

Pillar 3 Report 2017



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TBC BANK

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INTRODUCTION

The main purpose of this report is to detail the requirements of TBC Bank's Pillar III about capital adequacy and remuneration as defined by the National Bank of Georgia in line with the Basel III framework.

MANAGEMENT STATEMENT

The Bank's Supervisory Board confirms the accuracy and the authenticity of all the data and information outlined in the Pillar III's present statement. The document is prepared in full compliance with the internal processes agreed with the Supervisory Board. The statement is in line with all the requirements of "Rules for disclosure of information by commercial banks within the frameworks of Pillar III" approved by the Order # 92/04 of the President of the National Bank of Georgia, on April, 2017 and other rules and norms established by the National Bank of Georgia.

LOCATION OF PILLAR III DISCLOSURES

This report provide the Basel III Pillar 3 disclosures to the extent that these required pillar 3 disclosures are not included in the TBC Bank Group PLC Annual Report 2017.

The following table provides the location of the required Pillar 3 disclosures in the TBC Bank Group PLC Annual Report 2017 and other published report:

Pillar 3 discloser topic	Primary location in Annual Report 2017
Shareholder rights	Director's Governance Statement - Special rights and transfer restrictions (page 110)
Governance - Committee membership and responsibilities	Director's Governance Statement - Committee membership and division of responsibilities (page 105); Board's committees (page 104)
Governance - Independence of the Board	Director's Governance Statement - Board Composition (page 105); Chairman's governance overview (page 104)
Governance - Board members' biographies	Governance - Board's biographies (page 114)
Governance - Viability	Governance - Viability statement (page 111-112)
Governance - Committee meetings	Director's Governance Statement - Board and Committee Meeting attendance (page 106)
Governance - Board's effectiveness	Governance - Annual Board effectiveness evaluation (page 107)
Governance - Delegation of authorities	Governance - The Board and Board's Committees (page 104)
Bank's Management Board - Biographies	The Bank's Management Board Biographies (page 118)
Bank's strategy	Business Model and Strategy – Strategy (page 24-25)

Pillar 3 discloser topic	Primary location in other report
Shareholder income	http://www.tcbank.ge/web/en/web/guest/financial-reporting-to-nb Transfers to shareholders

KEY INDICATORS OF THE BANK

Capital ratios as a percentage of Risk Weighted Assets ("RWA"):

	31 December 2017	31 December 2016	31 December 2015
Common equity Tier 1 ratio	12.90%*	9.94%	12.75%
Tier 1 ratio	13.37%*	10.39%	12.75%
Total regulatory capital ratio	17.53%*	14.19%	16.04%

* Significant changes between these two reporting periods are due to changes introduced by the NBG in its methodology to calculate the Risk Weighted Exposures, in particular excluding currency-induced credit risk (CICR) from Risk Weighted Risk Assets ("RWRA"), which will be reflected in Pillar 2 capital buffer requirements. For further details see the link of NBG's official press-release: <https://www.nbg.gov.ge/index.php?m=340&newsid=3248&lng=eng>

Profit Indicators:

	31 December 2017	31 December 2016	31 December 2015
Total Interest Income / Average Annual Assets	8.50%	9.08%	9.09%
Total Interest Expense / Average Annual Assets	4.05%	3.60%	3.74%
Earnings from Operations / Average Annual Assets	3.97%	4.61%	4.05%
Net Interest Margin	4.45%	5.49%	5.35%
Return on Average Assets (ROA)	2.77%	3.63%	2.94%
Return on Average Equity (ROE)	20.10%	21.91%	19.04%

Asset Quality:

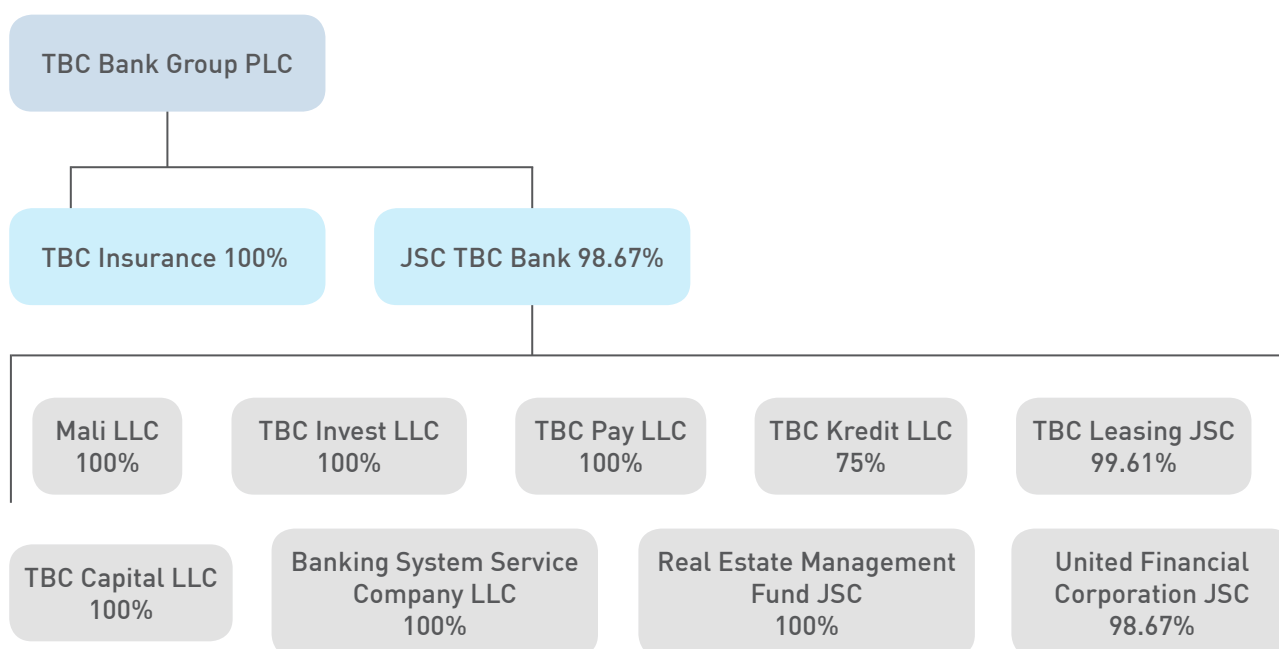
	31 December 2017	31 December 2016	31 December 2015
Non-Performed Loans / Total Loans	3.22%	4.33%	6.82%
LLR / Total Loans	4.31%	5.22%	6.07%
FX Loans / Total Loans	59.37%	66.06%	63.58%
FX Assets / Total Assets	55.86%	59.16%	55.19%
Loan Growth-YTD	44.63%	27.64%	40.03%

