ANNUAL PILLAR 3 REPORT

2019 YEAR

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1. Introduction

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

2. Management Reservation

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

3. Key Metrics

The table below presents key metrics of VTB Bank (Georgia) JSC as of 2019 and 2018 years:

Reporting year	**2019**	**2018**
Regulatory Capital (Amounts, GEL)		
Based on Basel III framework		
Common Equity Tier 1 (CET1)	200,911,181	189,346,178
Tier 1	214,838,081	200,922,578
Total regulatory capital	295,123,566	269,689,213
Risk-weighted assets (amounts, GEL)		
Risk-weighted assets (RWA) (Based on Basel III framework)	1,568,503,498	1,503,903,294
Capital ratios as a percentage of RWA		
Based on Basel III framework		
Common equity Tier 1 ratio >=8.77% (2018 >=8.85%)	12.81%	12.59%
Tier 1 ratio >=10.87% (2018 >= 10.97%)	13.70%	13.36%
Total Regulatory Capital ratio >=17.19% (2018 >= 17.23%)	18.82%	17.93%
Income		
Return on Average Assets (ROAA)	0.8%	2.0%
Return on Average Equity (ROAE)	6.4%	16.3%
Asset quality		
Non Performed Loans / Total Loans	6.3%	6.0%
Loan Growth-YTD	4.4%	14.7%
Liquidity		
Liquid Assets/Total Assets	22.4%	23.7%
Liquidity Coverage Ratio* **		
High-Quality Liquid Assets (Total)	366,390,648	369,227,759
Net Cash Outflow (Total)	326,471,551	337,331,837
Liquidity Coverage Ratio (%)	112%	109%

Bank's respective key metrics throughout different quarters of 2018 and 2019 years is available in Annexes hereto.

4. About Capital

4.1. Minimum Capital Requirements

Under Regulation on Capital Adequacy Requirements towards Commercial Banks approved by the Presidential Order of the National Bank of Georgia No 100/04 dated October 28, 2013 all commercial banks shall meet minimum capital requirements. The latter Order covers Pillar 1 regulations, that were obligatory for commercial bank before December 31, 2017.
On December 18, 2017 NBG introduced supplementary Order #175/04 (Pillar 2 regulation) that set minimum capital requirements at 4.5%, 6% and 8% for Common Equity Tier 1 (CET1), Tier 1 and Total Regulatory Capital, respectively. Moreover, Capital Conservation Buffer with overall value of 2.5% that used to be integrated into Pillar 1 was separated from minimum regulatory capital requirements.
Buffers determined within Pillar 2 comprise the following:

- Unhedged currency-induced credit risk buffer;
- Credit portfolio concentration risk buffer which comprises of Name concentration buffer and Sectoral concentration buffer;
- Net stress test buffer determined through supervisory stress tests;

• Net GRAPE buffer determined by the National Bank of Georgia (NBG) through analysis of the results of assessment of the risk categories under the GRAPE and internal capital adequacy assessment process of the bank;

Unhedged currency-induced credit risk buffer shall be met with the same proportion of regulatory capital elements, as set forth in minimum requirements.
As the existing regulation covers transition period before year 2022, from 2022 minimum 56% of any capital buffer determined within Pillar 2 shall be satisfied through elements of common equity Tier 1 capital, minimum 75% shall be satisfied through elements of Tier 1 capital, and the remaining portion (maximum 25%) may be satisfied with elements of Tier 2 capital.

4.2. Capital Instruments

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

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

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

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

Additional Tier 1 capital includes perpetual subordinated loan for 300 million Russian Rubles received by the Bank on December 29 2016.
The perpetual subordinated loan has an unlimited term and are redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 2.5%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the issuer before the payment date.

Tier 2 capital is the supplementary component of the bank's core capital and includes subordinated loan, that is attributable to Tier 2 capital and general reserves that is subject to the limit of 1.25% of riskweighted assets of the Bank.
Below are the instruments that comply with the criteria for Tier 2 capital:
On 13 October 2014, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 126,400, with interest rate of 11% payable quarterly and maturity on 13 October 2021. On 31 July 2018 subordinated loan was restructured with interest rate of 7.5% payable quarterly and maturity on 14 October 2025.
On 31 August 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 816,985, with interest rate of 10.5% payable quarterly and maturity on 29 August 2025.
On 31 December 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 414,000, with interest rate of 11.5% payable quarterly and maturity on 26 December 2025.
In the case of a liquidation of the Bank, these loans are only repayable after all the obligations to the Bank senior creditors have been met.
The table below presents regulatory capital elements of the Bank for 2019 and 2018 years under Pillar 1 regulation in national currency (GEL):

	2019	2018
Common Equity Tier 1 capital before regulatory adjustments		
Common shares that comply with the criteria for Common Equity Tier 1	209,008,277	209,008,277
Accumulated other comprehensive income	9,651,661	9,827,019
Retained earnings (loss)	2,199,350	(11,632,761)
Common Equity Tier 1 capital before regulatory adjustments	**220,859,288**	**207,202,535**
Regulatory Adjustments of Common Equity Tier 1 capital		
Revaluation reserves on assets	9,651,661	9,827,019

Intangible assets	10,296,446	8,029,338
Regulatory Adjustments of Common Equity Tier 1 capital	**19,948,107**	**17,856,357**
Common Equity Tier 1	**200,911,181**	**189,346,178**
Additional tier 1 capital before regulatory adjustments		
Including: instruments classified as liabilities under the relevant accounting standards	13,926,900	11,576,400
Additional tier 1 capital	**13,926,900**	**11,576,400**
Tier 1 Capital	**214,838,081**	**200,922,578**
Tier 2 capital before regulatory adjustments		
Instruments that comply with the criteria for Tier 2 capital	63,013,893	52,378,780
General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	17,271,592	16,387,855
Tier 2 capital	**80,285,485**	**68,766,635**
Total regulatory capital	**295,123,566**	**269,689,213**

5. Bank Structure

VTB Bank (Georgia) JSC (hereinafter – Bank) was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. Tbilisi Chugureti District Court gave the Bank registration number 202906427. The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking licence issued by the National Bank of Georgia (the "NBG") on 19 May 1995.
As of December 31, 2019 the Bank has no subsidiaries.

6. About Shareholders

As of 31 December 2019 and 2018, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	***2019 %***	***2018 %***
VTB Bank OJSC	97.38	97.38
Lacarpa Enterprise LLC	1.47	1.47
others	1.14	1.14
Total	**100.0**	**100.0**

VTB Bank OJSC (hereinafter – Parent Company) is the immediate parent of the Bank. The ultimate controlling party for the Group is the Government of the Russian Federation ("RF"), acting through the Federal Property Agency, which holds 60.93% of issued and outstanding shares of the Parent bank as of 31 December 2019 (2018: 60.93%).

Shareholders Meeting Overview and Shareholder Rights

Shareholder rights:

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

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

7. Corporate Management

Shareholders Meeting Overview

In 2019 an Annual General Shareholders Meeting was held which registered 2 individual decisions made by two shareholders.
Annual General Shareholders Meeting was attended by the holder of 97.384322 % of voting shares.
Annual General Shareholders Meeting reviewed annual performance of the Bank, as well as disbursement of dividends, approved the Bank Statute and amended version of the Supervisory Board Regulations. By individual decision of the Shareholder changes were made to the composition of the Supervisory Board.

Supervisory Board and Affiliated Audit Committee and Risk Committee
Supervisory Board Members:

As of December 31, 2019 SB comprised of 8 members:

- SB Chairman - Oleg Smirnov;
- SB Deputy Chairman - Ilnar Shaimardanov;
- SB Member – Sergey Stepanov;
- SB Member – Maksim Kondratenko;
- SB Independent Member – Merab Kakulia;
- SB Independent Member – Gocha Matsaberidze;
- SB Member – Iulia Kopitova;
- SB Member – Asya Zakharova

By SB decision of October 4, 2019 the SB independent member was elected as the Chairman of the Audit Committee. The Audit Committee comprises three members:

- Chairman – Gocha Matsaberidze;
- Member – Merab Kakulia;
- Member – Ilnar Shaimardanov;

By SB decision of June 13, 2019 the Risk Committee was established, comprising three members:

- Chairman – Merab Kakulia;
- Member – Gocha Matsaberidze;
- Member – Maksim Kondratenko;

Supervisory Board determines key directions of Bank's activities, as well as its development strategy. Internal Audit Committee (IAC) reviews internal audit reports, regulatory documents related to functioning of internal audit system and etc. The Risk Committee reviews the Bank's risk and capital strategy, provides the SB with recommendations on the Bank's risk-appetite, as well as on the efficiency of risk management strategy and policy, works to maintain the Bank's sound risk-culture, makes an evaluates the efficiency of the functional risk management system and monitors the efficiency of measures to minimise risks.

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

SB Chairman – Oleg Smirnov is the graduate of the Ural State University of Economics, majoring in Finances and Lending (Post-Graduate). Mr. Smirnov also holds MBA of Higher School of Economics of State University of Russia. Oleg Smirnov has rich experience in a banking field, including membership of VTB Bank (PJSC) management since year 2019. Mr. Smirnov has been actively involved in development of retail banking business within the VTB Group.

