establish risk mitigation strategies and systematically monitor the progress of risk mitigation plans;
- involving the operational risk management department in the approval process for new products and services to minimise risks relating thereto;
- developing a special operational risk awareness programme for the Bank's employees and providing regular training to further strengthen the Bank's internal risk culture.

During the reporting period, one of the key operational risk management focus areas was the Risk and Control Self-Assessment (RCSA) exercise, under which the Bank's top priority processes were reviewed and areas of improvement were identified.

The threat posed by cyber-attacks has increased in recent years and it continues to grow. The risk of potential cyber-attacks, which have become more sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment

The threat posed by cyber-attacks has increased in recent years and it continues to grow. The risk of potential cyber-attacks, which have become more sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment.

No major cyber-attack attempts have targeted Georgian commercial Banks in recent years. Nonetheless, the Bank's rising dependency on IT systems increases its exposure to potential cyber-attacks.

In order to mitigate risks associated with cyber-attacks and ensure security of clients, the Bank continuously updates and enhances its security in-depth strategy, which covers multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A Security Operations Center has been built, which monitors every possible anomaly that is identified across the organization's network in order to detect potential incidents and respond to them effectively.

At least once a year, a full information security and cyber security threat analysis is performed, taking into consideration the relevant regional and sector specific perspectives. At least once every two years, as part of this analysis, an external consultant is contracted to assess the efficiency of our capabilities against industry best practices and real world cyber-attack scenarios. This analysis gives the Bank a broad review as well as a detailed insight, which helps to further enhance the information and cyber security systems. In addition, cyber-attack readiness exercises are performed on a regular basis. These exercises evaluate the actual position of the Bank in this area and provide a benchmark against international best practices.

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

The Information Security Steering Committee governs information and cyber security to ensure that relevant risks are at an acceptable level and that continuous improvement of the management processes are achieved.

Disaster recovery plans are in place to ensure business continuity in case of contingency.

As a result of the COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats and security team provides effective oversight of teleworking channels. Although there has been a noticeable increase in phishing attempts against employees, there have been no major incidents. The Security Operation Center and Threat Hunting teams has successfully adopted effective remote collaboration and communication tools and practices.

The Bank remains exposed to some reputational risk

Risk Description

There are reputational risks to which the Group may be exposed to, such as risks related to the COVID-19 pandemic, increased calls for additional extension of the grace period on loan payments, and increased cases of cybercrimes. However, none of the aforementioned risks are unique to the Group, and represent issues faced by the entire banking sector.

Risk Mitigation

To mitigate possibility of reputational risks, the Bank works continuously to maintain strong brand recognition within its stakeholders. The Bank actively monitors its brand value and media coverage by receiving feedback from stakeholders on an ongoing basis. The Group tries to identify early warning signs of potential reputational or brand damage in order to both mitigate and elevate it to the attention of the Board before escalation. Dedicated internal and external marketing and communications teams are in place, which monitor risks, develop scenarios and create respective action plans.

The Bank is exposed to regulatory and enforcement action risk

Regulatory Risk

The Bank’s activities are highly regulated and thus, face regulatory risk. The national regulator, the National Bank of Georgia, can enhance the prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Bank’s profitability and performance may be compromised by an increased regulatory burden, including higher capital requirements.

Alongside mandatory capital adequacy ratios, the regulator sets lending limits and other financial ratios, including lending, liquidity and investment ratios.

In 2020 the National bank of Georgia took a number of measures to respond to the threats posed by Covid-19 pandemic, including but not limited to capital adequacy requirements, loan repayment period extension program etc.

Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Bank is also regulated by respective tax code or other relevant laws in Georgia. The Bank's operations remain in full compliance with all relevant legislation and regulations. The Bank is also subject to financial covenants in its debt agreements.

The Bank has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Bank's operations.

As the first line of defence, relevant structural units of the Bank ensure timely implementation of processes and procedures in accordance with the requirements of the regulations.

The legal compliance unit of the Bank monitors and tracks regulatory changes (including potential changes in legislations) and based on proper impact analysis informs the relevant structural units in a timely manner.

