2020 year

ANNUAL PILLAR 3 REPORT

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1. Introduction

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

2. Management Reservation

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

3. Subsequent events

The outbreak of the pandemic coronavirus (COVID-19) may have a major impact on the global economy, including the economy of Georgia, but there is still uncertainty about the extent of the risks. World economists expect a slowdown in economic growth, which would in turn have a negative impact on the Georgian economy in both financial and non-financial sectors.
In March 2020, the Georgian lari depreciated substantially against the US dollar and the euro. The Georgian Banks, as well as the Bank, announced a three-month grace period for loan repayments in March.
The Bank is taking active measures to assess and mitigate the potential negative effects of the novel coronavirus in order to ensure/provide a sustainable environment for the Bank’s future development.

4. Key Metrics

The table below presents key metrics of VTB Bank (Georgia) JSC as of 2020 and 2019 years:

Reporting periods	**2020**	**2019**
Regulatory Capital (Amounts,GEL)		
Based on Basel III framework		
Common Equity Tier 1 (CET1)	178,354,544	200,911,181
Tier 1	191,563,844	214,838,081
Total regulatory capital	292,406,373	295,123,566
Risk-weighted assets (amounts, GEL)		
Risk-weighted assets (RWA) (Based on Basel III framework)	1,876,625,020	1,568,503,498
Capital ratios as a percentage of RWA		
Based on Basel III framework		
Common equity Tier 1 ratio >= 5.67% (2019 >= 8.77%)	9.50%	12.81%
Tier 1 ratio >=7.56% (2019 >= 10.87%)	10.21%	13.70%
Total Regulatory Capital ratio >=14.21% (2019 >= 17.19%)	15.58%	18.82%
Income		
Return on Average Assets (ROAA)	-0.8%	0.8%
Return on Average Equity (ROAE)	-7.2%	6.4%
Asset quality		
Non Performed Loans / Total Loans	8.0%	6.3%
Loan Growth-YTD	20.8%	4.4%

Reporting periods	2020	2019
Liquidity		
Liquid Assets/Total Assets	24.4%	22.4%
Liquidity Coverage Ratio* **		
High-Quality Liquid Assets (Total)	509,463,736	366,390,648
Net Cash Outflow (Total)	363,044,298	326,471,551
Liquidity Coverage Ratio (%)	140%	112%

Bank's respective key metrics throughout different quarters of 2019 and 2020 years is available in Annexes hereto.

5. About Capital

5.1. Minimum Capital Requirements

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

· Common Equity Tier 1 (CET1) ratio - 4.5%;

· Tier 1 Capital ratio - 6%;

· Total Regulatory Capital ratio - 8%;

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

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

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

To mitigate the negative impact of COVID-19 pandemic, the National Bank of Georgia introduced the following additional capital requirements:

- Temporary deferral of Common Equity Tier 1 and Tier 1 Capital increase for credit risk concentration buffer and net GRAPE buffer on Common Equity Tier 1 and Tier 1 Capital;
- Elimination of the capital conservation buffer (2.5%);
- Reduction of the requirement for the unhedged currency induced credit risk buffer (CICR) for/against credit losses by 2/3rds;

5.2. Capital Instruments

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

Regulatory capital is a sum of the following elements:
- Tier 1 capital comprises of elements such as
  - Common equity Tier 1

- Additional Tier 1 capital
- Tier 2 capital (supplementary capital)

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

The Bank's Common Equity Tier 1 Capital shall be the primary source of the Regulatory Capital and shall equal the sum of Common Equity Tier 1 Capital elements less regulatory adjustments applied in the calculation of Common Equity Tier 1.
Additional Tier 1 capital 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 is redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 2.5%. The Bank has, at its sole discretion, an unconditional right to cancel interest payments by giving notice to the issuer before the payment date.

Tier 2 capital is the supplementary component of the bank's core capital and includes subordinated loan that is attributable to Tier 2 capital and general reserves not exceeding the limit of 1.25% of risk weighted 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 15 December 2020 the subordinated loan was restructured at an interest rate of 8.93% payable, with a maturity date on 29 October 2027.

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

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

On 29 December 2020, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 455,394, with interest rate of 8.92%, % and maturity date on 27 December 2027.

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 2020 and 2019 years under Pillar 1 regulation in national currency (GEL):

Reporting period	2020	2019
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	9,542,444	9,651,661
Retained earnings (loss)	(12,467,765)	2,199,350
Common Equity Tier 1 capital before regulatory adjustments	**206,082,956**	**220,859,288**
Regulatory Adjustments of Common Equity Tier 1 capital		
Revaluation reserves on assets	9,542,444	9,651,661
Intangible assets (including goodwill)	18,185,967	10,296,446
Regulatory Adjustments of Common Equity Tier 1 capital	**27,728,411**	**19,948,107**

Reporting period	2020	2019
Common Equity Tier 1 after regulatory adjustments	**178,354,544**	**200,911,181**
Additional tier 1 capital before regulatory adjustments		
Including: instruments classified as liabilities under the relevant accounting standards	13,209,300	13,926,900
Additional tier 1 capital	**13,209,300**	**13,926,900**
Tier 1 Capital	**191,563,844**	**214,838,081**
Tier 2 capital before regulatory adjustments		
Instruments that comply with the criteria for Tier 2 capital	79,818,481	63,013,893
General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	21,024,048	17,271,592
Tier 2 capital	**100,842,529**	**80,285,485**
Total regulatory capital	**292,406,373**	**295,123,566**

6. 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, 2020 the Bank has no subsidiaries.