Liquidity:

	31 December 2017	31 December 2016	31 December 2015
Liquid Assets / Total Assets	20.87%	19.15%	20.19%
FX Liabilities / Total Liabilities	64.60%	72.66%	68.96%
Current & Demand Deposits / Total Assets	40.03%	37.95%	36.11%

GROUP STRUCTURE

The chart below illustrates the structure of the TBC Group:



For additional information about the consolidation of enterprises please see the following link:
<http://www.tbcbank.ge/web/documents/10184/262731/Pillar+3+Annual+Disclosure+%28Eng%29.xlsx>

As of 31 December 2017 the shareholders directly owning more than 5% of the Bank's total outstanding shares were as per below:

Beneficiary owner	Share
Mamuka Khazaradze	13.69%
Badri Japaridze	6.84%
European Bank for Reconstruction and Development	8.27%
JPMorgan Asset Management	9.09%
Schroder Investment Management	9.41%

THE BANK'S MANAGEMENT BOARD AND COMMITTEES

The Bank's Board of Directors consists of eight members:

Vakhtang Butskhrikidze	David Chkonia
Paata Gadzadze	Giorgi Shagidze
Vano Baliashvili	Nikoloz Kurdiani
Nino Masurashvili	Giorgi Tkhelidze

The following committees are at the directors' level:

Committee Member	Conflict of Interests Committee	EA (Enterprise Architecture) Committee	Information Security Steering Committee
CEO	X		
First Deputy CEO			
CFO			
CIO		X	X
CRO	X		X
COO			X
Head of Retail Banking			
Head of Marketing, SME and Micro Banking			
Head of Corporate and Investment Banking			
Head of Architecture Improvement Project			
Head of Project Management Office			
Head of Business Analysts Department			
Head of Software Development team			
Head of Operational Risks			X
Head of Compliance	X		X
Head of Analytic Department of Security Service			
Head of Information Security			
Head of Debt Capital Markets			
Head of ERM			
Head of FRMD			
Head of Treasury			
Head of Customer Experience Department			
Deputy CRO	X		
Head of Credit Risk Management			
Heads of Underwriting			
Head of Problem Assets Management			
Head of Corporate Rehabilitation			
Regional Director			

Customer Experience Management Committee	Assets and Liabilities Management Committee (ALCO)	Management Board Risk Committee	Operational Risks Committee	Business segment Credit Committee
X	X	X	X	X
	X	X		
X	X	X	X	X
			X	
X	X	X	X	X
X	X	X	X	X
X	X	X	X	X
			X	
			X	
	X			
	X	X		
	X			
	X			
X				
		X		
		X		X
		X		
		X		
				X

The Management Board's Responsibilities

The First Deputy CEO

The First Deputy CEO reports to the Chief Executive Officer and assumes a strategic role in the overall management of the Bank. The First Deputy CEO's primary responsibility is to plan, implement, manage, and control two main directions: a) all Human Resources-related activities and b) TBC Bank's new business line, the Wealth Management of individual and corporate clients.

Beside these direct functions and responsibilities, the First Deputy CEO acts as TBC Bank CEO during his absence. The First Deputy CEO is fully authorised by the Bank's Supervisory Board to sign all kind of documents and contracts with third parties in the name of TBC Bank, including credit and other financial documents.

Deputy CEO, Chief Financial Officer

The Chief Financial Officer (CFO) reports to the Chief Executive Officer and to the Supervisory Board and has a strategic role in the overall management of the Bank. The CFO has the primary responsibility for planning, implementing, managing and controlling all financial-related activities. These include investor relations and fund raising, treasury activities, financial risk management, performance analysis, budgeting and forecasting, accounting standards and regulatory compliance, management and regulatory reporting, taxation and all other relevant matters.

Deputy CEO, Corporate and Investment Banking

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

Deputy CEO, Chief Risk Officer

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

measurement, mitigation, monitoring and reporting.

Deputy CEO, Chief Operating Officer

The Chief Operating Officer (COO) reports to the Chief Executive Officer. The COO's responsibilities include the management of the centralised back office, card processing, cash management, loan administration, IT, customer experience and support, correspondent banking, procurement, and logistics.

Deputy CEO, Retail Banking

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

Deputy CEO, SME and Micro Banking

The Deputy CEO for the Micro and SME business unit and the Marketing and Corporate Communications reports to the Chief Executive Officer. The role entails planning, implementing, managing, and controlling all the Bank's activities related to the abovementioned segments.

RISK MANAGEMENT

Risk Management Strategy

One of TBC Bank's main priorities is to establish and maintain a functioning strong and sustainable risk management, adaptable to on-going business developments and able to respond promptly to emerging risks.

The key objective of the risk strategy is to promote a solid and independent, business minded risk management system. The risk management aims primarily to contribute to the development of TBC's business strategy by supporting risk-adjusted profitability maximisation and guaranteeing TBC's sustainable development through the implementation of an efficient risk management system.