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

SB Member - Sergey Stepanov graduated from Economic Faculty of Higher School of Economics of State University with a major in Banks and Banking. Banking experience of Sergey Stepanov counts many years. Since 2013 he has been supervising VTB Bank (PJSC) Subsidiaries Coordination Service as a Vice President.

SB Independent Member - Merab Kakulia is a graduate of Tbilisi State University with a major in Finances and Lending. Mr. Kakulia also holds a degree of Candidate of Economic Sciences from Lomonosov Moscow State University, as well as a degree of Candidate of Science from Tbilisi Economic and Social Problems Institute. Merab Kakulia has long experience in banking field. In year 2018 he was elected as an independent member of VTB Bank (Georgia) JSC SB.

SB Independent Member - Gocha Matsaberidze is a graduate of Moscow Technical University of Communications and Informatics with a major in Electrical connections engineer. He has also attended but not completed a course in Political Sciences delivered by the Soviet Union Council of Ministers' Academy of Social Sciences. Gocha Matsaberidze has long experience in banking field. In year 2018 he was elected as an independent member of VTB Bank (Georgia) JSC SB.

SB Member - Iulia Kopitova graduated from Saint Petersburg State University of Economics and Finance, majoring in Finances and Lending. Iulia Kopitova has long experience in banking field. Since 2017 she has been leading the Department of Analysis, Coordination and Product Development of VTB Bank (PJSC). Iulia Kopitova holds a position of Vice-President.

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

Frequency of SB and AC Meetings, Attendance Statistics and Overview of Discussed Matters:

Supervisory Board:

Throughout the year 2019 13 SB meeting were held, 3 of those were attended by the members and 10 were held using absentee voting.
Attendance of SB members accounted for 85-100 %.
Matters discussed by SB generally regarded: work of Shareholders Meeting, HR issues, business plan and respective performance reports, work of internal audit and Audit Committee, issues related to the bank development strategy, approving a deal with an affiliated entity, creation of branches and approving their regulations, approving internal regulatory documents, such as – Bank Org. Chart, Procedure for Remuneration of Directorate Members, Procedure for Remuneration of Employees with Supervisory Responsibilities, Risk Committee Regulation, Internal Audit Committee Regulation, Credit Committee Regulation, Assets and Liabilities Management Committee Regulation, Risk-Management Committee Regulation, Bank Strategy, Risk and Capital Management Strategy, Risk-Appetite Monitoring Procedure and Procedure for assessment of SB, SB Committees and their members.

Internal Audit Committee (IAC):

Throughout the year 2019 6 IAC meeting were held – 4 in attendance of its members, 2 by absentee voting. Matters discussed by IAC generally regarded: quarterly and annual reports by Internal Audit Department, Internal Audit Department Annual Plan, approving candidates for job openings within the Internal Audit Department.

Risk Committee

Throughout the year 2019 the Risk Committee reviewed the following issues: Internal Capital Adequacy Assessment Process performance results for 2018, Risk Identification Report 2018, Risk and Capital Adequacy Reports, Q1, Q2, Q3 2019 financial reporting, "On Strategic Risk Policy" revised/new revision of risk and capital management strategy, proposal on the JSC VTB (Georgia) risk appetite metrics, draft regulation on procedure for JSC VTB (Georgia) risk appetite monitoring and other.

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

Competences of SB, BoD and CEO are regulated by acting Georgian legislation and VTB Bank (Georgia) JSC Statute. Authorities can be delegated by the decision or respective body. The Bank operates "Interest Conflict Management regulation", approved by the SB that regulates authorities and limits for transactions with affiliated parties.

Board of Directors and Affiliated Committees

BoD Members

As of December 31, 2019 BoD comprises of 6 members:

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

Committees under BoD:

Credit Committee - comprises of 7 member, including the chairman, deputy chairman and members;
Assets and Liability Management Committee comprises of 8 member - the chairman, deputy chairman and members and Risk Committee comprises of 8 member, including the chairman, deputy chairman and members;

Budget Committee - comprises of 8 member, including the chairman, deputy chairman and members;
Troubled Debt Committee - comprises of 6 member, including the chairman, deputy chairman and members.

Education and Experience of BoD members

BoD members are elected by the decision of SB. Education, experience and business reputation of BoD members is in full compliance with respective legislative requirements.
CEO - Archil Kontselidze graduated from Georgian Technical University with major in Car Construction. Besides, he received Bachelor's degree in Corporate Financing at St. Bonaventura University, USA. Archil Kontselidze has long history of working in banking field and since 2009 he has been serving as a CEO of VTB Bank (Georgia) JSC.
CFO - Mamuka Menteshashvili graduated from Tbilisi State University majoring in Economics and Management of Car Industry, as well as Georgian Technical University with major in Engineering Economics. Mamuka Menteshashvili has long history of working inbanking field and since 2009 he has been serving as a CFO of VTB Bank (Georgia) JSC.

CRBO - Valerian Gabunia graduated from Tbilisi State University majoring in Organization and Management of Foreign Economic Activities. Besides, he holds Master's Degree in Business received from Chester University Business School. Valerian Gabunia has long history of working in banking field and since 2010 he has been serving as a CRBO of VTB Bank (Georgia) JSC.

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

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

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

Curatorial Fields of BoD Members

BoD members supervise over following fields: finances, corporate business, retail business, risk management, operations management.

8. **Bank Strategy**

VTB Bank (Georgia) JSC Strategic Plan for upcoming three (2020 -2022) years is aimed at meeting all strategic objectives of the bank through optimizing available branches and service centers, utilizing them to the maximum extent along with further development of digital sales remote channels.
Key objectives under the three-year Strategic Plan include: Bank focuses on three major directions: corporate, SME and individuals. During the next three years, the Bank will place particular emphasis on corporate and small business development. In this way the Bank intends to attract broad range of business organisations and individuals with solid financial base. On that basis, further development of retail business is expected to build mainly on VIP and Premium clientele.
The model for development of all three business directions, as shown above, will give rise to increased transactions and banking operations.
In the nearest three years the Bank will focus on further development of digital technologies: improvement/development of Bank-Client software and mobile banking development as well as introduction of other digital sales channels. Efforts in this direction will ultimately lead to improved satisfaction and loyalty among customers together with increased volume of carried out transactions.
The Bank additionally plans to develop operations optimization model to its branch network in order to deliver more satisfactory service to the clientele. These strategic plans shall lead to increased commission and miscellaneous non-interest revenue. In terms of corporate and SME business the Bank intends to introduce new business model based on the implementation of the function of business advisor and business partner of a client. This will result in optimized and improved service processes, making products and services tailor fit to customer needs, which shall serve as a foundation to sustainable and gradual development of those directions.
Meeting set out three-year objectives shall result in:

- Increase of corporate and SME loan portfolio by no less than 10.4%;
- Increase of individuals' loan portfolio by no less than 9.6%;
- Maintaining interest margin at point no less than 5%;
- Average annual increase of commission and other non-interest revenue by no less than 7%;
- Reduction of correlation between bank expenses and revenue to no more than 59%;
- Ensuring compliance with capital adequacy and miscellaneous prudential requirements envisaged under Basel III and imposed by the NBG.

9. Risk Management

9.1. Risk Strategy

General Provisions

Risk management Framework document of the Bank is VTB Bank (Georgia) JSC Risk and Capital Management Strategy (hereinafter – Risk Strategy) approved by the SB. The Risk Strategy defines core risks and goals and objectives in regard with capital management, as well as approaches to arrangement of risk management, core risk identification principles, org. chart for risk management, risk appetite, capital adequacy for risk covering, guidelines for risk stress testing, risk and capital management reporting and disclosure, core risk and capital management system development provisions.
Core guiding documents and principles of the Bank are VTB Group PJSC (hereinafter – Group) Strategy with consideration of indigenous features, acting legislation and regulatory requirements. Risk Strategy is based on medium-term objectives.

The risk Strategy is subject to annual revision (Last revised on December 31, 2019).
Risk and Capital Management System is an aggregate of interconnected systems of collegial bodies and units executing Risk and Capital Management, internal documents (methodologies, models), processes and IT component. The system allows the Bank to identify, assess, monitor and control risks.

Risk and Capital Management System covers all essential fields and core for the Bank risks, stipulated in Clause 9.3 herein below.
The Bank elaborates separate policies and respective procedures in regard with each particular risk type (in terms of methodology and organization).

Strategic Goals and Objectives

Core strategic goal of Risk and Capital Management System is to avoid or minimize impact of possible risks, the Bank is subject to on the operating market, associated with inability to receive income/ incur financial loss, ensure financial reliability of the Bank and its sustainable development in accordance with set strategy in a long run.
Bank Risk and Capital Management System corresponds to nature and scale of all activities/ transactions carried out or risks shouldered by the Bank. Key strategic objectives include: ensuring compliance with regulatory and supervisory requirements; identification of risks that Bank's activities are prone to; risks analysis; development of a Risk Culture; using best practice-based approaches for efficient Key Risk assessment, control (restrain) and monitoring; assessment of Bank risks using risk-appetite indicators; establishing constant control over risk covering capital adequacy; ensuring normal operation of the Bank during emergencies and ensure effective integration of Risk and Capital Management System in processes of strategic and business planning.
Goals and objectives laid out above are long-term. They may be broadened or detailed impromptu during a working process or implementation of measures directed at improvement of Risk and Capital Management procedures.