7. About Shareholders

As of 31 December 2020 and 2019, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	***2020 %***	***2019 %***
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 2020 (2019: 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.

8. Corporate Management

Shareholders Meeting Overview

In 2020, an Annual General Shareholders Meeting was held which registered an individual decision made by the Shareholder.
The holders of 97.384322 % of voting shares attended the Annual General Shareholders Meeting.
The Annual General Shareholders Meeting reviewed the annual performance of the Bank, as well as disbursement of dividends. By an 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, 2020 SB comprised of 6 members:

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

The Audit Committee comprises three members:

- Chairman – Gocha Matsaberidze;
- Member – Merab Kakulia;
- Member – Sergey Stepanov;

The Risk Committee comprises three members:

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

The Supervisory Board determines key directions of the Bank's activities, as well as its development strategy. The 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 prudent risk-culture, assesses the efficiency of the functional risk management system, and exercises control over 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 – Sergey Stepanov graduated from Economic Faculty of Higher School of Economics of State University with a major in Banks and Banking. The banking experience of Sergey Stepanov counts many years. Since 2013 he has been supervising VTB Bank (PJSC) Subsidiaries Coordination Service. Mr. Stepanov occupies a position of Vice President.

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

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 Kopytova graduated from Saint Petersburg State University of Economics and Finance, majoring in Finances and Lending. Iulia Kopytova has long experience in the banking field. Since 2017 she has led the Department of Analysis, Coordination and Product Development of VTB Bank (PJSC). Iulia Kopitova occupies 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 the banking field. She has been working in VTB Group since 2010. Since 2018 she has been occupying a position of Managing Director at VTB Bank (PJSC).

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

Supervisory Board

Throughout the year 2020 9 SB meeting were held by absentee voting (by ballot).

The attendance rate of SB members amounted to 100%.

The matters discussed by SB generally regarded: work of Shareholders Meeting, HR issues, business plan and respective performance reports, activities of Internal Audit and Audit Committee, issues related to the Bank development strategy, approving transactions with affiliated entities, approving regulations of branches, regulations of committees and internal regulatory documents, such as: Risk-Management Committee Regulation, Risk Culture Policy, Reputation Risk Management Policy, Regulation on Management of Conflict of Interests, Money Laundering and Terrorism Financing Organisational Risk Management Policy, Regulation „On reporting under ICAAP“.

Internal Audit Committee (IAC)

Throughout the year 2020 4 IAC meeting were held – 1 in attendance of its members, 3 by absentee ballot voting. The major issues discussed by IAC generally included: quarterly and annual reports by Internal Audit Department, Internal Audit Department Annual Plan.

Risk Committee

Throughout the year 2020 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 risk and capital management strategy, proposal on JSC VTB (Georgia) risk appetite metrics, draft regulation on JSC VTB (Georgia) risk appetite monitoring procedure and other.

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

The competences of SB, BoD and CEO are regulated by the applicable Georgian legislation and VTB Bank (Georgia) JSC Statute. Authorities can be delegated by the decision or respective body. The Bank has in place the Regulation on Management of Conflict of Interest, 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, 2020 BoD comprised 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 7 member, including the chairman, deputy chairman and members;
Assets and Liability Management Committee comprises 8 member - the chairman, deputy chairman and members;
Risk Management Committee comprises 8 member, including the chairman, deputy chairman and members;
Budget Committee - comprises 8 member, including the chairman, deputy chairman and members;
Troubled Debt Committee - comprises 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. He also holds a Bachelor's degree in Corporate Financing at St. Bonaventura University, USA. Archil Kontselidze has long history of working in banking field and since 2009 he has been serving as a CEO of VTB Bank (Georgia) JSC.

CFO - Mamuka Menteshashvili graduated from Tbilisi State University majoring in Economics and Management of Car Industry, as well as Georgian Technical University with major in Engineering Economics. Mamuka Menteshashvili has long history of working 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 workingin 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.