Four major principles are adopted to enable the accomplishment of the risk management's major objectives:

- ▶ **Governing risks transparently in order to earn understanding and trust.** Consistency and transparency in risk-related processes and policies are preconditions for gaining the trust of the various stakeholders. Communicating risk goals and strategic priorities to governing bodies and providing a comprehensive follow-up in an accountable manner are key priorities for the risk management staff;
- ▶ **Managing risks prudently to promote sustainable growth and resiliency.** Risk management acts as a backstop against excessive risk-taking. The capital adequacy management and strong forward-looking tools and decision-making processes ensure the Bank's sustainability and resiliency;
- ▶ **Ensuring that risk management underpins the strategy implementation.** The staff responsible for the risk management provide assurance on the objectives' feasibility through the risk identification and management. Identifying and adequately pricing risks, as well as taking risk mitigation actions, support the achievement of

the desired returns and planned targets;

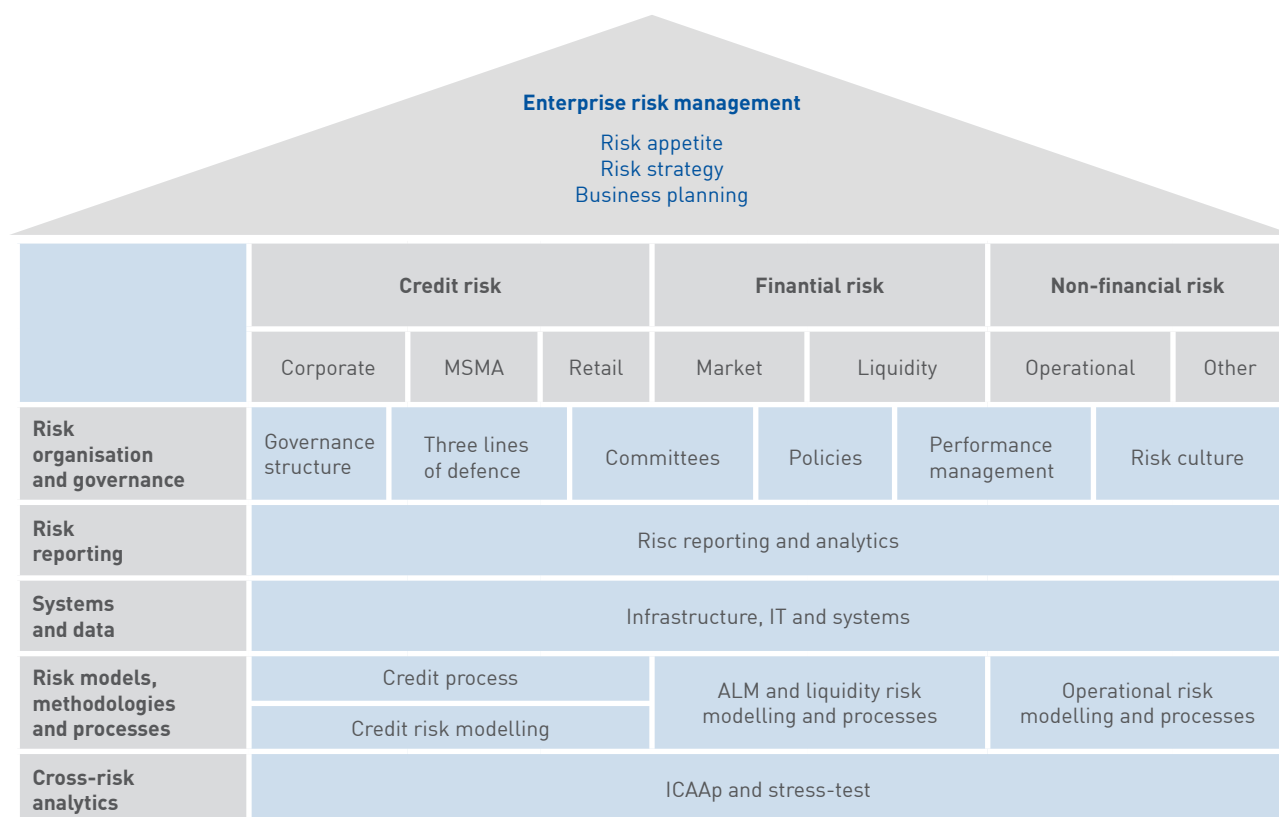
- ▶ **Using risk management to gain a competitive advantage.** Comprehensive, transparent, and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensuring the sustainability and resilience of the business model and the positioning of risk management as the Bank's competitive advantage and strategic enabler.

The abovementioned principles must be embedded into the overall risk governance structure as well as individual risk management tools and techniques.

Risk management framework

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

The diagram below illustrates the risk management framework:



Risk governance

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

The Bank's governance structure ensures an adequate oversight and accountability, as well as a clear separation of duties. The Supervisory Board hold the joint overall responsibility to set the tone

at the Bank's top and monitor the compliance with the established objectives, while the Management Board governs and directs the Bank's daily activities.

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

Supervisory Board	Supervisory Board	Risk, Ethics and Compliance Committee		Audit Committee	
Management Board	Risk Committee	Operational risk committee		ALCO	Info Sec Committee
Risk Management Structure	Functions:	Enterprise Risk Management	Credit Risk	Financial Risk	Operational Risk
	Committees:	Loan Approval Committees		Restructuring and Collections Committees	

The risk governance structure consists of two board levels, the Supervisory Board and the Management Board, each with their dedicated risk committees, The Supervisory Board and the Bank's senior management govern the risk objectives through the Risk Appetite Statement. (Details about Risk Appetite Framework are on page 23)

The Supervisory Board features two committees:

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

The Management Board comprises three committees:

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

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

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

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

The Bank's strong and independent risk-management structure enables to fulfil all required risk management functions within the second line of defence by highly skilled professionals. In addition to the risk teams subordinated to the chief risk officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management.