Approaches to Arrangement of Risk Management System

Requirements applicable to arrangement of Risk Management System are established by elaborating and implementing respective internal regulatory and methodologic documents (decisions). Regulatory base is formed in terms of each key risk.
Risk management methods and procedures used within a bank serve a purpose of integrating Basel II/III approaches with consideration of requirements established by regulatory body.
Risk Management approach of the Bank is based on regulatory requirements, Group standards and risk-profile of the Bank and covers: risk identification methods;risk assessment methods; limit system established based on risks; Capital-at-Risk assessment; methodology of creating reserves for possible losses associated with loans and other types of operations compliant with IFRS and national standards; methodological platform for stress-testing, with consideration of regulatory requirements and parameters as well; system of risk-appetite indicators; methodsfor identification and processing potentially troublesome debts; requirements towards automatic system for risk management.
Moreover, the Bank determines authority of Bank's managerial bodies in relation with transactions (deal) associated with taking risk and internal control procedures.

Key Principles for Risk Identification

Arrangement of risk identification process implies following activities:

- Definition of a potential risks list in compliance with regulatory and international banking risks-related standards;
- Definition of transaction/ activity types that are prone to identified risks, as well as definition of structural units responsible for monitoring of such risks;
- Constant updating of risks list, in particular after identification of new risk types and subtypes during elaboration and implementation of business development measures, envisioned under development strategy and business-plan, as well as during implementation of control functions by the internal audit unit;
- Analysis of newly identified risks for determining their impact on sustainability of the Bank;
- Elaborating reports on identified and assessed key risks

Risk and Capital Management Org. Chart

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

- SB;
- BoD;
- Special collegial bodies (Risk Committee (under Supervisory Board), Credit Committee, Assets and Liabilities Management Committee and Executive Management Risk Committee);
- Authorized officials/ groups, organizational units.

Status and field of activities of listed working bodies is defined by the SB decision.
Risks and capital strategy, policies and concepts are defined atSB level. BoD approves all other regulatory documents. Methodologic and impromptu matters pertaining risk and capital adequacy control are under to committees' competence.
Functions and authorities of structural units and employees (officials) in regard with risk and capital management are set forth in internal regulatory documents of the Bank.

9.2. Risk-appetite

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

Risk-appetite is used to ensure sustainability of the bank in the long run, including in stressful developments.

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

Risk-appetite comprises of high-level risk-appetite, centralized (calculated at Group level) risk-appetite indicators that are allocated to the Bank by the Group, as well as local risk-appetite metrics, that are elaborated at own initiative, based on best banking practices, for risk management of the Bank.
High level risk-appetite covers following basic quantitative and qualitative provisions (indicators).

Classification of Risk-Appetite Quantitative Metrics
Risk-appetite quantitative metrics are categorized under following basic groups:
- Loss by risk types;
- Capital adequacy;
- Liquidity;
- Market risk;
- Asset/Liability structure;
- Credit concentration.

When determining risk-appetite we take into account results of key risk types identification that the Bank is exposed to considering their level of relevance to the Bank.

Risk-appetite Benchmarks
Risk-appetite Quantitative Metrics are calculated using following benchmark system:
- Target level (Green zone) – optimal level of risks taken for achieving strategic objectives of the Bank ;
- Trigger (Yellow zone) – violation of this benchmark implies escalation and necessity to elaborate measures for risk reduction;
- Limit (Red zone) – critical value that if violated threatensfinancial stability of the Bank and requires contingency plan

Risk-appetite performance indicators are reflected in Risk Reporting and presented to SB on quarterly basis.

9.3. Key Risks

Key Risks Overview
The Bank identies the risks it is or may be exposed to. Under the framework of mentioned identication procedure the Bank also identies key risk types. Risk identication procedures are regulated under various internal documents of the Bank all based on regulatory requirements.
The Bank, considering its size, nature of business activity and scale identies following key risk types:

– Credit Risks (including: default risk, migration risk, counterparty credit risk, residual credit risk (concentration risk of collateral portfolio) including credit concentration risk on groups of affiliated borrowers);
– Market Risks (including: treasury debt securities market risk, interest rate risk in the banking book, net structural open FX risk, residual market risk;
– Liquidity risk: (including liquidity risk, excess liquidity risk);
– Operational Risk (including legal risk);

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

The Bank classifies as minor risks the following risks:
- Strategic risk (minor at local level),
- Compliance risk,
- Reputational risk,
- Real estate risk,
- Country (political) risk,
- Concentration risk (as regards sectoral credit concentration, country-specific credit concentration and financial instruments concentration).
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***Basis of Risk Management**:*

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

Bank's Risk Management Procedures and Assessment Methods are being developed and improved under the process of step-by-step integration of Basel II/III.
Risk Assessment implies qualitative (in particular, expert assessment) and quantitative methods, including those based on mathematical probability-statistical models of different complexity.
Bank's Risk Management Approaches are being developed based on regulatory requirements and Group standards, considering correlation of Bank's risk prole to take risks. (See Approaches to Arrangement of Risk Management System).

Risk Management Structure

Risk assessment and management procedure and other conditions are regulated by resolutions of SB, BoD and other respective committees (Credit Committee, Asset -Liability Management Committee (hereinafter – ALCO, Executive Management Risk Committee). Authorities of dierent managerial bodies of the Bank see below:

1) SB:

- Defines and coordinates General Policy of the Bank in regard with particular types of key risks and elaborated strategic directions for Key Risk Management within the Bank;
- Approves Bank's Risk and Capital Management Strategy, including list of high-level risk-appetite and risk-appetite metrics;
- Defines system of authorized collegial bodies for purposes of managing each particular key risk;
- Makes decisions pertaining such Key Risk Management matters that fall outside scope of competence assigned to
- other authorized (subordinated) management bodies;
- Reviews Key Risk Reports within the scope of its competence.

2) Risk Committee

- Performs preliminary examination of the Bank's risk and capital management strategy, defines priority areas for the Bank's risk management activities;
- Presents to the Bank's Supervisory Board recommendations on the Bank's risk appetite as well as onthe effectiveness of the Bank's risk strategies and policies, including the maintenance and allocation of capital against identified risks.
- Promotes implementation of sound risk-culture at every level of the Bank;
- Assesses the effectiveness of the Bank's risk management system;
- Oversees the implementation of effective measures to minimize risks.

3) BoD

- Approves regulatory and methodological documents concerning Key Risks, except for the documents that define Bank's policies and strategic directions;
- Makes decisions regarding Key Risk Management issues that fall outside the scope of SB and other authorized bodies' competence;
- Reviews Key Risk Reports within the scope of its competence.

4) ALCO

- Makes decisions that are commanded by individual features of particular key risk types falling within its competence;
- Within the scope of its competence makes decisions in regard with matters/ documents pertaining Market Risks
- (trade operation risks, currency, interest rate risks) and Liquidity Risks management;
- Makes general decisions concerning covenants for carrying out transactions that are associated with taking risk, as well as regulating process of imposing covenants and ensuring debt repayment;
- Controls compliance with limits, internal regulations and target indicators set by BoD and Assets and Liabilities

Committee, including those of set risk-appetite.

5) Credit Committee

- Makes decisions regarding operations carrying Credit Risk;
- Sets maximum permissible credit risks to-be taken by the Bank
- Reviews and makes decision on other matters carrying Credit Risk within the scope of its competence.

6) Executive Management Risk Committee

- Organises the process of defining the risk and capital management strategy and Bank's risk-appetite metrics, as well as control over its implementation;
- Coordinates and oversees the compliance with National Bank requirements in the risk management area and implementation of VTB group standards, facilitates the elaboration and preperation of organisational decisions required in the field of the Bank's risk management strategy development;
- Orginises performance of approved risk-appettite metrics within the scope of its competence;
- Reviews and approves the results of identification of the risks inherent in the Bank's activities;
- Performs regular review (monitoring, analysis) of the risk portfolio within the competence of the Committee;
- Facilitates the development of risk-culture, approves risk-management methodology within the scope of its competence;
- Supports risk-related reporting system to ensure proper reporting to the competent collegial authorities and officials;
- Orginises and takes appropriate decisions on other issues falling within the scope of its competence.

7) Risk Department

- Ensures effective functioning and development of the risk management systems of the Bank based on the VTB group Standards and Best Practice; Ensures effective functioning and development of Key Risks Management Systems based on Group standards and best banking practices;
- Elaborates internal normative-methodological documentation of the Division taking into account prudential requirements; Elaborates internal regulatory and methodological documents pertaining Key Risks Management taking into account prudential requirements;
- Elaborates proposals regarding core principles and approaches applied within the Bank in the field of Risk Management;
- Develops credit strategies and policies and introduces measures for their further implementation.
- Performs risk analysis (monitoring) analysis (monitoring) of transactions and projects carrying Key Risks;
- Prepares and presents to the Bank's and Group's managerial bodies reports pertaining Key Risks.