9. Bank Strategy

The Strategic Plan of VTB Bank (Georgia) JSC for upcoming three (2020 -2022) years aims at meeting all strategic objectives of the Bank through optimising the network of existing 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 are the following:
The Bank has three main lines of business: corporate business, small business 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 a broad range of business organisations and individuals with strong financial base.
The outlined development model for all three business areas will give rise to increased transactions and banking operations.
Over the next three years the Bank will focus on further development of digital technologies: improvement/development of Bank-Client software and mobile banking as well as the introduction of other digital sales channels. These efforts shall ultimately ensure the satisfaction and loyalty of the Bank's retail customers together with increased volume of banking transactions.
The Bank also intends to implement the optimised operating model in its branch network in order to provide better customer service and increase customer satisfaction. These strategic plans shall lead to an increase in commission and other non-interest revenue of the Bank.
In the corporate and SME business sector, the Bank plans to introduce a new business model focused on the implementation of the client's business consultant and business partner function. This will result in optimised and improved service processes, making products and services tailor fit to the customer needs, which shall serve as a foundation for sustainable and equitable development in these business areas.
The implementation of these strategic objectives over the next 3 years will result in:

- Growth of the corporate and SME loan portfolio by at least 10.4%.
- Increase in lending to individuals by at least 9.6%.
- Maintaining interest margin of at least 5%.
- Average annual increase of commission and other non-interest revenue by at least 7%.
- Maintaining the cost-benefit ratio under 59%.
- Compliance with Basel III capital adequacy and other prudential ratios imposed by the NBG.

10. Risk Management

10.1. Risk Strategy

General Provisions

The risk management framework document of the Bank is the VTB Bank (Georgia) JSC Risk and Capital Management Strategy (hereinafter – Risk Strategy) approved by the SB. The document defines core risks and objectives with regard to risk and capital management, risk management organization chart, basic principles of risk identification, material risks system, risk appetite framework and main provisions of risk and capital management system development strategy.

COVID-19 pandemic was an important challenge for the sustainability of risk management system, requiring the Bank to quickly realign all major focus areas to ensure the continuous operation and financial stability of the Bank and its customers. This involved shifting to a remote service system inside and outside the Bank, introducing new types of services, strengthening security systems and enhancing risk management activities in response to the new challenges.

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 organisation).

Strategic Goals and Objectives

The core strategic goal of Risk and Capital Management System is to avoid or minimise the impact of possible risks, the Bank is subject to on the operating market, associated with inability to receive income/ incur a financial loss, ensure the financial reliability of the Bank and its sustainable development in accordance with set strategy in a long run.
The 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 the Bank's activities are prone to, risk analysis; developing the risk culture; using best practice-based approaches for efficient key risk assessment, control (restrictions) and their monitoring, assessment of the Bank's risks using risk-appetite indicators, establishing constant control over risk covering capital adequacy, securing the normal operation of the Bank during emergencies and ensuring effective integration of risk and capital management system in the processes of strategic and business planning.

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 methodological documents (decisions). The regulatory framework is formed in line of each major risk.
The risk management approach of the Bank is based on regulatory requirements, the Group standards and risk-profile of the Bank. In this context, it covers: risk identification and assessment methods, limit system, economic capital (Capital-at-Risk) assessment, methodology of creating reserves for possible losses associated with loans and other transactions in accordance with IFRS and national standards, methodological platform for stress-testing, risk-appetite indicators system, methods for potentially troubled debts identification and processing and automated risk management systems.
Moreover, the Bank determines authority of the Bank's management bodies and rules for internal control over risk-related transactions.

The Bank manages its risks based on the Three Lines of Defense principle:

• **The first line of defense** is represented by the Bank's units that may create risks in the course of operations, they are risk owners and are responsible for the day-to-day management of these risks (risk identification in daily operations, risk classification and assessment, planning the measures to minimise risks and scheduling specific risk management and control measures);

• **The second line of defense** performs independent oversight of the Bank's divisions, assessing and verifying the first line of defence, and fulfills a coordinating role in the area of risk management. The second line of defense is comprised of the risk management units and the governing body of the Bank;

• **The third line of defense** is audit. The Bank's internal audit assures the effectiveness and conformity of overall risk management processes.

Risk and Capital Management Organisational Structure

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

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

The 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.

10.2. 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.

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

Risk-appetite comprises high-level risk-appetite, centralised (calculated at Group level) risk-appetite indicators that are allocated to the Bank by the Group, as well as local risk-appetite metrics, that are elaborated at own initiative, based on best banking practices, for risk management of the Bank.

High level risk-appetite covers following basic qualitative provisions (indicators).

Classification of Risk-Appetite Quantitative Metrics

Risk-appetite quantitative metrics are categorised under the following basic groups:
- Loss by risk types;
- Capital adequacy;
- Liquidity;
- Market risk;
- Asset/Liability structure;
- Credit concentration.

Risk-appetite Benchmarks

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

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

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

10.3. Key Risks

Key Risks Overview

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

- Credit Risks (default risk, migration risk);
- Market Risks (interest rate risk in the banking book, currency risk by structure of net open currency position);
- Liquidity risk;
- Operational Risk (including legal risk);
- The risk of concentration of liquidity sources (subtype of concentration risk).