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

Key Risks

The risk of macroeconomic environment deterioration of the country

The slowdown of economic growth in Georgia will have an adverse impact on borrowers' repayment capacity and restrain their future investment and expansion plans. These occurrences will be reflected in the Bank's portfolio quality and profitability, and also slow down the portfolio growth rates. Negative macroeconomic developments can compromise the Bank's performance through different parameters such as increasing unemployment slowing down of economic growth, exchange rate volatility, inflation volatility, investment environment deterioration, worsening of consumer and business confidence etc. Given that Georgia is a small open economy, the political and economic instability in the neighbouring and main trading partner countries negatively impacts the country's economic outlook through a worsening current account (e.g. decreasing exports and tourism inflows as well as lower remittances and foreign direct investments).

As the Bank operates primarily in, and sources nearly all of its revenue from, Georgia, its business, financial condition and operations are,

and will continue to be, highly dependent on the country's general economic conditions.

Between 2011 and 2017, the Georgian economy recorded an average real GDP growth of 4.6% per annum. In 2017 economic growth recovered significantly to 5.0%. The sharp improvement was primarily driven by a recovery in main trading partners which translated into the increase of exports, tourism, and remittances inflows.

In order to decrease its vulnerability to the economic cycles and adverse economic developments, the Bank identifies exposure to cyclical industries and limits sector concentrations within its risk appetite framework.

The Bank has established a macroeconomic monitoring process. This enables a close and constant observation of the economic developments both in Georgia and its neighbours and the identification of early warning signals signalling imminent economic risks. The system allows the Bank to timely assess significant economic and political occurrences and analyse their implications for the loan portfolio. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards and risk appetite metrics.

Additionally, the stress testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the Bank to have an advance evaluation of the impact of macroeconomic shocks on the business and the portfolio.

The resilience towards a changing macroeconomic environment is incorporated into the credit underwriting standards. This is reflected in conservative requirements of debt-servicing capabilities and collateral coverage.

Credit risk

As a provider of banking services, the Bank is exposed to the risk of loss due to the failure of a customer or counterparty to meet its obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the most material risk the Bank faces since it is engaged mainly in traditional lending activities with a simple balance sheet. Thus, the Bank allocates significant resources to its management.

Due to the Georgian economy's significant reliance on foreign currencies, the currency-induced credit risk is significant and it relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the portfolio. Credit

risk also includes concentration risk, which is associated to the quality deterioration of the credit portfolio, due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in specific economic industries.

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

Currency-induced credit risk

Currency induced credit risk is one of the most significant risks that could negatively impact the Bank's portfolio quality given that a large part of its exposure is denominated in foreign currency. As of 31 December 2017, 59.37% of total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies. In December, 2016 foreign currency loan share was stood at 66.06%.

Along with actions undertaken by the Bank, legislative initiatives put in place by the Georgian government in the beginning of 2017 facilitated de-dollarization of the Bank's loan book. According to new legislation, starting from January, 2017 all loans to individual borrowers up to GEL100k should be disbursed in local currency.

The Bank applies various management tools and techniques to mitigate currency induced credit risks encompassing all phases of credit risk management. Specific attention is paid to unhedged borrowers, which are the most sensitive to currency depreciation. The Bank applies conservative lending standards to un-hedged borrowers to ensure that they can withstand a certain amount of currency depreciation without credit quality deterioration.

Apart from measures which are in place throughout the underwriting process, the Bank regularly monitors and assesses the quality of foreign currency denominated loans to assess potential impact of currency depreciation on the portfolio. Based on this assessment the Bank ensures that it holds sufficient capital buffers against unexpected losses.

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

Concentration risk

The Bank is exposed to concentration risk, defined as potential deterioration in portfolio quality

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

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

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

Liquidity risk

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

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

Funding liquidity risk

The funding liquidity risk is the risk arising from the Bank's inability to convert assets to cash or to obtain funding from other sources of funds at due date. To manage this risk, the Bank has internally developed a model using a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), both under Basel III liquidity guidelines.

Additionally, the Bank applies stress-tests and "what-if" scenario analyses and monitors the National Bank of Georgia's minimum liquidity ratio.

In 2017, the central bank introduced its own LCR for liquidity risk management purposes. In

addition to the Basel III guidelines, the ratio applies conservative approaches to the weighting of mandatory reserves and deposit withdrawal rates depending on the client Bank's concentration. From September 2017, the Bank also monitors compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies.

Market liquidity risk

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

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

Market risk

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

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

Foreign currency risk

Due to the Georgian economy's significant reliance on foreign currencies, movements in foreign exchange rates can adversely affect the Bank's financial position. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The National Bank of Georgia requires the Bank to monitor both balance-sheet and total aggregate balance (including off-balance-sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2017, the Bank maintained an aggregate balance open currency position of 1.5%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and for total aggregate position that are more conservative than those set by the National Bank of Georgia and the Supervisory Board. The heads of the treasury and financial risk management departments separately monitor daily the Bank's compliance with these limits. Compliance with these limits is also reported daily to the Management Board, and periodically to the Supervisory Board and its Risk, Ethics and Compliance Committee. A value-at-risk (VAR) analysis in line with the Basel guidelines is used to assess the Bank's minimum capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) framework monthly.

Interest rate risk

The interest rate risk is a potential loss, arising from changes in market interest rates. This risk can result from maturity mismatches of assets and liabilities as well as from the re-pricing characteristics of such assets and liabilities. The deposits and most of the loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowing is based on a floating interest rate.

The Bank's floating rate borrowings are, to a certain extent, hedged because the National Bank of Georgia pays a floating interest rate on the minimum reserves that TBC Bank holds with it. Furthermore, many of TBC Bank's loans to and deposits from customers contain a clause allowing it to adjust the interest rate on the loan/deposit in case of adverse interest rate movements, thereby limiting exposure to interest rate risk.

The Bank employs an advanced framework for the management of interest rate risk by developing appropriate approaches, calculation methodologies for assessing NII and EV sensitivities in case of different scenarios of interest rate changes. The framework considers as well the establishment of appropriate limits, monitoring compliance with them and preparing forecasts. The interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major features of the interest rate risk management development, and the respective reporting, are periodically provided to the Management Board, the Supervisory Board, the Board and the Risk, ethics and compliance committees.