8) Compliance Control and Financial Monitoring Department

- Facilitates creation of effective Compliance Risk Management System;
- Elaborates core requirements concerning Compliance Risk Management;
- Ensures introduction of the system/programmes to combat money-laundering and the financing of terrorism (ML/TF), including elaboration of internal policies/procedures, monitoring of transactions, provision of staff education and trainig programmes and observance of international sanctions regime;
- Taking in account risk-based approach, provides for the ML/TF management including customer acceptance policies, evaluation of products and services, as well as identifying risk factors associated with supply channels;
- Ensures eective operation of Risks Management System that will protect the Bank from Regulator Impact Risk,
- Reputational Risk or Financial Loss Risks to which the Bank may become exposed due to incompliance with legislation, normative rules and standards (Compliance Risks);
- Carries out current monitoring and control of Compliance Risks (including ML/TF) and presents to Management/ Collegial bodies of the Bank reports on managing risks identified as a result of such control;
- Analyses the factors that may increase Compliance Risk and have significant impact on the Bank, as well as its capital, such as business activity of the Bank, number and signicance of incompliance with business and ethical standards, number and signicance of court proceeding and customer grievances/appeals.

9) Internal Audit Committee

- Defines the Bank's approaches to financial reporting and policies on internal control matters;
- Oversees the ongoing process of financial reporting process and approves published financial

statements;Carries out the monitoring and actively cooperates with both internal and external audit of the Bank;

- Assesses the effectiveness of the external auditor, presents opinion on the candidacies of external auditors, makes appropriate recommendations to the Supervisory Board regarding their candidacy, appointment, official salary or dismissal;
- Oversees the Bank's accounting policies and practices;
- Considers third party views on the Bank's risk management overall framework, as well as on the effectiveness and structure of its internal control system;
- Ensures the adequacy of functions, the independence and mutual cooperation between internal and external auditors and their functional interoperability.
- Reviews a recommendation letter prepared by external auditors and controls the implementation by the directors of appropriate measures to address any deficiency.

The Bank establishes Control System over functionality of Key Risks Management System. The latter system covers each
and every procedure elaborated in regard with each particular Key Risk.
Information regarding results of such inspections shall be directed to the Bank Executive O-cials and respectively authorized units of the Bank, for purposes of analyzing eectiveness of Key Risks Management and elaborating necessary adjustment measures (elimination of identied violations, errors and shortcomings and improvement of respective
processes),
Key Risks Management Procedures and Methods are regulated by internal documents of the Bank that are approved by
managerial bodies or the collegial body authorized in compliance with the procedure established by the former.

9.4. Credit Risk

Credit Riskis dened as a risk of incurring loss due to non-performance, non-timely performance or underperformance of the counterparty on contractual obligations undertaken in favor of the Bank.
In particular, Credit Risk is associated with operations such as:
• Crediting;
• Issuing guarantee, opening and conrming Letter of Credit;
• Purchasing debt securities;
• Purchasing contractual (demand) rights;
• Borrowing gold and securities;
• Selling (purchasing) nancial assets in installments (delivering nancial services):
• Carrying out trade operations on Derivative Instruments;
• Leasing transactions;
• Factoring transactions.
Credit Risk Prole (structure) taken by the Bank is determined based on the Loan Portfolio composition that in accordance with Bank Development Strategy and Credit Policy is formed predominantly by medium corporate clients, credit institutions, executive bodies and retail customers of the Bank.

Authority of Collegial Bodies and Executive Officials Regarding Taking Risks
Risk-related authority system is regulated by the Bank statute, internal regulatory documents and resolutions of respective Bank bodies.
Managerial bodies of the Bank (Shareholders Meeting, SB/ BoD, Committees), authorised persons make decisions regarding credit deals within the scope of competence prescribed under Bank statute, official instructions and Regulations of those particular bodies.
Management bodies of the Bank are entitled to delegate decision-making authority to:
• Credit Committee that makes decisions on carrying out credit deal/ imposing credit limits/ dening status of borrowers/ credit deals;
• Executive Officials/ Group of Executive Officials;
• In regard with retail business transactions it is permissible to automatically make credit risk-related decisions in compliance with methodology established by the Bank after completing proper credit inspection.
Collegial bodies of the Bank authorized and responsible to make credit risk-related decisions act within the scope of their authorities that are set forth in Regulations of respective bodies. Delegation of authority to Executive O-cials of the Bank shall be formalized by the Bank Order or in prescribed cases – by the Resolution of authorised collegial body.

Risk Assessment, Capital Demand and Stress-testing Methods

One of the key methods employed by the Banks for Credit Risk Assessment is methodology of determining Customer Solvency Level based on analysis and expert evaluation of nancial and non-nancial metrics.
Besides, the rating of Customer (group of a-liated Customers) is taken into account when determining credit deal pricing terms and conditions.
When assessing Bank's Credit Risk following universal approaches (standards) are applied:
1) In terms of Corporate Credit Risk Assessment:
• In regard with each signicant type/class of a counterparty (defined under respective classication acting within the Bank) respective internal methods of Counterparty Solvency Assessment (rating) is applied that take into account specic features characteristic to particular segment of clients (including sovereign counterparties, medium corporate clients, financial institutions);
• A result of applying respective methods is an Internal Rating and corresponding hypothetical likelihood of respective Counterparty going default during upcoming 12-month period (Default Probability);
• Bank's Internal Rating System is subject to regular expert examination and validation by the Risk Management unit of the Bank.
2) In terms of Retail Credit Risk Assessment:
• Customers are assessed using Scoring Models (Cards), that are based on Bank statistics (or Group statistics (if available) and information received from external sources, as well as on Credit Rules elaborated considering Bank statistics (or Group statistics)). Scoring System is a unied center for automatic decision-making; When employing individual approach to the Customer a complex assessment is carried out.
For purposes of improving eectiveness of Credit Risk assessment methodologies, with regulatory requirements and international banking supervision standards in mind, the Bank employes Procedure for Internal Validation (assessment) of Applicable Methods, Models and Procedures. The procedure is carried out by the independent unit within the Head Office.
Credit Risk assessment models are being validated based on the level of their signicance.

Risk Restriction and Minimization Methods

Core directions (methods) employed by the Bank for Credit Risk Management are set forth in Group Credit Risk Management Standards.
Key instrument for restriction and control of Credit Risk Level is a Credit Limits System. The latter unitesboth Group and local and prudential limits and restrictions. Those limits restrict volumes of transactions per both separate customers and groups of a-liated borrowers, as well as level of Credit Risk concentration levels by fields of activities and instruments.
As a Regulatory Credit Risk Limits the Bank employs following limits imposed in accordance with NBG requirements (obligatory norms)
In order to reduce Credit Risk taken by the Bank under the framework of unied and local approaches the Bank uses bonds, including their key types, such as: pledge, mortgage, individual guarantee, bank guarantee, government and municipal guarantee.
Availability of a bond that satises Bank's requirement and its su-ciency are taken into account when determining terms and conditions for credit deal pricing, as well as during decision-making in regard with a particular credit deal.
When carrying out the expert assessment of the Bond deal the Bank determines market and liquid value of the collateral.

Monitoring Procedures

For purposes of preserving Benchmark Portfolio Limits, as well as under the framework of risk identication and assessment of procedures the Bank carries out monitoring of Loan Portfolio
For purposes of ensuring proper monitoring of Corporate Credit Risk Levels the Bank denes risk-appetite metrics and benchmarks (target level, trigger, limit separately or all together, whichever is appropriate) and standardized actions to-be taken if risk-appetite is reached.
Retail Credit Risk Level Monitoring implies control of risk-appetite benchmarks, monitoring of aggregated and detailed indicators by retail products portfolios, as well as of a quality of Loan Portfolio by customer categories, analytical reporting system, procedures of Portfolio Risk Management that allow timely response to deterioration of Portfolio quality and implement mitigation measures.
Within the scope of Retail Crediting the Bank also employs monitoring of balance between the Risk Level and Return on Retail Loan Portfolio.

Internal Reporting

For purposes of keeping Shareholders, Creditors and other Stakeholders up to date on nancial performance and Risk Management System of the Bank, the latter regularly prepares external reports in compliance with IFRS standards, including Credit Risk Management-related matters.

9.5. Market Risk

Market Risk implies a risk of Bank's nancial results' deterioration as a result of disadvantageous changes to value of its Assets and Liabilities (pyables/ receivables) incurred due to the impact of market indicators – risk factors (such as foreign currency exchange rates, interest rates, credit spreads, quotation of stocks and stock indexes and so on).
Based on nature of Market Risks taken by the Bank and approaches to their management Bank's transactions are divided into Banking and Trading Book operations.
Transactions attribute to Trading book if they are carried out for gaining prot from reevaluation or hedging other trade operations, as well as if their nancial output and currency position are formed as a result of transactions with Customers.
Banking book transactions (hereinafter – Non-trade transactions) are those that do not subject to market reevaluation (accounted for with depreciated value) and/or their market reevaluation do not depend on Market Risk Factors.
Detailed classication of the transactions for purposes of Market Risk Assessment and management is set forth in internal regulatory documents of the Bank

Authorities of Bank Bodies and Structural Units in terms of Taking Risks

Market Risk Management-related authorities are divided among Bank Bodies and Structural Units in the following manner:
BoD in terms of Market Risk carries out functions prescribed under the chapter Key Risks.
ALCO, in terms of Market Risk reviews values of risk-appetite indicators, controls compliance of open currency positions volume with NBG regulatory requirements, imposes internal limits and restrictions in regard with Market Risks, makes decisions pertaining advisability of Market Risks hedging in general and their particular forms.
Risk Unit,elaborates Market Risk Assessment Methodology, prepares proposals in regard with Market Risk Management issues, controls preservation of set benchmarks and particular limits.
Treasury,manages structural and overall open currency position, controls normative/ regulatory limits of open currency position, manages Bank's Interest Rate Risk and carries out other functions that rise from Market Risk Management Objectives, in compliance with regulatory documents approved by the Bank in that field.
Restrictions in place in regard with taking risks, Market Risk Management Principles and Procedures are regulated under internal regulatory acts and documents of the Bank.
Risk-appetite metrics in terms of Market Risk is approved by the SB.