The Bank classifies the following risks as significant risks:

- Counterparty credit risk, residual credit risk (subtype of credit risk);
- Market risk of the Treasury debt securities portfolio, residual market risk (subtypes of market risk);

- The risk of credit concentration on a group of borrowers, the risk of credit concentration of claims denominated in one currency, the risk of industry credit concentration, the risk of concentration of types of collateral (subtypes of concentration risk).

The Bank classifies the following risks as low risks:

- The risk of country credit concentration, the risk of concentration of financial instruments (subtypes of the concentration risk);
- Country (political) risk*;
- Real estate risk*;
- Model risk;
- Compliance risk,
- Reputation risk,
- Strategic risk

Types of risks irrelevant for the Bank:

- Securitization risk (subtype of credit risk);
- Market risk of a Trading book (subtype of market risk);
- Insurance risks;
- Pension risks.

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

Basis of Risk Management

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

Bank's Risk Management Procedures and Assessment Methods are being developed and improved under the process of systematic 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 and Liability Management Committee, Risk Management Committee). The authorities of different managerial bodies of the Bank are given below:

1) SB

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

2) Risk Committee

- During 2020 8 Credit Committee meetings were held by absentee voting. The Committee considered the following issues: Risk culture policy, Reputational risk management policy, Capital adequacy and risk management report 2019 (Pillar 3), Report on the results of implementation of internal procedures for capital adequacy assessment 2019, quartely reports Q 3 and Q4 2019 and Q1, Q2 and Q3 2020, the results of significant risks assessment, Regulations on report preparation under ICAAP , etc.

- Performs preliminary review 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 on the effectiveness of the Bank's risk strategies and policies, including on 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 minimise risks.

3) BoD

- Approves regulatory and methodological documents in the area of risk, except for the documents that define Bank's policies and strategic directions;
- Makes decisions on risk management issues that fall outside the scope of SB and other authorised bodies competence;
- Reviews risk reports within the scope of its competence.

4) Assets and Liabilities Management Committee

- Takes decisions on the specific credit risk-bearing transactions falling within its competence;
- Makes decisions on the matters/ documents, within the scope of its competence, related to market risks (trade operation risks, currency, interest rate risks) and liquidity risks management;
- Makes general decisions on the terms of transactions that are associated with assuming risk, regulating process of setting the terms of the said transactions and securing the debt repayment;
- Controls compliance with limits, internal regulations and target indicators set by the BoD and Assets and Liabilities Committee, including within the Bank's risk-appetite.

5) Credit Committee

- Makes decisions on credit risk-bearing transactions;
- 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) Risk Management Committee

- Organises the risk and capital management strategy, defines the Bank's risk-appetite metrics and monitors their observance;
- Coordinates and oversees the compliance with the National Bank requirements and implementation of the VTB group standards in the risk management field, facilitates the elaboration and preparation of organisational decisions relating to risk management strategy development;
- Organises performance of approved risk-appetite benchmarks 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;
- Organises and takes appropriate decisions on other issues falling within the scope of its competence.

7) Risk Department

- Ensures effective functioning and development of the Bank's financial risk management systems based on the Group standards and best banking practices;
- Elaborates internal regulatory and methodological documents on key risk management taking into account prudential requirements;
- Develops proposals regarding core principles and approaches applied within the Bank in the field of risk

management;
- Elaborates credit strategies and policies and introduces further measures for their implementation;
- Performs risk analysis (monitoring) of transactions and projects that fall within the Bank's main risks;
- Prepares and submits risk reports to the management bodies of the Bank and the Group.

8) Compliance Control and Financial Monitoring Department

- Facilitates the creation of effective compliance risk management system;
- Develops basic requirements for compliance risk management;
- Ensures introduction of the system/programmes aimed at combating money-laundering and the financing of terrorism (ML/TF), including elaboration of internal policies/procedures, monitoring of transactions, education and training of personnel and compliance with the international sanctions regime;
- Taking in account risk-based approach, provides for the ML/TF risk management, including customer acceptance policies, evaluation of products and services, as well as identifying risk factors associated with supply channels;
- Ensures effective 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 inconsistency with legislation, normative rules and standards (compliance risks);
- Carries out current monitoring and control of compliance risks (including ML/TF risks) and submits 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 significance of incompliance with business and ethical standards, number and significance of court proceeding and customer grievances/appeals.

9) Audit Committee

- Defines the Bank's approaches and policies of financial reporting for internal control;
- Oversees the ongoing process of financial reporting and confirms the approval of 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 audit, presents opinion on the candidacies of external auditors, makes appropriate recommendations to the Supervisory Board regarding their candidacy, appointment, official salary or dismissal;
- Oversees the Bank's accounting policies and practices;
- Considers third party opinions on the Bank's risk management overall framework, as well as on the effectiveness and structure of its internal control system;
- Ensures the adequacy of functions, the independence and mutual cooperation between internal and external auditors and their functional interoperability;
- Reviews a recommendation prepared by external auditors and monitors implementation by the BoD of appropriate measures to address the deficiencies.