The dedicated Compliance Department is responsible for the coordination of the regulatory risk management; it monitors the change management end-to-end process and has direct reporting line to the Chief Executive Officer. The Bank's Risk Committee at the Supervisory Board level is responsible for the proper functioning of the risk management mechanisms.

In terms of banking regulations and Georgia's taxation system, the Bank is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. The establishment of the Regulatory Laboratory Framework by the National Bank of Georgia in May 2020 facilitated the effectiveness of the cooperation between the Bank and the regulatory body. The framework allows the sector representatives to test an innovative service and/or product in the supervised environment and the real time regime.

New Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, as well as relevant bylaws developed by the Financial Monitoring Service of Georgia and NBG came into force in 2020. The introduced documents required significant changes in policies, procedures, processes and software of Financial Institutions.

Although decisions made by regulators are beyond the Bank's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practice.

Compliance Risk

The compliance risk is defined as the risk of regulatory or legal sanctions, material financial losses or reputation defamation, which may result from the Bank's negligence or inappropriate implementation of the relevant laws, regulations and rules, ethics, and behaviour code.

Georgia is a fast-paced developing country with the goal of European integration and its legislative base is constantly updated.

Besides the national legislation, JSC TBC Bank is subject to the certain UK regulations, since the shares of the Bank's parent company are traded at the London Stock Exchange.

Consequently, continuous monitoring, analysis, and timely implementation of national and international legislative amendments pose a significant challenge to the Bank.

The risk management of the Bank's compliance handles the following processes:

- Introduction of corporate ethics and risk sensing culture;
- Regulatory change management.
- Management of conflict of interest;
- Management of whistleblowing process
- Prevention of bribery, anti-corruption, and tax avoidance;
- Prevention of illicit income legalisation and terrorism funding;

- Protection of consumers' rights;
- Personal data protection

In order to ensure the management of these processes, the Bank has developed policies, instructions, rules, and provisions, which are mandatory for all its employees. The Bank's Compliance Risk Management Department provides the identification, assessment, monitoring and periodic review of the compliance risk. The Bank's Compliance Risk Management Department is directly subordinated to the CEO and is accountable to the Risk Committee of the Supervisory Board.

The Bank faces the capital risk of not meeting the minimum regulatory requirements under the increasing capital requirement framework, which may compromise growth and strategic targets. Additionally, adverse changes in FX rates may impact the capital adequacy ratios

Capital risk is the risk that the Bank may not have the sufficient level of capital to maintain its normal business activities, and to meet its regulatory capital requirements under normal or stressed operating conditions.

The bank is subject to the binding minimum capital requirements set by the NBG. In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The purpose of the amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework. Under the updated regulation, capital requirements consist of a Pillar 1 minimum requirement, combined buffer (systemic, countercyclical and conservation buffers) and Pillar 2 buffers.

Pillar 1 minimum requirements plus combined buffer requirements.

The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements. The updated minimum regulatory capital requirements are 4.5%, 6.0% and 8.0% for Common Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital, respectively;
- the introduction of a requirement that banks hold an additional combined buffer through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as domestic systemically important banks (DSIBs) for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2.0% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged Currency Induced Credit Risk (CICR) buffer and a net General Risk Assessment Programme (GRAPE) buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer became effective from 1 April 2018, and the need for the net stress buffer will be assessed based on the regulatory stress testing results. Under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common

Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital.

Temporary Measures

With the intention of reducing the negative effects caused by the COVID-19 pandemic, the NBG has developed a temporary supervisory plan. According to the plan, the capital requirements will be relieved by:

- Postponing the phasing in of concentration risk and the net General Risk Assessment Program (GRAPE) buffer capital requirements on CET1 and Tier 1 capital that was supposed to be introduced in March 2020;
- Allowing banks to use the conservation buffer and 2/3 of the Currency Induced Credit Risk (CICR) buffer;
- Allowing banks to release all the remaining Pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

Since the introduction of these measures, the Bank has utilized both the conservation and 2/3 CICR buffer, and is restricted from making any capital distributions.