The Bank measures four types of interest rate risk based on the source of the risk: (i) re-pricing risk, (ii) yield curve risk, (iii) basis risk, and (iv) optionality (embedded option) risk.

The Bank considers numerous stress scenarios, including different yield curve shifts and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments). For each scenario the Bank evaluates both NII and EV sensitivities. Appropriate limits are set by the Supervisory Board and the Management Board's Risk Committee.

Net interest margin

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

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

In 2017, the net interest margin decreased by 1.3 pp YoY to 6.5%, which the Bank had expected and included in the forecast that provides the basis for the Bank's guidance.

The decrease in the net interest margin is mainly caused by the faster repricing of the assets than liabilities, through the competition for newly disbursed loans and through prepayment of loans at times when market interest rates are falling.

Finally, the Bank limits its direct exposure to the LIBOR and local refinancing rates or, where not feasible, prices them appropriately between assets and liabilities. As of 31 December 2017, GEL 2,532 million in assets (19.5%) and GEL 1,308 million in liabilities (11.8%) were floating, linked to the LIBOR/FED/ECB (deposit facility) rates. During the same period, GEL 1,786 million of assets (13.8%) and GEL 2,131 million of liabilities (19.2%) were floating, linked to the National Bank of Georgia's refinancing rate.

The high current margin levels, increase in fee and commission income, and continuous cost optimisation efforts represent a safeguard against margin declines posing profitability concerns for the Bank.

The Bank also has launched an enhancement programme for margin management, including an adequate pricing framework and profitability analysis, to assist in decision making. In cases where loans are extended on fixed terms, the interest rate risk is adequately translated into price premiums, safeguarding against changes in the interest rates.

The Bank expects margins to stabilise in the medium term. It also forecasts that the decreasing margins will be compensated in practice by increased fee and commission income and decreased unit cost spent per transaction.

Counterparty risk

TBC Bank performs banking services such as lending in the interbank money market, settling a transaction in the interbank foreign exchange market, entering into interbank transactions related to trade finance or investing in securities. Hence, the Bank is exposed to the risk of losses due to the failure of a counterparty bank to meet its obligations. To manage the counterparty risk, the Bank defines limits on an individual basis for each counterparty and as well on a portfolio basis by limiting the expected loss from both treasury and trade finance exposures. As of 31 December 2017, TBC Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. From the operation risk perspective, cyber-attacks and fraud have become the relevant risks in recent years.

Cyber attack

The risk of potential cyber-attacks, which have become sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment.

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

The Bank actively monitors, detects, and prevents risks arising from cyber-attacks. Staff monitor the developments on both local, and international markets to increase awareness of emerging forms of cyber-attacks. Intrusion prevention and DDoS

protection systems are in place to protect the Bank from external cyber-threats. Security incident and event monitoring systems in conjunction with respective processes and procedures are in place to handle cyber-incidents effectively.

Fraud events

Frauds can be committed by both external and internal parties and they may materially impact the Bank's profitability and reputation. During the year 2017 the Bank faced a few instances of fraud events which resulted in low material impact to the Bank's profitability.

The Bank actively monitors, detects, and prevents risks arising from fraud events. There are permanent monitoring processes in place to timely detect unusual activities. The efficient risk management protects the Bank from this type of risks.

The Bank continuously works on the fine-tuning of internal processes, as well as on the implementation of the industry's best practices in order to mitigate the losses arising from operational risk events.

Reputational risk

The reputational risk (RR) arises as consequence of other risk types' occurrence. The essential condition of other risk types becoming RR is that the risk event becomes public and may have an adverse effect on the Bank's reputation. Key units for RR management, as the Public Relations Department, Operational Risk Management Department, Legal Department and Compliance Department work in coordinated manner to proactively identify reputational risks and apply respective mitigation measures. The reputational risk is taken into account by the management during the decision making processes. Key elements of the RR management are "know your client", "know your employee" and "know your partner" rules. The criteria according to which clients, employees and partners are assessed, are described in corresponding internal documents.

The RR assessment is performed during the new product approval process. In addition, regular risk and control self-assessment exercises are used as an efficient tool to identify inherent reputational risks.

As for communication with external parties (including media), only authorised employees are permitted to give interviews or disseminate any particular information. The Public Relations Department regularly monitors the mass-media.

Regulatory risk

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

Alongside with mandatory capital adequacy ratios, the regulator sets lending limits and other economic ratios, including, inter alia, lending, liquidity and investment ratios. Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Bank is also regulated by respective tax code or other relevant laws in Georgia.

Following the parent company's listing on the London Stock Exchange's premium segment, the Bank became subject to increased regulations from the UK Financial Conduct Authority. The Bank is also subject to financial covenants in its debt agreements.

The Bank has established systems and processes to ensure full regulatory compliance.

In terms of banking regulations and Georgia's taxation system, the Bank is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation.

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

Compliance risk

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

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

Besides the national legislation, JSC TBC Bank is subject to the UK and the EU regulations, since the shares of the Bank's mother company are traded in the premium segment of the London Stock Exchange.

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

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

- ▶ Introduction of corporate ethics and risk sensing culture
- ▶ Management of conflict of interests
- ▶ Management of incidents
- ▶ Prevention of bribery, anti-corruption, and tax avoidance
- ▶ Prevention of illicit income legalisation and terrorism funding
- ▶ Protection of consumers' rights
- ▶ Protection of the capital adequacy and other prudential coefficients required under local regulation and contractual agreements

In order to ensure the management of these processes, the Bank has developed policies, instructions, rules, and provisions which are mandatory for all its employees.

The Bank's Compliance Risk Management Department provides the identification, assessment, monitoring and periodic review of the compliance risk.

The Bank's Compliance Risk Management Department is directly subordinated to the CEO and is accountable to the Risk, Ethics and Compliance Committee of the Supervisory Board.