The Bank establishes the control system over the operation of the risk management system. The system includes separate procedures for the monitoring of each major risk.
Information regarding the results of such monitoring is sent to the Bank’s senior management and respectively authorised units of the Bank, to analise the effectiveness of key risks management and take appropriate measures (to eliminate detected breaches, errors and deficiencies or to improve processes).

The key risks management procedures and methods are governed by internal documents of the Bank that are approved by managerial bodies or the collegial body authorised in compliance with the procedure established by the former.

10.4. Credit Risk

Credit Risk is defined as a risk of incurring loss due to non-performance, non-timely performance or underperformance of the counterparty on contractual obligations undertaken in favor of the Bank.
In particular, Credit Risk is associated with operations such as:

- Lending;
- Issuing guarantees,opening and confirming letters of credit;
- Purchasing debt securities;
- Purchasing contractual (demand) rights;

- Borrowing gold and securities;
- Selling (purchasing) financial assets in installments (delivering nancial services):
- Carrying out trade operations on derivative Instruments;
- Leasing transactions;
- Factoring transactions.

The credit risk profile (structure) adopted by the Bank is determined based on the loan portfolio composition and is formed predominantly by the loan requirements of medium corporate clients, credit institutions, executive bodies and retail customers of the Bank.

Authority of Collegial Bodies and Executive Officials Regarding the Assumption of Risk

The decision-making authority system for transactions associated with credit risk is governed by the Bank Statute, internal regulatory documents and resolutions of the Bank.
The governance bodies of the Bank (Shareholders Meeting, SB/ BoD, Committees, authorised persons) take decisions on credit operations within the scope of the competence prescribed under the Bank Statute, official instructions and regulations of these bodies.

The Bank's governance bodies are entitled to delegate decision-making authority on transactions bearing credit risk to the:

- Credit Committee that makes decisions on credit transactions/ imposing credit limits/ status of borrowers/credit deals;
- Executive Officials/ Group of Executive Officials;
- Automatic credit risk-related decisions are allowed for retail business operations in accordance with the methodology established by the Bank, after a proper audit.

The collegial bodies of the Bank authorised and responsible to make credit risk-related decisions act within the scope of their authorities set forth in the regulations of respective bodies. The delegation of authority to executive officials of the Bank is effected by a decision of an authorised collegial body.

Risk Assessment, Capital Requirement and Stress-Testing Methods

One of the key methods employed by the Banks for credit risk assessment is the methodology of determining customer creditworthiness level based on the analysis and expert evaluation of financial and non-financial metrics.
In addition, customer (group of affiliated customers) rating is considered when determining credit deal pricing terms and conditions.

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

1) For corporate credit risk assessment

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

2) For retail credit risk assessment

• Customers are assessed using scoring models (Cards) based on the Bank's statistics (or the Group statistics (if available) and information from external sources. The scoring system is a one-stop shop for automated decision-making; when a client is assessed individually, a complex assessment is performed.

For the purposes of improving effectiveness of the credit risk assessment methodologies in accordance with regulatory requirements and international banking supervision standards, the Bank uses the procedure for internal validation (assessment) of applicable methods, models and procedures. The procedure is carried out by the independent unit of the Parent Bank.

Credit risk assessment models are being validated based on the level of their signfiicance.

Risk Limitation and Minimisation Methods

The main areas (methods) employed by the Bank for the credit risk management are set forth in the Group's credit risk management standards.
The main instrument for limiting and controlling the credit risk level is a **Credit Limits System**. The latter combines prudential limits and restrictions at both group and local levels. Those limits restrict volumes of transactions per both separate customers and groups of affiliated borrowers, as well as the concentration of credit risk levels by fields of activities and instruments.
At the Bank level, limits in the form of credit risk supervisory limits are adopted in accordance with the requirements of the National Bank of Georgia (mandatory standards). The Bank uses collateral, including the following main types of collateral, mortgages, sureties, bank guarantees, state and municipal guarantees, to reduce the credit risk taken under the Bank's unified and local approach.
Availability of a collateral that satisfies Bank's requirement and its sufficiency are taken into account when determining terms and conditions for credit deal pricing, as well as during decision-making in regard with a particular credit deal.
When carrying out the expert assessment of the collateral the Bank determines market and liquid value of the pledged item.

Monitoring Procedures

The Bank performs monitoring of the loan portfolio to ensure compliance with the established limits (restrictions) of the control portfolio as part of the risk identification and assessment procedures.

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

Internal Reporting

In order to keep the shareholders, creditors and other stakeholders informed about the Bank's financial condition and risk management system, the Bank regularly produces external reports in compliance with IFRS standards, including credit risk management issues.
The credit risk reports prepared by the Bank include the information required for the management of credit risk, the dynamics and structure of the loan portfolio, risk appetite (credit risk) indicators, reserve level, including the information on measures for eliminating the violations of the prescribed limits.
Internal reporting is submitted to the BoD and the Parent Bank in accordance with established procedure.