As a result of these measures, the Bank's minimum capital requirement, compared to the end of 2019, has decreased by:

- 3.0pp for CET1;
- 3.3pp for Tier 1; and
- 3.8pp for Total Capital.

This is compared to the planned increase of:

- 0.86pp for CET1;
- 1.02pp for Tier 1; and
- 0.37pp for Total Capital.

As of December 2020, the Bank's updated Pillar 2 requirement is 0.9%, 1.2% and 3.7% for Common Equity Tier 1, Tier 1 and Total Regulatory Capital, respectively.

The NBG outlined a new schedule for the gradual introduction of capital requirements under Basel III. According to the new schedule, concentration risk and the Net GRAPE buffers phase-in will continue from March 2021 and will be fully integrated by March 2023. In December 2020, the systemic buffer increased from 1.5% to 2% as previously planned and is expected to increase by 0.5pp to 2.5% at the end of 2021. Based on the official announcement by the NBG, the decision for the restoration of CICR and Conservation buffers has been postponed for the next Financial Stability Committee meeting which will be held in June 2021. Once the restoration of the buffers is announced, the Bank will be given a period of one and two years to fully comply with the CICR and Conservation buffer requirements respectively. However, in case the Bank wants to pay out dividends, it has to fully restore and comply with the buffers.

The Bank's capital ratios as of December 2020 were well above the respective regulatory requirements. The following table presents the capital adequacy ratios and minimum requirements set by the NBG:

In thousands of GEL	**2020**	2019	2018
CET 1 Capital	**1,911,233**	1,871,892	1,629,594
Tier 1 Capital	**2,385,181**	2,281,706	1,678,716
Tier 2 Capital	**752,731**	692,323	672,553
Regulatory capital	**3,137,912**	2,974,029	2,351,269
Risk-weighted Exposures			
Credit Risk Weighted Exposures	**16,322,524**	13,825,677	11,458,497
Risk Weighted Exposures for Market Risk	**106,379**	15,429	179,381
Risk Weighted Exposures for Operational Risk	**1,872,574**	1,749,821	1,516,993
Total Risk-weighted Exposures	**18,301,477**	15,590,927	13,154,871
Minimum CET 1 ratio	**7.4%**	10.4%	9.7%
CET 1 Capital adequacy ratio	**10.4%**	12.0%	12.4%
Minimum Tier 1 ratio	**9.2%**	12.5%	11.8%
Tier 1 Capital adequacy ratio	**13.0%**	14.6%	12.8%
Minimum total capital adequacy ratio	**13.7%**	17.5%	16.7%
Total Capital adequacy ratio	**17.1%**	19.1%	17.9%

Regardless of the negative impact of the COVID-19 pandemic, GEL volatility has been and remains one of the significant risks impacting the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8pp, 0.7pp and 0.6 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

The Bank undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress-testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent management and timely actions when needed.

In close co-ordination with the NBG, the Bank created an extra loan loss provision buffer to cover for the potential impact of the COVID-19 pandemic on the Georgian economy. As of 31 March 2020, the Bank booked additional provisions in accordance with local standards in the amount of c.3.1% of the loan book.

The Bank faces the risk that its strategic initiatives do not translate into long-term sustainable value for its stakeholders

The Bank may face the risk of developing a business strategy that does not safeguard long-term value creation in an environment of changing customer needs, competitive environment and regulatory restrictions.

In addition, the Bank may be exposed to the risk that it will not be able to effectively deliver on its strategic priorities and thereby compromise its capacity for long-term value creation. With the emergence of COVID-19, the Bank has strengthened further its focus on the main strategic pillars: customer centricity, digital capabilities, data analytics, and agility. As such, given that the strategic review has been a regular exercise in the past the strategic themes have not shifted significantly.

However, increased uncertainty together with the major economic and social disruptions caused by the COVID-19 pandemic may hamper the Bank's ability to effectively develop and execute its strategic initiatives in a timely manner.

The Bank conducts annual strategic review sessions involving the Bank's top and middle management in order to ensure that it remains on the right track and assess business performance across different perspectives, concentrating analysis on key trends and market practices, both in the regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy.