Credit Risk Mitigation

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

Attention is paid to the fact that there is no significant correlation between the credit quality of the borrower and the value of collateral. Established legal processes and respective agreements ensure that provision of collateral can be enforced legally.

Key Policy and Procedures for Collateral Management & Appraisal

The Bank uses collateral for credit risk mitigation

purposes and therefore effective collateral management is of particular importance for maintaining credit risks within the acceptable level. The Bank's collateral management policy and the manual for collateral management and appraisal procedures has been developed taking into consideration the recommendations and standards of BCBS (BASEL COMMITTEE ON BANKING SUPERVISION), IVSC (INTERNATIONAL VALUATION STANDARDS COUNCIL) and is approved by the the Bank's Management Board Risk Committee.

The collateral management policy is based on the following main principles:

- ▶ Adequacy of collateral valuations
- ▶ Legal enforcement (authenticity and enforceability of agreements)
- ▶ Effectiveness of collateral monitoring
- ▶ Reporting systems

The collateral management policy defines types of assets that the Bank can consider as collateral, outlines the appraisal policy and regulates collateral monitoring and reporting frameworks. Collateral valuations are undertaken by appraisers of the Collateral Management & Appraisal Department, which is independent from the lending process in order to avoid potential conflict of interest. In individual cases, such as lending to related parties of the Bank, repossession of the properties or complex valuations, the valuation is performed by appropriately selected external appraisers.

Collateral monitoring is carried out regularly by using individual or statistical approaches. Collaterals with higher value are re-evaluated annually, while statistical methods are used to monitor other collaterals.

In addition, the Bank regularly controls the gold market price, to determine the adequacy of valuations being in place and adjust current valuations as required.

Main types of collateral

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

- ▶ Real estate
- ▶ Movable property
- ▶ Financial asset
- ▶ Intangible asset
- ▶ Suretyship, guarantee

Required collaterals are defined based on the credit product type and borrower's risk profile. The Bank's

credit portfolio is well secured, with the main type of collateral being real estate.

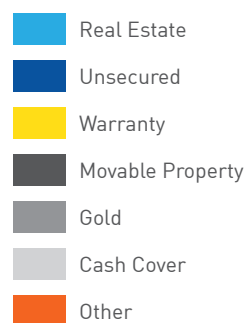
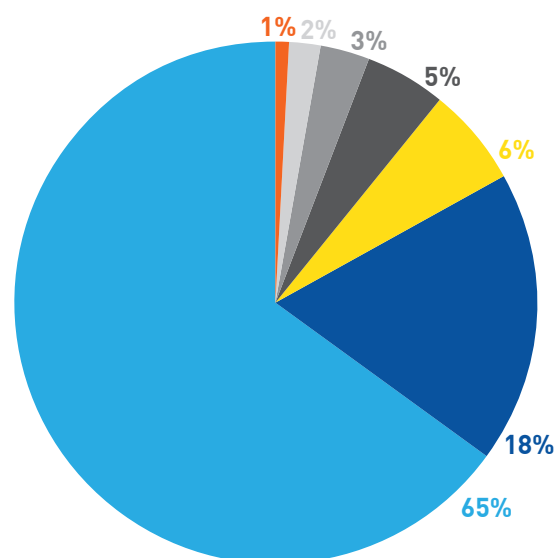
For the purpose of capital adequacy calculation, the Bank uses the following types of collateral:

- ▶ Cash deposits
- ▶ Gold
- ▶ Third party guarantees

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

Information on credit risk concentrations according to mitigation tools

The Bank's credit portfolio is well secured. 65% of the portfolio is secured with real estate, 5% is secured by cash deposits and jewelry (3% and 2% respectively). Other types of collateral are: movable property and third-party guarantees.



Main types of guarantees and contracts received as collateral

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

► Interbank limit assessment procedure

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

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

If the counter-guarantee banks average international rating is \geq "BBB", the FRM uses the latter rating for defining the limit and assesses the bank's main financial and non-financial metrics.

If the bank is assessed by one international rating agency, or its average credit rating is $<$ "BBB", the bank's assessment is done by an internally developed model, based on the following factors:

- Bank's Financial Metrics:
 - Capital Adequacy
 - Credit portfolio quality
 - Liquidity and funding
 - Profitability

► Warning Signals:

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

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

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

The counter-party limits monitoring is carried out on a daily basis by the ALM. In case of limit breaches, the ALM informs the FRM and Settlements and Correspondent Banking Department in order to take immediate actions for mitigation

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

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

International Ratings

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

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

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

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

Risk appetite

The Bank has developed a risk appetite framework that ensures risk-culture communication with the Bank's management and Supervisory Board.

The risk appetite framework includes quantitative and qualitative risk indicators, sets limits and defines acceptable levels for identified risks to support the Bank's business strategy.

The risk appetite framework includes the risk assessment and management for all major categories of risk (credit, financial, operational, liquidity, market, capital, supervisory indicators). The cascading indicators of risk appetite support identification of risks in a more efficient and timely manner, dissemination of information, and planning of relevant activities prior to risk occurrence.

For the effective risk management, the process involves identifying, assessing, determining the desired level of risks, monitoring, and carrying out risk mitigation activities, in case, it exceeds the boundaries established by the Bank.

The risk identification is a continuous process.

Once the risk is identified, it is assessed and materiality level is determined. For all potential and principal risks, the risk appetite framework sets limits that are acceptable for each parameter

to comply with the Bank's risks and business strategies. After the evaluation of risks and determination of materiality levels, enterprise risk management department is responsible for consolidation and further monitoring of such risks.

The risk appetite framework sets three levels, corresponding to the Bank's three-layered approach to risk:

Green Zone – desired risk level for the bank, which is important to maintain the Bank's long-term strategy.

Yellow zone – an acceptable level of risk, but it is necessary to take actions to return the risk to the desired green zone.

Red zone – A warning risk level that requires quick solutions and activities to mitigate the risk. For each level, the risk appetite framework sets out necessary actions to ensure the continuous management and monitoring of risk parameters and prompt activities, in case the desired green zone of risk profile is violated.