10.5. Market Risk

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

Depending on the nature of market risks assumed by the Bank and approaches to their management, the Bank's transactions are divided into either banking and trading book operations.

The trading book transactions include transactions carried out for generating profit from revaluation or hedging of other trade operations, as well as their financial position, foreign exchange position formed as a result of transactions with customers.

Banking book transactions (hereinafter – non-trading transactions) are the transactions not subject to market revaluation (at amortised cost) and/or their market revaluation is not dependent on market risk factors.

Detailed classification 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 regarding the Assumption of Risks

The authorities of the Bank's bodies and structural units in market risk management are as follows:

BoD performs risk related functions set out in the Key Risks section.

Assets and Liabilities Management Committee reviews values of risk-appetite indicators in the market risks area, controls compliance of open currency positions volume with NBG regulatory requirements, imposes internal limits and restrictions in regard with Market Risks, makes decisions on the feasibility and forms of market risk hedging.

Risk Unit develops market risk assessment methodology; drafts proposals for market risk management; exercises control over compliance with established benchmarks or individual limits.

Treasury manages structural and general open currency position, controls normative/ regulatory limits of open currency position, manages Bank's interest rate risk and performs other functions arising from market risk management objectives in accordance with the Bank's current regulations in this area.

The limitations on risk assumption, market risk management principles and procedures are regulated under the internal regulatory acts and documents of the Bank.

Market risk appetite ratios for market risk are approved by the SB.

Risk Assessment Methodology

Market Risks are assessed based on following components:

• Trading book market risk assessment;
• Interest rate risk assessment on banking book transactions that are sensitive to changes in interest rates;
• Currency risk assessment on banking book transactions that are sensitive to exchange rate changes.
The Bank's main indicator to assess market risk on trading operations is stress-testing of the trading book position with the relevant scenarios, assessing the volatility of financial results by VaR (Value-at-Risk) historical modelling method and the trading book accumulated loss (stop-loss) from the beginning of the year.

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

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

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 financial result of currency position value change.

The **currency risk** of the banking book is managed by the Bank based on approved regulatory and methodological documents ensuring the conformity of assets and liabilities currency with the limitations on the open currency position, including with the regulatory limits for the risk-appetite and open currency position.
To manage the currency risks limits, the Bank established a number of limits and indicators characteristic to the currency risk level of the Bank.

Monitoring Procedures and Rules for Response to Reaching Trigger Benchmark

The level of market risk assumed is monitored using a system of limits.

In addition to the limits for the management of market risk indicators, the Bank introduces alarm values, such as triggers, indicating that the maximum level of limit use is approaching, which shall be deemed as a signal for the Bank to take appropriate action.

The structural units of the Bank responsible for market risk management are obliged to take all necessary actions to ensure adherence to the limits. Further control over observance of the Bank's trading limits is carried out by Risk Management/ Treasury Department at the end of each business day, to ensure compliance with the trading limits.

Internal Risk Reporting

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

The mentioned report includes the information on the use of market risk limits, proper and excessive expenditure of limits and other relevant issues.

10.6. Liquidity Risk

Liquidity Risk shall be defined as risk of incurring loss by the Bank due to the latter's inability to fully and/or timely perform under its obligations.
Liquidity Risk Management implies an aggregate of Bank's asset and liability management activities targeted at maintaining current solvency of the Bank under condition of ensuring optimal correlation between liquidity risk level and profitability of transactions.

Functions of Collegial Bodies and Units In Risk Management

The liquidity management process divides the roles and responsibilities between the Bank's collegiate bodies and structural units as follows:

BoD
• Approves liquidity risk related regulatory and methodological documents.

Assets and Liabilities Management Committee
• Defines internal normative values of Liquidity and controls their preservation, makes decisions regarding management of assets and liabilities targeted at maintaining proper Liquidity Level and defines 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 flow, elaborates Plan for mobilisation 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 submits 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 identification and monitoring procedures that serve as a guideline for all involved structural units, cover measures, such as: anticipating and situational modelling of the Bank liquidity level; monitoring Bank liquidity position calculated with consideration of various scenario analysis, to identify discrepancies between inflows and outflows; identification and monitoring of key internal and external factors having significant impact on the Bank liquidity; formulating quality requirements for securities in the treasury portfolio; control of adherence to NBG imposed Liquidity Average Ratio and Liquidity Coverage Ratio by monitoring factual and anticipated values of norms; control of stable funding ratio (NSFR) over ratio execution, decision-making and asset and/or liability management, generation of internal reports reflecting the bank's current and projected liquidity.
Liquidity risk is limited by the established norms/limits for the risk of insufficient and excess liquidity and concentration risk.
Liquidity risk quantitative assessments is carried out in compliance with liquidity risk assessment methodology.
The results of liquidity risk assessments are applied for controlling sufficiency of available funds for carrying out current settlements on customer instructions and fullfilment of undertaken obligations, as well as for identifying possibility of Bank asset portfolio planned growth.