Further, the Bank conducts quarterly analysis and monitoring of metrics used to measure strategy execution, and in case of any significant deviations, it ensures the development of corrective or mitigation actions.

The Bank is exposed to risks related to its ability to attract and retain highly qualified employees

The Bank faces the risk of losing of key personnel or the failure to attract, develop and retain skilled or qualified employees. In particular, the strategic decision to transform into a digital company entails increased demands on high calibre IT professionals across the Bank. In addition, in order to adapt to the fast changing business environment, the Bank needs to foster an "Agile" culture and equip employees with the necessary skills.

The Bank pays significant attention to human capital management strategies and policies, which include approaches to the recruitment, retention and development of talent, and offers competitive reward packages to its employees. The Bank has also developed and implemented an "Agile" framework that aims to increase employee engagement and satisfaction. Moreover, the Bank set up an IT and Risk academy to attract and train young professionals. The best students are offered employment at the Bank. In addition, the Bank has an in-house academy that provides various courses for the employees in different fields.

Emerging Risks

Emerging risks are those that have large unknown components and may affect the performance of the Bank over a longer time horizon. We believe the following are risks that have a potential to increase in significance overtime and could have the same impact on the Bank as the principal risks.

The Bank is exposed to the risks arising from climate change

The risks associated with climate change have both physical impact arising from more frequent and severe weather changes and transitional impact that may entail extensive policy, legal and technological changes to reduce ecological footprint of the households and businesses. For the Bank, both of these risks can materialise through the impairment of asset values and deteriorating creditworthiness of our customers, which could result in reduction of the Bank's profitability. The Bank may also become exposed to reputational risks as a result of its lending to or other business operations with the customers deemed to be contributing to climate change.

The Bank's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimise negative impacts on the environment. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

The Bank has in place an Environmental Policy, which governs its Environmental Management System (the "EMS") and promotes adherence of the Ban's operations to the applicable environmental, health and safety and labour regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. Management of environmental and social risks is embedded in the Bank's lending process through the application of the EMS. The Bank has developed risk management procedures to identify, assess, manage and monitor environmental and social risks. These procedures are fully integrated in the Bank's credit risk management process. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices.

Additional information Environmental, Social and Governance requirements are given into the Corporate Governance Code appendix provided by the National Bank of Georgia.

The Bank's performance may be affected by Libor discontinuation and transition

There is a number of different types of financial instruments on the Bank's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Bank in its risk measurement, accounting and valuation processes. In 2017, the FCA announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called financial sector participants to start working towards the transition to other reference rates. The discontinuation of LIBOR and the process of transition exposes the Bank to execution, conduct, financial and operational risks, and may result in earnings volatility, customer complaints and legal proceedings, or have other adverse impact on the Bank's business and operations

The Bank is in the process of identifying implications of such transition to other reference rates on its risk profile by analysing its execution, conduct, financial and operational risks and how such risks could be addressed. The Bank is starting its efforts to raise awareness of the transition, both internally and externally, to ensure that staff has all the necessary knowledge and tools to facilitate the transition and that all of the Bank's customers are treated fairly. As a first step of the transition process, the Bank started including the fall-back clauses in the new loan agreements, regulating the transition from LIBOR after its discontinuation. We actively monitor the international as well as local transition-related developments to regulate and align the Bank's transition process with the market practice.

Credit Risk Mitigation

For the purposes of credit risk mitigation, the Bank actively uses various types of collateral. Real estate, movable property, intangible assets, financial assets, suretyship and third party guarantee can be used by the Bank as collateral. The Bank has appropriate processes in place to ensure that the market value of collateral is defined properly and collaterals serve as an effective tool for credit risk mitigation.

Key Policy and Procedures for Collateral Management & Appraisal

Collateral represents the most significant credit risk mitigation tool for the Bank, making effective collateral management one of the key risk management components. Collateral on loans extended by the Bank may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Bank has a largely collateralized portfolio in all its segments, with real estate representing a major share of collateral. A centralized unit for collateral management governs the Bank'sview and strategy in relation to collateral management, and ensures that collateral serves as an adequate mitigating factor for credit risk management. The collateral management framework consists of a policy-making process, a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) and collateral portfolio analysis.