Risk Assessment Methodology
Market Risk Assessment Methodology is approved by the BoD.
Market Risks are assessed based on following components:
• Trading book Market Risk Assessment;• Interest Rate Risk Assessment by Banking book operations sensitive towards Interest Rate changes;
• Currency Risk Assessment by Banking book operations sensitive towards currency exchange rate changes.
Key metric of the Bank according to which a Market Risk can be assessed in terms of Trade Operations, is as follows:
• Loss Risk Assessment – stress-testing Trading book position using respective scenario;
• Trading Book Financial Results Volatility Assessment - VaR (Value-at-Risk) metric that is calculated using historical modeling method;
• Assessment of factual loss accumulated from the start of the year according to Trading book – aggregated form the beginning of the year loss according to the Trading book (stop-loss).
Key metrics for **Interest Rate Risk** Assessment:

• Sensitivity of Bank Interest Rate Position towards change of Interest Rate that is assessed (1) in amount of Net Discounted Value of Interest Position reduction and (2) in amount of Net Interest Income during disadvantageous parallel deviation of Protability Curve by 100 basic points;
• Economic Capital for Interest Rate Risk Coverage – evaluation of Currency Position Net Discounted Value reduction during possible disadvantageous change.

Quantitative Assessment of Currency Risks by structure of **Open Currency Position** is carried out using VaR method allowing to evaluate the most probable negative impact (with given Condence Interval) on nancial result of Currency Position Value Change.
Banking book Currency Riskis managed by the Bank based on approved regulatory and methodological

documents ensuring correspondence of assets and liabilities in terms of currencies and restriction of Open Currency Position within set limits, including in terms of risk-appetite and Regulatory Limits for Open Currency Position. For purposes of Currency Risk Management the Bank introduces particular limits and metrics characteristic to Currency Risk Level of the Bank.

Monitoring Procedures and Procedure for Response to Reaching Trigger Benchmark

Taken Market Risk Level is being monitored via Limit System.

Trading Book Market Risk Limit System is employed by the Bank in coordination with the Parent Company, if the former holds such portfolio.

Interest Rate Risk Coverage Capital limit is controlled by the Risk Unit. If the Bank reaches/ is anticipated to violate set trigger benchmark, the latter shall take respective actions for reducing Interest Rate Risk.

For purposes of Market Risk Metrics Control, besides the limits, the Bank introduces alarm metrics, such as trigger benchmarks, that indicate depletion of set limits that shall be deemed as a su-cient alarm for the Bank taking action.

Structural units of the Bank responsible for Market Risk management have to take all necessary actions to ensure adherence to the limits. Further control over preservation of Bank's Trade Transactional Limits is carried out by Risk Management/ Treasury Unit at the end of each business day, for purposes of ensuring compliance of carried out trade transactions metrics with imposed limits.

Internal Risk Reporting

Reports on Bank's Market Risk is prepared by Risk Management unit and Treasury with frequency regulated under internal regulatory and methodological documents of the Bank.
The mentioned report includes data on use of Market Risk Limits, proper and excessive expenditure of limits and other relevant matters.

9.6. Liquidity Risk

Liquidity Risk shall be dened as risk of incurring loss by the Bank due to the latter's inability to fully and/or timely perform under its obligations.
Liquidity Risk Management implies aggregate of Bank's Asset and Liability Management Activities targeted at maintaining current solvency of the Bank under condition of ensuring optimal correlation between Liquidity Risk Level and protability of transactions.
Functions of Collegial Bodies and Units In Terms of Risk Management
Liquidity Risk Management-related functions and duties are distributed among Collegial Bodies and StructuralUnits of the Bank in the following manner:
BoD:
• Approves Liquidity Risk related regulatory and methodological documents.
ALCO:
• Denes internal normative values of Liquidity and controls their preservation, makes decisions regarding management of assets and liabilities targeted at maintaining proper Liquidity Level and denes measures for mobilization of liquid assets in compliance with acting regulatory acts if liquidity crisis arises.
Treasury:
• Leads NOSTRO Accounts Positions of the Bank in terms of future payables and receivables by valuation terms and regulates balances on mentioned accounts, carries out other active operations, elaborates procedures for financing active transactions for purposes of regulating and properly distributing cash ow, elaborates Plan for mobilization of liquid assets in compliance with acting regulatory acts in case of a liquidity crisis.
Risk Management Unit:
• Elaborates Liquidity Risk Management Regulation and Risk Assessment Methodology and submitss to the BoD for approval;
• Prepares reports on anticipated liquidity level within the Bank and various scenarios of its change, in compliance with Liquidity Risk Assessment Methodology;
• Prepares Internal Liquidity Normative Values for approval by the ALRM Committee;
Reporting unit:
• Prepares and submits all types of Bank Liquidity-related reports in compliance with requirements of national

regulatory body.

Liquidity Risk Management Procedure

Liquidity Risk Identication and Monitoring Procedures, that serve as a guideline for all involved structural units, cover measures, such as: anticipating and situational modelling of Bank Liquidity Level; monitoring Bank Liquidity Position calculated with consideration of various scenario analysis, for purposes of identifying inflow and outflow mismatch; identication and monitoring of key internal and external factors having signicant impact on Bank Liquidity; forming demand on quality of securities comprising Treasury Portfolio; control of adherence to NBG imposed Liquidity Average Ratio and Liquidity Coverage Ratio by monitoring factual and anticipated values of norms; making and implementing decision regarding management of assets and/or liabilities targeted at maintaining Bank Liquidity; forming internal reports reecting current and anticipated Liquidity Levels of the Bank.
For purposes of restricting Liquidity Risk normative values/limits for Insu-cient or Excessive Liquidity Risks, as well as for Concentration Risk, are set.
Liquidity Risk Quantitative Assessments is carried out in compliance with Liquidity Risk Assessment Methodology. Results of Liquidity Risk Assessments are applied for controlling su-ciency of available funds for carrying out current settlements under customer orders and fullment of shouldered undertakings, as well as for identifying possibility of Bank Asset Portfolio planned growth.

9.7. Operational Risk

Operational risk shall be interpreted as a risk of Bank incurring loss due to inadequate and improper internal processes and systems, personnel violating them or impact of external factors.
The denition above covers Legal Risk, however excludes both Strategic and Reputational Risks.
The guiding documents of the Bank in terms of Operational Risk Management are: NBG Regulation on Operational Risk Management by Commercial Banks, Basel Committee approved documents pertaining Operational Risk Management, as well as respective regulatory and methodological documents approved by VTB Bank.
Operational activities of the Bank are based on Regulation on Operational Risk Management, Regulation on Operational Risk Assessment Procedures, Instruction for collection of data regarding Compliance Risk Metrics and preparation of Operational Risk Report, Bank Business Continuity Policy and Business Continuity Plan framework documents.
Operational risk is associated with all products, activities, processes and systems, therefore Effective Operational Risk Management is one of fundamentals of Bank's Operational Risk Management Program.

Organizational Structure for Operational Risk Management

Effective management and control of Operational Risks (hereinafter – OR) facilitates achieving Bank's business objectives. OR Management System is vital for avoiding and minimizing potential loss that the Bank may incur due to OR realization.
Bank goals in terms of OR Management:

- Identication, assessment and denition of acceptable OR Level;
- Taking timely actions for maintaining acceptable OR Level;
- Minimization of OR realization impact on Bank's nancial performance;
- Control of OR Management Eectiveness;
- Improving security, reliability and competitiveness of the Bank;
- Improving systems, processes and technologies employed by the Bank;
- Ensuring compliance with legislative and regulatory requirements (including Capital Adequacy in terms of OR).

Considering OR Goals described above the Bank tackles objectives, such as receiving timely and accurate information on OR Level; Quantitative and Qualitative Assessment (Measurement) of OR Level; Bank's OR Analysis and assessment at product, process and system levels; combining particular OR types for purposes of assessing measures that are planned for reducing single OR type for evaluating the reducing or increasing impact level on other OR types; ensuring functionality and development of OR Management System that complies with regulatory and legislative requirements established in regard with OR Management and Control and minimization of OR realization impact.
Achieving above goals and objectives result in minimization of OR realization impact and reduction of consequential nancial results; early identication of OR at product, process and system levels; reduced probability of OR instigation in the future in terms of key business activities of the Bank; ensuring ability to use leading approaches for Capital calculations under OR.