The Bank's Supervisory Board is responsible for approving the risk appetite. The enterprise risk department is responsible for day to day management of risk appetite framework. The information about the risk appetite outcomes and the necessary updates are provided in the monthly reports of the Bank's Management Board.

Quarterly results are presented at the Risk Ethics and Compliance Committee session.

Capital Management

The internal capital adequacy assessment process is a cornerstone for the Bank's resiliency and sustainability. The prudent capital adequacy management incorporates:

- ▶ Internal capital adequacy assessment. The Bank have in place an internal capital adequacy assessment methodology and models in order to calculate its unexpected losses and hold enough capital against them;
- ▶ Short/long-term forecasting of Capital Adequacy. For the effective management of capital adequacy the Bank is carrying out capital adequacy forecasting, to timely identify factors that can affect it and avoid breaching capital adequacy limits;
- ▶ Enterprise-Wide stress testing (EWST). Under the internal capital adequacy process the Bank conducts enterprise wide stress testing exercises in order to estimate losses under the predefined scenario. The enterprise-wide stress testing is held annually and results are reported to the management and risk ethics and compliance committee of the Supervisory Board. The Bank periodically provides additional sensitivity analysis against currency depreciation and changes in the macroeconomic environment to ensure prudent capital management. In 2017 the Bank held stress test according to scenario defined by the regulator. The results of regulatory stress testing are expected to be considered while setting stress test buffer under pillar 2.
- ▶ Determination of Capital Adequacy limits. Within risk appetite framework, the Bank sets capital adequacy limits, which are compliant with estimated economic capital and stress test results;
- ▶ Capital allocation and pricing. Effective capital governance implies determination of accurate capital levels for all assets and its effective allocation, for loan pricing purposes. The process ensures capital optimization and generation of target profitability.

Risk reporting

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

The Risk Management Department analyses the credit portfolio on a monthly basis. It analyses all portfolio's indicators such as the volume, growth rate, structure, overdoes, vintage analysis, concentration level, maturity, non-performing loans, write-off coefficients, provision charges etc. Each ratio is analysed for the total portfolio, as well as for each segment with the respect of historical and planned indicators. In addition, operational and financial risks are also examined monthly, alongside the compliance of the risk profile with the risk appetite limits.

The risk management results and analysis are presented to the Management Board in a monthly report and quarterly results are discussed with the Risk, Ethics and Compliance Committee of the Supervisory Board.

These reports cover the following main issues:

- ▶ Brief overview of the country's economic situation
- ▶ Risk appetite
- ▶ Credit risk results
- ▶ Operational risk results
- ▶ Financial risk results
- ▶ Capital management

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

- ▶ Regulatory changes
- ▶ Update on the risk strategic objectives
- ▶ Important methodological or strategic changes.

REMUNERATION POLICY FOR TOP MANAGEMENT AND NON-EXECUTIVE DIRECTORS

Overview

The remuneration policy for top management and non-executive directors is developed by the Group's Remuneration Committee and approved by the Board. It is also subject to the shareholders' approval at the Annual General Meeting.

The existing remuneration scheme for the top management was designed with the support of external consultants and implemented on 17 June 2015 to cover a three-year period until the end of 2018. The Group worked with EY to review the policy for top management directors and the current remuneration policy was approved at 2017 Annual General meeting. It will expire at the end of 2018.

EY have also advised the Group on the non-executive directors' compensation. The current remuneration scheme was approved at the 2017 Annual General Meeting; it is effective from 1 January 2018 for three years.

The Remuneration Committee is comprised of solely independent non-executive directors from

different backgrounds and with different skills in order to provide the best input. The members are: Stefano Marsaglia (chairman), Nikoloz Enukidze, Eric Rajendra, and Nicholas Haag.

The committee ensures that top management's remuneration is aligned with their performance. It creates a strong motivation to achieve the Group's strategy, it meets the appropriate regulatory requirements and best practices, and it takes into account the views of shareholders as well as other stakeholders.

The top managements' remuneration is comprised of:

- ▶ Fixed compensation consisting of both cash-based and share-based payments;
- ▶ Annual bonus based on the level of achievement of short-term key performance indicators (KPIs) and consisting of share-based payments only.

Non-executive members are remunerated with monthly fixed cash payments. The compensation is based on the best practices, specifically the payments of the FTSE 250 financial companies board membership. It also reflects the unique individual roles the chairman and the deputy chairman play within the Group.

Remuneration policy for non-executive directors

The non-executive directors receive their compensation from both the Company and the main subsidiary, JSC TBC Bank, and it is proportionate to the time spent working on the respective entity's boards and committees.

Component	Purpose and link to the strategy	Operation
<p>Fees</p>	<p>To provide appropriate compensation for one of the Group's non-executive director, sufficient to attract, retain, and motivate high-calibre individuals with relevant skills, knowledge, and experience to further the Group's strategy.</p> <p>In addition, for the chairman and deputy chairman, the Group's remuneration policy reflects their importance and unique role within the Group.</p>	<p>The Group pays fees to non-executive directors. These are determined by the Remuneration Committee.</p> <p>The Remuneration Committee retains the right to structure the non-top managers' fees differently in its absolute discretion. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.</p> <p>Fees are generally paid monthly in cash. However, the Remuneration Committee reserves the right to pay the fees on a different basis.</p> <p>The Remuneration Committee periodically reviews and adjusts the fees, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors.</p>
<p>Expenses</p>	<p>To compensate non-executive directors for expenses incurred in connection with the performance of their duties and to ensure the Group has the appropriate non-executive director input as and when required.</p>	<p>The Group may reimburse non-executive directors for their expenses incurred in connection with the performance of their duties, including attending Board and committee meetings (for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, director's and officers' liability insurance, and advice on professional duties and corporate hospitality events (or the Group may pay such expenses directly).</p> <p>For the Chairman and Deputy Chairman, JSC TBC Bank provides insurance, company car service, and a security service for the Chairman only (this is a legacy arrangement and a common practice in the Georgian market).</p>