The Collateral Management and Appraisal Department (CMAD) defines Collateral Management Policy & Collateral Management Procedures (approved by the Management Board), purchases an appraisal service that must be in line with International Valuation Standards IVS), acting NBG regulations and internal rules (policy/procedures and etc.), authorizes appraisal reports, manages collateral monitoring process (assets with high FV are revaluated annually, while statistical monitoring is used for collaterals with low value). The CMAD uses a mixed quality check scheme for valuation: appraisal reports are reviewed internally by its staff and separately by an external company. Almost all activities under the collateral management are automated through an in-house web application. The collateral management function uses market researches conducted under the project: Real Estate Market laboratory (REM lab).

During Covid-19 pandemic, the Bank's collateral monitoring was further tightened. The Bank follows the additional recommendations from NBG and IVSC regarding the collateral valuation.

Main Types of Collateral

According to the Bank's Collateral Management Policy, collaterals are divided into 5 groups:

- Real estate;
- Movable property;
- Intangible asset;
- Suretyship, guarantee.

Required collaterals are defined based on the credit product type and borrower’s risk profile. The Bank's credit portfolio is well secured, with the main type of collateral being real estate.

For the purpose of capital adequacy calculation, the Bank uses the following types of collateral:

- Cash deposits;
- Third party guarantees.

In order collateral to be used for the purpose of capital adequacy estimations, the requirements of the National Bank shall be satisfied in accordance with the provisions of the Capital Adequacy Requirements of the Commercial Banks.

Information on Credit Risk Concentrations According to Mitigation Tools

The Bank's credit portfolio is well secured. 73% of the portfolio is secured with real estate, 3.2% is secured by cash deposits and jewellery (2.0% and 1.2% respectively). Other types of collateral are: movable property and third-party guarantees.

Main Types of Guarantees and Contracts Received as Collateral

The significant part of guarantees and counter guarantees that are used as collateral for credit risk mitigation, are banking guarantees/counter guarantees. The Bank’s assessment process is held by the Financial Risk Management (FRM) department in accordance with the business requirements. In particular, the request for financing of various banking products arises from the Treasury, Trade Financing and Business Units.

Interbank Limit Assessment Procedure

According to the procedure, the Trade Finance department receives the application about the guarantee/letter of credit/factoring request from a counter guarantee bank and provides the financial risk management department with the respective information. In addition, the Treasury and Financial Service department sends a request about setting the limit on the bank for treasury purposes. The Compliance Department checks the counter-party bank, the applicant, the beneficiary and the financing operation in case of Trade Finance request, and the counter-party bank, in case of Treasury request. After receiving a positive recommendation from Compliance Department, the assessment of counter-party bank is conducted by the FRM department based on the “Counterparty risk limits assessment methodology”.

The limits of counter-party banks are set according to ratings assigned by the international rating agencies (Moody’s; Fitch Ratings; S&P) and/or ratings derived from an internally-developed model[5], based on which maturity of transactions is defined with the respective limits.

[5]If the counterparty is a resident bank, the final rating is defined based on the internal model developed. In case of non-resident banks, where the average international rating is less than ”BBB“, the final rating is derived as a minimum between average international and internal ratings.

If the counter-guarantee banks average international rating is more than or equal to ”BBB”, the FRM uses the latter rating for defining the limit and assesses the bank’s main financial and non-financial metrics.

If the bank is assessed by one international rating agency, or its average credit rating is less than ”BBB”, the bank’s assessment is done by an internally developed model, based on the following factors:

Bank’s Financial Metrics:

- Capital adequacy;
- Credit portfolio quality;
- Liquidity and funding;
- Profitability.

Warning Signals:

- Governance;
- Risk management framework;
- International credit rating;
- Operating environment;
- Regulatory environment and other signals.

After analysing the counter-guarantee bank’s financial and non-financial metrics, the FRM presents its recommendation to the respective decision-making committee. In order to ensure the compliance with the decision-making tiers and flawless implementation of risk approval process, the FRM uses the “Asset and Liability Management Committee Policy” and the “Instruction on Counter-party Risk Approval Committee Decision-Making Process” as a guideline.