Procedure for Risk Metric-Related Data Gathering and Preparation of OR Report

Procedure for Risk Metric-Related Data Gathering and Preparation of OR Report is regulated by respective instruction that is a methodological and procedural document of the Bank pertaining OR and Compliance Risk-related data gathering and preparation of report on taken OR.
Main stages of Risk Event-related data gathering include: identication of Risk Event (RE), classication by various directions, analysis of RE causes and assessment of results, registration, adjustment and coordination of RE and associated results, actualization of data pertaining RE, elaboration of RE Response Plan and minimization of RE probability in the future.
Information on RE and associated results is gathered in the Bank on regular basis and encompasses all business directions, operations, processes and particular Bank products.

RE-related information is registered in special software module that is designed and functions within the framework of Group's OR Automated System developed on the base of SAS eGRC platform.

Responsibilities and Authorities of Bank Bodies and Structural Units Regarding Taking Risks

For purposes of ensuring eective OR Management functions and duties of OR Management Process is divided based on **three lines of defense**:

- **First line of defense** is represented by Bank units that can product ORs during performing their duties, carry OR, bear responsibility for day-to-day management of OR (identication in everyday activities, classication, assessment, planning mitigation measures, elaboration of specic OR Management and Control Measures
- **Second line of defense** independently assesses Bank units, reviews and inspects the rst line of defense (exhaustiveness and accuracy of information submitted by the latter), acts as a coordinator for elaboration of uni-ed, coordinated OR Management Program. Second line of defense is upheld by: Risk Management Unit, Compliance Control and Financial Monitoring Division and Managerial Bodies of the Bank
- **Third line of defense** is represented by the audit. Internal Audit Department of the Bank controls e-ciency of General OR Management Processes and their su-ciency for performance as independent evaluator.

IAD:

– Assists Managerial Bodies of the Bank in ensuring effective functioning of the Bank;

Provides the Supervisory Board and Directorate with independent judgments on the effectiveness of the Bank's internal control systems, risk management, management systems and processes.
Authorized body of the Bank (SB, BoD, ALRM Committee) is responsible for OR-related control, coordination and consultancy.
Head of Risk Management Unit/ CRO in terms of OR Management ensure eective functioning and development of OR Management System by actualization of respective functions (making necessary managerial decision, escalation of signicant OR-related problems/ matter and etc.).
Risk Management Unit of the Bank provides methodological and organizational support of OR Management System implying elaboration and integration of eective organizational and technological methodologies (including OR-related data gathering, performing KRI assessment, control and scenario analysis; in terms of OR Management the Unit coordinates actions of other structural unit, arranges system for gathering, controlling and analyzing information for proper OR Assessment, performs OR Analysis and Assessment and carries out other functions envisaged under relevant regulatory documents.
Heads of Bank units ensure validity, exhaustiveness and timeliness of disclosed OR-related information, control of OR impact minimization measures, as well as eectiveness of OR Management Measures and control of constant readiness of unit's business continuity plan.

Risk Assessment, Capital Demand and Stress-testing Methods

The Bank employs quantitative and qualitative instruments for OR assessment/ measurement. Key OR identication and assessment methods include:
Information Gathering on OR Events/ Occurrences- procedure of consolidating signicant and necessary information for assessment of OR event impact and eectiveness of materialized OR response procedures;
OR KRI monitoring - implies metrics or statistical data that reect information on potential OR-related loss and is used for monitoring of particular elds that may be aected by potential OR-related loss;
OR Self-certication – expert evaluation of their respective processes and activity types performed by employees of Bank units from potential vulnerabilities point of view, with consideration of control procedures eectiveness in regard with essential parameters of various type OR and probability of OR materialization;
OR Scenario Analysis - Expert assessment of potential OR events probability of which is low but if materialized may lead to signicant nancial results. For this purpose various approaches and scenarios may be used (including stress scenarios). The Bank performs systematic assessment of OR event likelihood, severity and other relevant information.

Risk Restriction and Minimization Methods

To control OR Level the Bank employs core approaches, such as application of principles implying distribution of functions and authorities among Bank bodies, units and employees, limitation of individual authorities, facilitation of collegial decision-making, use of dual control mechanisms; restriction of information access and use of multi-level information protection under the Information Safety Framework; restriction of access to material assets; outsourcing; other relevant measures.

OR Response under the framework of nancial and non-nancial impact optimization framework implies: **Risk minimization** - implementing adjustment measures targeted at mitigating identied Risk Level to acceptable level (introduction of control procedures, elaboration of KRI system, implementation of other organizational and technical measures);Taking Risks- Recognition of acceptability of identied risk following an analysis (potential OR-related loss shall not be critical to the Bank);
Risk Avoidance (Elimination) - termination of transactions and business-processes associated with OR; Risk **Transfer (Risk Insurance)** - insuring OR-associated activities outside the Bank's grip and control.

Ensuring Risk Assessment Methodology Effectiveness

The Bank takes following actions for ensuring OR Management System Effectiveness:

- Regular revision of Strategic Objectives for OR Management Approaches and Methodology development;
- Preparing regular OR reports;
- Elaboration (implementation) of OR Assessment Methods;
- OR Assessment and Analysis at product, process and system levels and planning OR Mitigation Measures;
- Control of OR risk-appetite metrics.

Risk-appetite

OR risk-appetite may be interpreted as an amount of loss the Bank is ready to endure in accordance with the particular strategy and key factors having signicant impact on Bank's nancial performance.
Risk-appetite benchmarks and respective calculation principles are elaborated at the Group level and later is allocated to the Bank. Supervisory Board approved OR benchmarks within the united framework of risk-appetite metrics.

Scenario Analysis

Scenario Analysis implies identication and assessment of RE scenarios that may have signicant impact on Bank's business and nancial performance. Scenario Analysis is carried out using obligatory Group scenarios developed within the Parent Company and approved by the Group Credit Risk Management Committee. Using local scenarios developed at the Bank level is also permissible.

The core objective of Scenario Analysis is to identify level of potential exposure of the Bank to ORs and assess likelihood of incurring anticipated loss (results).

Respective units prepare reports on the basis of Scenario Analysis that is submitted to Bank Management and Heads of Structural Units. Full version of Scenario Analysis is sent to the Parent Company.

OR Report

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

The Bank submits information on Operational Risks to the NBG on monthly basis in compliance with established form and procedure. Moreover, the Bank species the losses incurred throughout the year in context of OR categories.

Internal OR Report is prepared under the framework of Regular Risk Reporting, and is also submitted to the VTB Group in predetermined form and terms. The Report is drawn up in compliance with requirements of internal regulatory and methodological documents.

Business Continuity Plan (BCP)

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

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

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

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

The Bank develops a list and description of unusual and emergency scenarios and associated day-to-day regimen collapse factors that require response under the BCP framework.

Under the BCP framework the bank performs tests of systems and processes targeted at restoring critical elds of activities using respective scenarios. On a testing stage it is conrmed that critical types of activities can be restored to normal functioning mode.

9.8. Model risk

Model risk - the risk of losses resulting from business decisions based on incorrect Models results (risk underestimation), due to errors in the development, implementation or use of Models, as well as due to errors in the data.

The life cycle of the Model includes the stages of Development and approval, Use, Evaluation of effectiveness and Making changes to reduce risk. At each stage, the corresponding tasks in the field of Model risk are solved.
At the stage of managing the Model Risk, identification, assessment, monitoring and control are carried out. The indicated works also include minimization measures.

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

9.9. Other risks

9.9.1. Compliance Risk

Compliance Risk Management implies management of legislative and regulatory sanctioning, incurring nancial losses or reputational damage that can be a result of incompliance with legislation, regulatory requirements and standards. Compliance Risk is an integral part of Bank Risks, such as Capital Adequacy Requirements, Asset Quality, Market Risk characteristic to General Open Currency Position, Strategic Risk characteristic to Annual Business Plan and Bank Budget and other risks associated with particular provisions.

Compliance Risk Management and development of Compliance System fall under competence of independent structural unit of the Bank – Compliance Control and Financial Monitoring Division that accountable to the Bank's CEO and is responsible, among others, for managing money laundering and compliance risks management.
Below you will find general principles laying at the basis of Effective performance of Compliance System:
• Independency Principle –availability of independent Compliance unit responsible solely for coordination of Compliance Risk Management within the Bank;
• Risk based Principle – Providing Compliance Management System with operable and efficient resources allocation.

Compliance Risk Management
For purposes of Compliance Risk Management the Compliance Control and Financial Monitoring unit:
• Identies potential and materialized Compliance Risks;
• Classies and assesses Compliance Risks;
• Elaborates and incorporates measures for management of identied Compliance Risks;
• Monitors incorporation and eectiveness of mitigation measures targeted at identied Compliance Risks and carries out adjusting measures (as needed);

• Ensures Bank preserving proper market behavior standards (ethical principles);
• Manages interest conict;
• Researches and analysis, along with respective structural units of the Bank, factors that may inate Compliance Risk and have significant impact on profit and loss, as well as the the Bank.

Compliance Risk Management System Arrangement

Core objectives of Compliance Risk Management System include:

- Identication of Compliance Risk Factors (Sources);
- Denition and regulation of Compliance Risk Concentration in the context of Bank business activities, operations and structural units;
- Qualitative/ quantitative assessment of Compliance Risks, analysis and control of Compliance Risk impact on sustainability and nancial performance of the Bank;
- Elaboration and implementation of Compliance Risk neutralization or mitigation methods and assessment of their effectiveness;
- Compliance Risk monitoring and control; informing managerial/ collegial bodies of the bank regarding the necessity of Compliance Risk management and control.