10.7. Operational Risk

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

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

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

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

To minimise the possible negative impact of COVID 19 on the Bank's operations, the Bank has started planning and implementing a number of measures since February 2020.

There has been additional work to protect the Bank's customers and employees against the Corona virus (COVID 19), in line with the recommendations of the World Health Organisation (personal and collective security measures, new working mode, etc.). It was decided to switch to the principle of remote working of collegial bodies and persons concerned, using appropriate software.
The Bank has worked out the terms and conditions for appearing and staying at the Bank and acquired licenses for the remote access systems. All customers of the Bank are advised to use the Bank's remote banking systems, Mobile/Internet and SMS banking to the maximum extent possible. The number of video banking operators and service ofiices has increased. Legal entities are also advised to activate Video, Email and SMS banking and the Drop Box service. The mandatory weekly reports on the epidemiological state of the Bank have been added to the regulatory reporting.

There have been measures taken to monitor operational risks and ensure that staff are working appropriately in pandemic and remote environments. The business continuity management plans and scenarios in relation to the pandemic have been improved along with implementation of the major part of the remedial action plan, which was prepared in accordance with internal audit recommendations. The Bank employees have undergone training on security issues.

Organisational 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 financial performance;
- Control of OR Management Effectiveness;
- 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.

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.
Authorised body of the Bank: (SB, BoD, ALRM Committee) is responsible for OR-related control, coordination and consultancy.

Head of Risk Management Unit/Chief Risk Officer: CRO in terms of OR Management ensure effective functioning and development of OR Management System by actualisation of respective functions (making necessary managerial decision, escalation of significant 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 effective organizational and technological methodologies (including OR-related data gathering, performing KRI assessment, control and scenario analysis; coordinates OR management activities of the business units; arranges system for gathering, controlling and analyzing information for proper OR Assessment, performs OR analysis and assessment and carries out functions envisaged under respective operational risk regulations.

Heads of Bank units: ensure validity, exhaustiveness and timeliness of disclosed OR-related information, control of OR impact minimisation measures, as well as ensure effectiveness of OR Management Measures and monitor ongoing support for the Bank's units business continuity plan.

Risk Assessment, Capital Requirement 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 Minimisation 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 Bank.

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.

10.8. Model risk

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

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

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

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

10.9. Other risks

10.9.1. Compliance Risk

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

Compliance Risk Management and development of compliance system fall under the competence of independent structural unit of the Bank – Compliance Control and Financial Monitoring Division, which is accountable to the Bank's CEO and is responsible, among others, for managing money laundering and compliance risks management.

The basic principles for the effective performance of the compliance system are the following:

• The Principle of independence – availability of independent structural compliance unit responsible for the coordination of compliance risk management within the Bank;
• Risk Based Approach – ensuring the compliance system through the operable and efficient allocation of resources.

Compliance Risk Management

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

Compliance Risk Management System Arrangement

The main objectives of the compliance risk management system include:
- Identifcation of compliance risk factors (sources);
- Determination and regulation of compliance risk concentration by type of business activities, operations and structural units of the Bank;
- Qualitative/quantitative assessment of compliance risks, analysis and control of compliance risk impact on sustainability and financial 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.

The compliance-risk methodology defines risk factors, their definition and classification. The approach used to assess compliance risk involves a combination of two variables: the probability of a risk event occurring and volume of potential loss.

Key Risk Indicators (KRI) of business activity are defined under the compliance risk management framework.
Compliance Risk Management methods:
• Risk elimination by terminated risk-generating activities by outsourcing such activities;
• Reduction the likelihood of risk realisation by incorporating/ improving internal control;
• Reduction of risk exposure using insurance instruments and/or at the expense of additional/reserve capital;
• Maintaining residual risks by financing potential loss, including at the expense of additional/reserve capital;
• Acceptance of a certain level 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 respective structural unit, as well as consequential remarks and recommendations and elaborates the plan for their elimination and takes steps to prevent them from reoccurring in the future.
The Bank has established the compliance risk self-assessment system, and potential/realised risk assessment system for the Bank's business/activities. The Bank determines KRIs and analyses them for the future prevention.
The planning and management of compliance risk level monitoring/ adjustment measures is carried out on a quarterly/annual basis. Reporting system is in place.

10.9.2. Reputation Risk

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

Reputation risk factors

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

Methods of minimising reputation risk

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

Roles and Responsibility of Bank Bodies and Structural Units

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

Roles and Responsibility of Structural Units of the Bank

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

10.9.3. 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 or failure of the Bank to respond to external changes. The strategic risk is also a risk of unfavourable changes in the performance of the Bank's activities, resulting from incorrect decisions of the Bank's management, including inadequate implementation of the decisions taken in elaborating, approving and implementing the development strategy, as well as from the failure to take into account changes in external factors.