The FRM may consider setting general limit for the counter-party bank, if the Trade Finance department deems it necessary, due to possible frequent future transactions.

The counterparty limits monitoring is carried out on a daily basis by the Assets and Liabilities Management Group (ALM). In case of limit breaches, the ALM informs the FRM and Settlements and Correspondent Banking Department in order to take immediate actions for mitigation

TBC Bank has in place a Counter-Party Risk Management Policy, which determines the principles of the process for the counterparty risk management and it regulates the activities of the departments and employees involved.

The FRM reviews the Interbank Limit Assessment Methodology on an annual basis.

International Ratings

With regards to the credit rating, the Bank may use the evaluations made by the following organisations: Fitch, Moody's, and S&P. The credit ratings are used for the following risk classes:

- unconditional and conditional requirements for multilateral development banks;
- unconditional and conditional requirements for commercial banks;
- Unconditional and conditional requirements for central governments and central banks.

The credit rating mapping to credit rating quality is outlined in the table below:

Allowed Credit Rating	Credit rating quality	Fitch	Moody's	S&P
Mapping of credit rating quality with long-term credit rating	1	From AAA to AA-	From Aaa to Aa3	From AAA to AA-
	2	From A+ to A-	From A1 to A3	From A+ to A-
	3	From BBB+ to BBB-	From Baa1 to Baa3	From BBB+ to BBB-
	4	From BB+ to BB-	From Ba1 to Ba3	From BB+ to BB-
	5	From B+ to B-	From B1 to B3	From B+ to B-
	6	CCC+ and worse	Caa1 and worse	CCC+ and worse

Risk Appetite

The Bank has a risk appetite framework (RAF) in place. The RAF is intended to create a robust operational environment, where all the material risks faced by the Bank as well as any risk-taking activities that are beyond the Bank's risk appetite are identified, reported and managed in a timely manner. The RAF defines the level of risk the Bank is willing to accept in pursuit of return and value creation. It also clearly distinguishes the risks that should be avoided.

For each type of risk quantitative risk metrics are defined and risk appetite is established in the form of Risk Appetite Statements (RAS) and the risk limits, showing the level of the risk the Bank is willing to accept in pursuing the strategic objectives.

At this stage, risk limits are set for ordinary business conditions. The horizon of the risk appetite statement is set to 3-5 years. The risk appetite must be reviewed and updated on an annual basis or more frequently as changes in strategy, market conditions or other key factors occur.

The RAS includes qualitative statements and quantitative metrics. Enterprise-wide quantitative metrics are categorized across two levels. The first level metrics must be approved and monitored by the Supervisory Board. Approval and monitoring of the second level metrics is the responsibility of the Management Board.

The risk appetite sets limits under ordinary business conditions. The Bank uses a three-layered traffic light approach in setting the risk limits:

Green Zone - a desired zone of the Bank's risk appetite. For the certain types of risk metrics Green zone might have both upper and lower bounds. Whenever the risk profile is below the lower bound of the Green zone, it shows that the Bank is taking lower risk compared to its appetite and should be addressed in the same way as entering the Amber zone.

Amber Zone - a desired zone has been breached, however risk level is still acceptable for the Bank. Once the risk goes into the Amber zone, the risk owner should develop the strategy on how to get back to the Green zone and monitor the execution.

Red Zone – a risk has exceeded the allowable limit and is going outside the risk appetite. Close monitoring of the risk and developing remedial actions is required with respective contingency plan.

Risk Appetite Governance and Monitoring

The Bank's Supervisory Board sets the tone at the top, provides oversight and direction in the RAF establishment and owns and approves the Bank's risk appetite.

The Management Board sets overall strategic objectives of the Bank and ensures that risk-taking and decision making processes are aligned with the Bank's strategy and the risk appetite.

The RAF is approved by the Bank's Supervisory Board. Governing principles and Level 1 metrics are approved by the Supervisory Board. Whereas Level 2 metrics are approved by the Management Board. Operational level risk metrics are approved either by the Management Board or the respective risk owner together with the Chief Risk Officer.