In accordance with Compliance Risk Methodology the Bank has determined, dened and classied respective risks. Compliance Risk assessed using bi-component approach implying combination of following two variables: likelihood of Risk Event materialization and volume of potential loss.
Under the Compliance Risk Management framework respective Key Risk Indicators (KRI) of business activity are defined.

Compliance Risk Management methods:
• Risk elimination by terminated activities instigating the risk by outsourcing them;
• Reduction of Risk Materialization Probability by incorporating/ improving Internal Control;
• Reduction of risk impact using insurance instruments and/or at the expense of additional/reserve capital;
• Maintaining residual risks by nancing potential loss, including at the expense of additional/reserve capital;
• Regarding particular levels of risk as a natural part of a business-process.
Compliance Risk Monitoring and Control
Compliance Risk Monitoring is targeted at elimination of Compliance Risk bearing violations (shortcomings) and implementation of comprehensive and timely measures by responsible structural unit for purposes of Compliance Risk Management.
The Bank reviews results of inspections carried out by internal and external auditors, regulatory body or respec-tive structural unit, as well as consequential remarks and recommendations and elaborates plan for their elimination and takes steps to prevent them from reoccurring in the future.
The Bank employs Bank's activities/ business directions Compliance Risk self-certication, as well as potential/ materialized risk assessment systems. The Bank determines KRIs and analyses them for the future prevention.
Planning and management of Compliance Risk Level monitoring/ adjustment measures is carried out in quarterly/annual basis. Reporting system is in place.

9.9.2. Reputation Risk

Reputation Risk shall be dened as a risk that in conjunction with other factors leads to negative public statements directed at Bank's transactions or negative depiction of the Bank itself. Reputation Risk is based on trust from employees, customers, regulatory body and the public. Particular events may damage trust towards the Bank or negatively impact its performance. Hence, it is important for the Bank to be protected from such developments.

Reputation risk factors

Reputation risk factors include noncompliance with legislative and supervisory requirements, nonobservance of business activity, professional ethical standards, repeated violation of contractual agreements with respect to creditors, depositors and other clients, lack of e-cient system, which enables to minimize negative factor, related to conict of interests, clients' claims, supervisory sanctions, suits, and other action measures, low rating for the bank from International Rating Agencies and other registered organizations, existence of international sanctions and restrictions set for the bank, managing bank and its subsidiaries, lack of eective means of combating money and terrorist nancing, shortcomings in bank risk management, that aect the bank's reputation, implementation of high-risk activities by the bank, high level of operational risk, weakness of internal control system and etc.

Methods of minimizing reputational risk

• Creation of internal regulatory framework that will manage conict of interests between bank employees and clients, counterparties;
• Continuous control over legislative and supervisory standards and requirements;
• Constant analysis of the impact of reputational risk factors on bank activities;
• Constant analysis of activities of that line of business that is sensitive to clients, in respect to relations to public in general;
• Control over nancial and other types of published information, submitted to shareholders, clients and vide range of publicity, including ads.
• Constant improvement of personnel professionalism.

Role and Responsibility of Bank Bodies and Structural Units

Authorized Body of the Bank (SB, BoD) ensure approving Reputation Risk Management Procedures, including Reputation Risk Control and Calculation of Impact on Capital Policies, as well as Reputation Risk Minimization Measures, as well as monitoring and control of Reputation Risk, including in the context of activities that may signicantly impact nancial performance of the Bank.

Role and Responsibility of Structural Units of the Bank

Respective responsible units of the Bank ensure organization of information disclosure to clientele, as well as to other stakeholders, collecting and analyzing data containing Reputation Risk Events, preparation of proposals for minimization of Reputation Risk instigated by negative articles in the media, publications and information posted online, deaboration and management of Eective Media Strategy, involvement of Bank units and employees in activities envisaged under Reputation Risk Procedures.

9.9.3. Strategic Risk

Strategic risk is a risk that together with other factors is instigated by the weak strategic planning within the Bank or poor execution, weak business decisions by the Bank or failure of the Bank to respond to external changes. Strategic risk also envisages a risk of disadvantageous change of Bank's performance results as a consequence to wrong decisions made during Bank management process, including during elaboration, approval and implementation of development strategy, as well as to improper execution of made decisions and failure to take external changes into account.

Main purpose of Strategic Risk assessment is to ensure support of taken risk to the extent that is envisaged under approved strategic plan, as well as to protect Bank's assets and capital to maximum extent possible by minimizing (excluding) potential risks.

Strategic Risk management is a regular practice within the Bank during Bank's managerial bodies elaborating and reexamining development strategies and business-plan.

Strategic Risk Management Principles
Strategic risk management principles employed by the Bank include correspondence of Bank development strategy to the nature, scale and scope of Bank's business activity, detailing provisions of Bank development strategy under the framework of annual business planning procedure, ability to evaluate Strategic Risk indicators using quantitative metrics, constant monitoring of strategic risk indicator levels set by the Bank and preparation of respective reports.

Ways to Implement Strategic Risk Principles

Strategic Risk Principles can be implemented in following ways:
• Establish Strategic Risk evaluation system targeted at maintaining strategic risk at acceptable for the Bank level;
• Establish Authority and Decision-Making System under the Strategic Risk Management framework – authority distribution for timely and adequate management decision-making;
• Establish Strategic Risk Reporting System – for better control of Strategic Risk level;
• Establish internal control system targeted and ensuring general adequacy of Strategic Risk Management System.

Stages and Methods for Strategic Risk Management

Strategic Risk Management stages:

- Strategic Risk identication;
- Strategic Risk assessment;
- Strategic Risk monitoring;
- Strategic Risk control and/or minimization.

Strategic Risk Management methods employed by the Bank:

- Strategic planning;
- Business planning;
- Control over implementation of above plans;
- Analysis of changes to market environment;
- Plan adjustment.

Participants of Strategic Risk Management Processes and Their Functions

For purposes of ensuring e-cient Strategic Risk Management during examination of Bank's nancial and industrial performance the latter's management bodies:

• Control, monitor and manage Strategic Risk based on analytical, nancial and other types of information;
• Carry out all-round analysis of respective aspects pertaining environment (politics, economics, social trends, technologies, competition), as well as internal capabilities and access to resources necessary for achieving strategic objectives.

Authority and functions distribution among management bodies under Strategic Risk Management framework is described in respective regulations of those bodies.

Strategic Risk Identication and Assessment

Strategic Risks can be instigated both by internal (wrong managerial decisions pertaining strategic and development matters, insu-cient resources, shortcomings in corporate management and etc.) and external (regulatory or legislative impact, change in socio-economic and/or demographic processes, segmentation of market and changes in competitive positioning and etc.) factors.

Strategic Risk Monitoring

Monitoring of acceptable Strategic Risk level shall be systematic what implies regular reexamination of Strategic Risk factors, metrics, e-ciency of Strategic Risk Management processes.
Strategic Risk Monitoring within the Bank implies monitoring and control of Bank objectives and achievement of target nancial parameters, environment monitoring, monitoring of internal environment, monitoring of General Strategic Risk Level.
Monitoring results are subject to periodic review by respective bodies of the Bank

Strategic Risks Minimization and Avoidance

Strategic Risk Mitigation Measures include:
• Elaboration of Bank Development Strategy and Annual Financial Business Plan;
• Control of Bank Development Strategy and Annual Financial Business Plan implementation;
• Systematic analysis of performance under Bank Development Strategy, as well as Annual Fiscal Business Plan and etc

Strategic Risk Minimization Measures include:

• Clear distinction of decision-making authorities between authorized bodies of the Bank;
• Improvement of Bank's corporate management quality;
• Control of risk-appetite level in accordance with Bank Risk Management Strategy;
• Control over execution of decision made by Bank o-cials and authorized bodies by structural units;
• Standardization of common banking operations and transactions;
• Analysis of Strategic Risk Factors' impact (both cumulative and individual);
• Identication and analysis of risk-associated activities;
• Constant improvement of personnel professional skill for purposes of Strategic Risk identication and avoidance.

Internal Control of Strategic Risks

Control of Strategic Risk Management implies:

• Implementation of respective control functions by corresponding management bodies and structural units, under the scope of their competences;
• Inspection of Strategic Risk matters associated with Bank's business activities by internal audit unit.

Presentation, discussion and response to results of inspection are carried out in compliance with procedures established within the Bank.

9.10. Stress-tests

Stress Test, i.e. simulation of crisis is an instrument allowing to assess impact of potential unforeseen development on the Bank as a whole, as well as on particular elds of its activity. Those are used to enable Bank adequately assess and manage risk, evaluate capital adequacy and create buer necessary to maintain capital adequacy, if needed.
Hence, stress-testing is a signicant instrument for assessing sustainability and risk-prole of the Bank.
The Bank carries out stress-testing of its risks and capital under the framework of NBG and own testing programs.
Loan Portfolio Stress-Testing that is based on NBG parameters is subject to revision by National Bank of Georgia.
For core risks the Bank has internal stress tests in place that are applicable under the framework of respective risk methodologies, described above in overviews of particular risks

9.11. Mitigation Measures

In order to reduce Credit Risk Level the bank uses such bonds as pledge, mortgage and guarantee of third parties.