Remuneration Policy for top management

Component	Purpose and link to strategy of the group	Operation	Performance measures
<p>Salary – in the form of cash and deferred shares</p>	<p>Salaries are determined based on market practice and to provide each top manager with a competitive fixed income to efficiently retain and reward the director, based upon each director’s roles and responsibilities within the Group and relative skills and experience.</p> <p>Cash salary</p> <p>The cash part of the salary is aimed to address and provide for top managers’ day-to-day living expenses.</p> <p>Deferred share salary The deferred part of the salary is vested 10%/10%/80% over the period of three years respectively and is intended to promote the long-term success of the Group by closely aligning top managers’ and shareholders’ interests.</p> <p>Further, before vesting, the deferred shares are registered in the name of the participant and the participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest.</p>	<p>Initial salaries are set by the Remuneration Committee based on responsibilities and market data and are set out in a top manager’s service contract with the Group.</p> <p>A top manager may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity.</p> <p>By a decision of the Remuneration Committee, malus and clawback may be applied to all amounts of unvested deferred compensation, which would include the deferred share portion of salary.</p>	<p>Not performance based.</p>

Component	Purpose and link to strategy of the group	Operation	Performance measures
<p>Deferred share bonuses</p>	<p>To provide a strong motivational tool to achieve KPIs and to provide rewards to the extent those KPIs are achieved.</p> <p>KPIs are chosen to align our top managers' interests with the strategic objectives of the Group.</p> <p>In addition, the awards will vest 10% at the end of the first year/10% at the end of the second year/ 80% at the end of the third year from the award date and are intended to promote the long-term success of the Group by closely aligning top managers' and shareholders' interests.</p> <p>Further, before vesting, shares are registered in the name of the participant and the participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest.</p>	<p>KPIs are set by the Remuneration Committee each year. To the extent that the KPIs are achieved, the Remuneration Committee may decide in its full discretion whether an award may be made and the amount of such award.</p> <p>The awards are discretionary in nature and the Group does not pay guaranteed bonuses to top management.</p> <p>The KPIs are commercially sensitive and will be disclosed retrospectively in the annual report in the year following the award date.</p> <p>The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates.</p> <p>Further, if at any time after making a discretionary award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).</p> <p>The awards may be satisfied using either shares, cash or nil cost options.</p> <p>Vesting of the awards are subject to a continuous employment condition and the Group's malus and clawback policies and vest over a period of three years after the date of the award.</p>	<p>The KPIs consist of corporate and individual performance measures.</p> <p>Corporate KPIs might include financial measures such as underlying return on equity, profit before tax, cost of risk, total loan market share, and non-financial long term focus measures such as customer experience and Human Resources eNPS.</p> <p>Individual performance measures may include individual strategic objectives which vary per person, and might include treasury operations results, cost management, non-performing loans ratio, metrics regarding brand, culture and control measures as well as fulfilment of strategic initiatives.</p> <p>The performance period is one year.</p> <p>The Remuneration Committee may decide to make no discretionary awards where KPIs have not been met.</p>

Component	Purpose and link to strategy of the group	Operation	Performance measures
Pension	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain top manager.	<p>The Group may introduce a defined contribution pension scheme taking into account any pension reform or practice in Georgia. The operation of the pension would be considered by the Remuneration Committee fairly and reasonably and with regard to best market practice.</p> <p>If introduced, there will be no provision for the clawback or withholding of pension payments.</p>	Not performance based.
Benefits	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent	Not performance based.

Material risk takers

Material risk takers are employees who have a material impact on the Bank's profile. The officers meeting the criteria to be material risk takers are the following:

- ▶ Top management, Supervisory Board's members;
- ▶ Approved employees performing functions of significant influence, such as:
 - Compliance or internal audit;
 - Responsibility for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology, or economic analysis;
 - Risk management for liquidity, operational or interest rate risk, and for control functions within an institution are responsible for the day-to-day management of the business, its risks, or its control functions
 - Credit risk management;
 - Decision making in the introduction of new products.
- ▶ Other highly remunerated individuals whose activities could have an impact on the Group's risk profile.

Remuneration throughout the Bank

Across the Bank the middle management receive the entire salary in cash and are also eligible to cash and share bonus compensation. The share bonus compensation scheme is described below.

Share-based compensation scheme

Each year, subject to predefined performance conditions, a certain number of shares will be awarded to the Bank's middle managers. The performance features represent the performance indicators that are set on an individual basis are used to calculate the number of shares to be awarded to each employee. Once awarded, all shares carry service conditions and are vested 10%/10%/80% over a period of three years respectively. Before those conditions are met, the awarded shares cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is completed.

Considering risks in the Bank's remuneration system

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

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

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

The variable remuneration includes components with both a quantitative and qualitative evaluation. It is set at the beginning of each year and is assigned on an individual basis, according to the activity and function of the structural unit. The quantitative and qualitative goals of each direction are defined in accordance with the Bank's strategy and risk appetite and ensure the fulfillment of the Bank's overall objectives. The goals in the remuneration component are taken into consideration for the risk management staff as well as the employees of business lines. For a better understanding of the remuneration's variable components, there are a number of possible risk indicators representing an example of a quantitative goal:

- ▶ Non-performing loans ratio - In a variable remuneration system, credit risks are taken into consideration according to the given risk indicator. Performance levels are defined both at the business segment level and the overall Bank level.
- ▶ Provision charge-This risk indicator is another quantitative goal of the credit risks and is also defined both at the business segment level and the overall Bank level.
- ▶ Net loss indicator of operating risk- The quantitative indicator of these operational risks provides the motivation for reducing losses generated from the Bank's operational risks.

Examples of qualitative goals may include particular objectives, such as improving current risk models or implementing new risk assessment tools, that serve effective implementation of the bank's strategic goals, optimise processes or improve risk management.