The Bank's risk governance incorporates the "three lines of defense", in which the business operational units as a first level of defense take and manage risk, risk management functions as a second level of defense oversee and monitor risk and internal audit as a third line of defense validates the performance of the first two.

Each metric listed in the RAF has its own monitoring frequency ranging from one month to one year. The Enterprise Risk Management function is responsible for aggregating and reporting compliance with Level 1 and Level 2 risk appetite metrics to the Supervisory and Management boards. The respective risk owners are responsible for monitoring risk appetite metrics and presenting results to ERM department. The respective risk owners are responsible for submitting to the Supervisory and Management boards the description of reasons for the breach and an action plan to return the risk profile back in the Bank's risk appetite within a reasonable timeframe.

Capital Management

For the effective management of capital adequacy, the Bank is carrying out short and long term capital adequacy forecasting in order to timely identify factors affecting capital position and avoid breaching the set limits;

As part of the enterprise-wide stress testing, the bank estimates losses and the amount of additional capital needed to withstand the predetermined scenario. The stress testing is held at least annually or more frequently depending on the business environment. The results are reported to the management and risk committee of the Supervisory Board. The Bank periodically provides additional sensitivity analysis against currency depreciation and changes in the macroeconomic environment to ensure prudent capital management.

Determination of Capital Adequacy Limits

Within the risk appetite framework, the Bank sets additional buffer above the regulatory minimum requirement for CET 1, Tier 1 and Total Capital. The risk appetite limits are based on the robust analysis of volatility drivers and the Bank's risk profile. In the process of setting the limits the Bank takes into consideration forward looking elements related to the economic outlook, the Bank financial condition, planned capital distributions, potential impacts of the stress and uncertainties and etc. These Risk Appetite limits help the Bank ensure that it holds enough capital to meet the rising requirements under the NBG's Basel III framework.

Capital Allocation and Pricing

Effective capital governance implies determination of accurate capital levels for all assets and its effective allocation, for loan pricing purposes. The process ensures capital optimization and generation of target profitability.

Risk Reporting

The effective risk analysis and management process facilitates reliable, and timely reporting which is provided by the Risk Reporting division.

The Risk Function analyses the credit portfolio regularly. It analyses all portfolio indicators such as the volume, growth rate, structure, overdues, vintage analysis, concentration level, maturity, non-performing loans, write-off coefficients, provision charges etc.

Each ratio is analysed for the total portfolio, as well as for each segment/product with respect to historical and planned indicators. Operational and financial risks are also examined monthly, alongside the compliance of the risk profile with the risk appetite limits.

The risk management results and analysis are regularly presented to the Management Board and discussed at the Risk Committee of the Supervisory Board.

These reports cover the following main issues:

- Risk appetite;
- Credit risk results;
- Capital management;
- Liquidity risk results;
- Financial risk results;
- Market risk results;
- Operational risk results;
- Cyber security issues;
- Compliance issues; and
- Other financial and non-financial risks.

In addition to the above-mentioned topics, the committee get updates and discuss other relevant topics such as:

- Regulatory changes;
- Update on the risk strategic objectives;
- Important methodological or strategic changes, etc.

7. Remuneration Policy for Top Management and Non-executive Directors

Board of Directors of TBC Bank Group PLC, based on the recommendation of Remuneration Committee, approves the remuneration and other benefits of the top management of the Bank, including the salary of Supervisory Board members of the Bank. Remuneration of Bank’s employees are approved by the heads of respective departments with the agreement of executive director in charge and HR business partner.

Material Risk Takers (MRT)

Material risk takers are individuals who have a material impact on the Bank’s risk profile. The Bank considers and classifies the below listed functions (individuals) as MRTs:

- Members of the Management Board of the Bank;
- The Supervisory Board members;
- Any other positions the Bank considers having a significant influence on the Bank’s risk profile in line with the requirements and criteria set by the National Bank of Georgia in respective regulations.

Excluding Management Board members and the Supervisory Board members of the Bank, there were 5 positions identified as MRTs as of December 2020.

Employees whose remuneration exceeded GEL 1 million during the year were only members of the Management Board.