The main purpose of strategic risk is to maintain the level of risk taken by the bank, which is determined by the approved strategic objectives, as well as to protect the Bank's assets and capital to maximum extent possible by minimising (excluding) potential risks.

Strategic risk management is a regular practice within the Bank during the elaboration of the Bank's development strategy, formation of the business plan and their finalisation.

Strategic Risk Management Principles

Strategic risk management principles employed by the Bank include the relevance of the Bank's development strategy to the nature, scope and size of the Bank's activities, 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 and preparation of respective reports.

Ways to Implement Strategic Risk Principles

Ways of implementing the strategic risk principles include: strategic risk assessment system aimed at preventing the growth of strategic risk to an acceptable level for the Bank, strategic risk management authority and decision-making system - reallocation of authority for timely and adequate management decisions; strategic risk reporting system - internal control system for controlling the level (amount) of strategic risk, aimed at ensuring overall adequacy of the strategic risk management system of the Bank.

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 the purposes of ensuring efficient strategic risk management, the Bank's management bodies, when assessing the results of the Bank's financial and economic activities:

• control, monitor and manage strategic risk based on analytical, financial 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.

The allocation of the authority and functions among the management bodies within strategic risk management framework is described in respective regulations of these bodies.

Strategic Risk Identication and Assessment

Strategic risks can be instigated both by internal (inadequate managerial decisions on strategic and development matters, insufficient 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

An acceptable level of strategic risk is systematically monitored and involves regular reexamination of strategic risk factors, metrics, efficiency of strategic risk management processes.
Strategic risk monitoring within the Bank implies the monitoring and control of Bank objectives and achievement of target financial parameters, monitoring of internal environment and the monitoring of general strategic risk level. Monitoring results are subject to periodic review by respective bodies of the Bank.

Strategic Risks Minimisation and Avoidance

Strategic risk mitigation measures include: elaboration of the Bank Development Strategy and Annual Financial Business Plan; monitoring over the Bank Development Strategy and Annual Financial Business Plan implementation; systematic analysis of performance under Bank Development Strategy, as well as Annual Financial Business Plan and etc

Strategic risk Minimisation 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 officials and authorised bodies by structural units; standardisation 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 the results of the inspection are carried out in compliance with procedures established within the Bank.

10.10. Stress-tests

Stress tests or crisis modelling is a means of assessing the impact of possible contingencies on the bank as a whole and on the corresponding activities individually. It is used to enable the Bank to properly evaluate and manage risks, to assess the adequacy of its capital and, if necessary, to build up a buffer sufficient to maintain capital adequacy.
Stress testing is therefore an important tool for assessing a Bank's resilience and risk profile.

The Bank carries out stress-testing of its risks and capital under the framework of NBG and own testing programs.
Loan portfolio stress tests against the parameters of the NBG 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

10.11. Mitigation Measures

In order to reduce credit risk, the Bank makes use of security such as pledges, mortgages and third-party guarantees.

The Bank's collateral structure is as follows:

Assets accepted as security (mln. GEL)

	2020		2019	
	Amount	Share %	Amount	Share %
Cash	58.7	0.9%	48.6	1.0%
Precious metals and stones	25.1	0.4%	17.5	0.4%
Immovable property	4,587.4	70.3%	3,677.7	75.6%
Movable property	582.9	8.9%	419.7	8.6%
Collateral shares	1,141.1	17.5%	573.4	11.8%
Securities	60.4	0.9%	59.2	1.2%
Other	74.7	1.1%	66.0	1.4%
Total	**6,530.3**	**100.0%**	**4,862.2**	**100.0%**

The amount and types of collateral accepted by the Bank as security depend on counterparty credit risk assessment.

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

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

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

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

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

10.12. 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
Recognised long-term ratings and equivalent credit rating grades

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

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

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

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

11. 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 fulfilment 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 qualified 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 fixed and variable components.

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 sufficiently 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 to Remuneration System.

Assessment of risks associated with the Remuneration System is targeted at ensuring financial 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 of ROE - Capital Returns and CIR (Cost / Income Ratio) ratios.
- **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%.

Bonus is calculated based on annual salary that is determined individually, in proportion to the served period.
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 the balance of major risks and profitability, ROE and 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%

The VTB Bank Curatorial/Functional Coordinator/CEO evaluates qualitative Project performance based on their assessment. Top Manager Bonus is calculated using a formula below:

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

The SB discusses executive Bonus matters 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 given in thousands of GEL in the table below:

	2020	2019
Interest yield under Eective Interest Rate	21	5
Interest expenditure	(11,072)	(13,306)
Commission expenditure	(166)	(143)
NET income from deals in foreign currency	6,643	4,328
Other operational expenses	(12)	(14)

12. Annexes to Pillar 3 Report

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