See bond structure employed by the Bank below:

Assets accepted as bonds (mln. GEL)

	2019		2018	
	Amount	Share %	Amount	Share %
Cash	48.6	0.13%	67.0	1.6%
Precious metals and stones	17.5	0.05%	18.1	0.4%
Immovable property	3,677.67	9.69%	3,149.4	75.2%
Movable property	419.7	1.11%	318.8	7.6%
Collateral shares	573.4	1.51%	498.2	11.9%
Securities	59.2	0.16%	55.6	1.3%
Other	66.0	0.17%	79.3	1.9%
Total	**4,862.2**	**100.00%**	**4,186.4**	**100.00%**

Amount and types of bonds accepted by the Bank as a collateral depend on counterparty credit risk assessment.

The Bank elaborates principles for acceptable bond types and appraisal parameters. In general, during loan processing the Bank requests one or several liquid bonds. Approaches to requested bond depend on customer, product and business strategy. Minimum standards for acceptable types of bonds and approaches to their appraisal is set forth in Bond Policy of the Bank.

The policy sets forth acceptable for risk mitigation bond types and appraisal criteria. Requirements towards the bond are based on factors such as bond structure, quality, market value and liquidity.
The Bank ocassionally revises the list of acceptable bond types.

In cases when a suggested bond is a third party guarantee, the Bank conducts analysis of potential guarantor's nancial performance.

The Bank has in place necessary criteria for each type of acceptable bonds. Value of accepted bond is calculated based on its market value with consideration of liquidity discount. Calculated value of the bond shall be enough to service principal loan amount, interest, commission and bond registration fees. Liquidity discount varies in the range from 10 to 70%, based on bond type.

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

According to the Bank policy, in case the Bank receives right to satisfy its demand at the expense of accepted collateral, the latter shall be sold in compliance with acting legislation and internal rules of the Bank. Funds raised as a result shall be used for fully or partially repaying outstanding debt obligation.

9.12. External Credit Assessment Institutions

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

During capital assessment the Bank relies on rating of below agencies:

- Standard &Poor'sCorporation
- Moody'sInvestorServices
- FitchRatings

Ratings assigned by External Credit Assessment Institutions (ECAI) are applied to following asset classes:
• Central governments and central banks;
• Multilateral Development Banks;
• International organizations and institutions;
• Commercial banks.
Under Credit risk –The Standardised Approach the Bank uses rating grades of rating agencies recognized by the NBG, that are arranged according to NBG mapping and available in the tables below:

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

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

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

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

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

10. About Remuneration

Remuneration Policy Disclosure Requirements

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

As for the Employee Remuneration Policy (except for BoD members), systems and motivation models – those are within the scope of BoD competence. In particular, the Board of Directors approves Remuneration Fund, reviews and approves proposals pertaining improvement of remuneration system and other models of motivation, reviews assessments and reports of remuneration system monitoring bodies (both internal and external) and so on.
It is also noteworthy that the Bank has never invited external consultant for Executive Remuneration. Remuneration Policy of the Bank is same for all business directions, both at the Head Office and at the branches.

Executive Managers of VTB Bank (Georgia) JSC are SB members, CEO and BoD members.
Remuneration Policy of the Bank prescribes guiding principles and general elements of labor remuneration.
Motivation and Labor Remuneration System is targeted at:

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

Motivation and Labor Remuneration System promotes the image of appealing employer in the region, creates competitive level of remuneration and payroll packages on the market, helps maintain and attract qualied and high-performing employees and facilitates development of personnel potential and competences in directions desired by the Bank.
Remuneration System of the Bank is constructed on following basic principles:

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

Remuneration System is being adjusted and improved in accordance with guiding principles and standards elaborated within VTB system, within the available budget limit.
Acting within the Bank Remuneration System divides remuneration into xed and variable components.
There is no Remuneration Committee acting within the Bank, therefore there is no respective decision of the Committee.

Within the VTB Bank (Georgia) system, internal control functions are assigned to the Internal Audit Department that is a subordinated body to Internal Audit Committee and is accountable to the Supervisory Board. Department functions are independent and it is su-ciently equipped with resources, including well-educated and experienced personnel that allows the IAD to exhaustively and objectively carry out its duties. Internal Audit Department assesses Remuneration System during a periodic inspection. Besides, thanks to IAD preliminary control function the Department constantly participates in discussions of internal regulatory drafts pertaining Remuneration System.
Assessment of risks associated with the Remuneration System is targeted at ensuring nancial stability of the credit institution and correspondence of Remuneration System with the scale and nature of banking operations, performance output and a level of taken risks.

Bonus Executive Remuneration under VTB Bank (Georgia) JSC Remuneration System is calculated based on annual performance, in particular, following parameters:

- Financial result – Executive Variable Remuneration is linked to financial output (NET profit/loss). Achieving at least 80% target performance allows to disburse a bonus. In case of an excessive loss Top Managers may lose a right to bonus.
- General KPI Performance – obligatory KPI for BoD members is performance under NET income/ segment indicator that is calculated according to IFRS.
- Curatorial KPI Performance – each manager is assigned individual KPI by the Functional Coordinator with consideration of a particular business direction under supervision of respective manager. Individual KPIs include both quantitative and qualitative values/ project objectives. Performance range varies from 80 to 150%.
- Adjustment Indicator: evaluation from Functional Coordinator and CEO is determined within a range of 80-120%.

Basis for the Bonus calculation is an amount 12 times multiple to Fixed Executive Remuneration/Monthly Executive Salary that is determined individually, in proportion to the served period (maximum 12-times monthly income).
Executive KPI is based on following criteria: it should be related to strategic objectives and business plan, allow for the Bank to take into consideration major risks and profitability, return on equity and the ratio of income and expenditure; the criteria shall be transparent and measurable with minimum 10% weight per each. During KPI evaluation it is necessary to make distinction between General and Individual (by curatorial field) KPI Performance.

See weights of Quantitative KPI for BoD members in the below table:

	General Quantitative KPI	**Individual Curatorial KPI**	
		Quantitative KPI	**Qualitative and Project Objectives**
CEO	**80%**	**0%**	**20%**
BoD members	**0-30%**	**40-50%**	**20-30%**

Qualitative/ Project performance is evaluated by the VTB Bank Curatorial/ Functional Coordinator/ CEO based on expert assessment.
Annual Executive Bonus is calculated using a formula below:

Annual bonus = Bonus Base (Fund) × Marginal Ratio × KPI Performance × Curatorial/ Functional Coordinator/ CEO Evaluation

Annual Executive Bonus is awarded based on following principles:
Deferral principle:
Persons, whose bonus volume does not exceed 50% of total annual remuneration shall be subject to 40% bonus deferral;
Persons, whose bonus volume exceeds 50% of total annual remuneration shall be subject to 60% bonus deferral.

Deferred portion – is divided in five equal parts and vested during five years in equal tranches.
Maximum 50% of both deferred and undeferred portion may be awarded in cash, while the remaining part is granted as a Security (Certificate of Deposit) with a maturity period of no less than 1 year.
The Security (Certificate of Deposit), awarded to the Head of the Bank within the limits of undeferred bonus, is subject to 1 year holding period, which means that the BoD member for one year from the end of the reporting period may not sell, donate, pledge or alienate in any other manner the securities receieved. During the holding period the interest on the securities shall accrue on a regular basis.
The (face)value of the Security granted to the BoD members within the limits of deferred bonus is a variable and depends on the changes KBV in the Bank's ordinary share bookvalue (hereinafter - BV).
The Bank's share BV is calculated as the ratio of the Bank's share capital to the amount of payable ordinary shares. In addition, in calculating the deferred portion of a bonus, the Bank's share capital shall be increased by the cumulative quantity of dividends on the ordinary shares paid by the Bank over the deferred period starting from the end of the reporting period:

- BV_t(at the end of reporting year) = Bank's share capital at the end of reporting year/amount of ordinary shares cashed at the end of reporting year

- BV_{t+n}(at the end of year n following the reporting year) = (the Bank's share capital at the end of year n following the reporting year) + amount of dividends on the ordinary shares paid by the Bank during year n following the reporting year/amount of ordinary shares cashed at the end of year n following the reporting year

K_{BV} is calculated as percentage of changes of BV from the end of bonus reporting period to the calendar year preceding each payment date of deferred bonus.

Security (Certificate of Deposit) value (volume), awarded to the BoD members within the limits of deferred bonus, is adjusted by the K_{BV} coefficients (i.e. multiplied by them).

Interest on the Security (Certificate of Deposit), awarded to BoD members within the limits of deferred bonus, shall start to accrue from the day of its award.

Executive Bonus matters are discussed by the SB after evaluation of annual performance. SB Resolution determines amount and deadline of Executive Bonus.

Quantitative data regarding remuneration is available in Annexes to the present Report. Profit and expenses earned and incurred by the shareholder(s) (Parent Company) are available in a table below:

	2019	**2018**
Interest yield under Eective Interest Rate	5	5
Interest expenditure	(13,306)	(14,346)
Commission expenditure	(143)	(190)
NET income from deals in foreign currency	4,328	1,230
Other operational expenses	(14)	(41)

11. Annexes to Pillar 3 Report

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