Remuneration plan and structure

The Bank’s Remuneration Policy is grounded on the principle of fairness across all categories of employees. Each year our Human Capital Department has oversight on the application of our internal policy by each department and each of our colleagues is evaluated against achievements and contribution to the success of our strategy and business objectives. Regularly and on-rotation middle managers ‘performance is also reviewed by applying a 360-methodology to obtain a comprehensive feedback including from their subordinates. Our remuneration policy allows higher performing employees to obtain a higher compensation via their variable remuneration (for relevant personnel).

Considering risks in the Bank's remuneration system

Remuneration policies and procedures at the Bank provide maintaining the balance between the Bank's business goals and the desired risk profile.

The remuneration system ensures, that the evaluation and relevant compensation for the employees with controlling function (risk management, compliance and internal audit) are independent from the business results of the business units under their supervision and/or control and are assessed taking into account their performance's effectiveness and quality.

The Bank's remuneration system is consistent with the risk management strategy. It includes a variable payment component that covers the Bank's main risks: credit, operational, financial (liquidity and market risks), regulatory and compliance risk (detailed information on each risk is given in chapter on Key Risks).

The variable remuneration includes components with both a quantitative and qualitative evaluation. It is set at the beginning of each year and is assigned on an individual basis, according to the activity and function of the structural unit. The quantitative and qualitative goals of each direction are defined in accordance with the Bank's strategy and risk appetite and ensure the fulfillment of the Bank's overall objectives. The goals in the remuneration component are taken into consideration for the risk management staff as well as the employees of business lines. Performance measures with appropriate stretching targets will be set on the basis of the Company's strategy and sustainability goals, and will include corporate financial KPIs, corporate non-financial KPIs as well as personal KPIs.

For in depth understanding of our remuneration's variable components, including actual KPIs, please refer to TBC Bank Group Plc's annual report 2019 and 2020. Examples of qualitative goals may include particular objectives, such as improving current risk models or implementing new risk assessment tools that serve effective implementation of the bank's strategic goals, optimize processes or improve risk management.

Middle management, material risk takers (MRT) and other employee remuneration

Middle management across the Bank including employees who are classified as material risk takers, also other employees who are part of the agile structure, receive their entire salary in cash and are also eligible for cash and share bonus variable compensation. Employees who are part of the agile receive their variable compensation in shares. The share bonuses granted are subject to 3 years deferral and continued employment condition and malus and clawback provisions. These conditions are lifted as follows: 33% of the share award on the first anniversary from the award date, a further 33%, on the second anniversary from award date and the final 34% of the on the third anniversary from the award date. Before those conditions are met, the awarded shares cannot be sold or transferred to third parties. This approach ensures that the participants' interests are closely aligned with the Group's long-term strategy and shareholders' interests.

In addition, MRT employees comply with the requirement of NBG Corporate Governance Code requirements on the remuneration.

All other employees within the Bank receive cash salaries and may be eligible to receive cash bonuses. Executive Director and employee pay is reviewed based on role and experience and determined through the application of appropriate market data, as well as internal and external relativities.

Executive and non-executive Director's (jointly referred as "Directors" below) remuneration of TBC Bank Group Plc

For details of the Directors existing remuneration policy, please refer to the TBC Bank Group Plc's annual report 2019. The new remuneration policy, which will come into force starting from 1 January 2022 subject to shareholders approval at 2021 AGM, is presented in TBC Bank Group Plc's annual report 2020.

8. Definition of Terms

- AGM – Annual General Meeting
- ALCO – Assets and Liabilities Committee
- Bank – JSC TBC Bank
- CEO – Chief Executive Officer
- CFO – Chief Financial Officer
- CGN – Corporate Governance and Nomination Committee
- COO – Chief Operation Officer
- CRO – Chief Risk Officer
- ERM – Enterprise Risk Management
- Geostat – National Statistics Office of Georgia
- IFRS – International Financial Reporting Standards
- LTV – Loan to value
- MRT – Material risk taker
- MSME – Micro, small and medium sized enterprises
- NBG – National Bank of Georgia
- PTI – Payment to income
- RWA – Risk weighted assets
- SME – Small and medium sized enterprises

THANK YOU