JSC Silk Road Bank

Pilar 3 Annual Report

2021

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1. Introduction

The main purpose of this report is to detail the requirements of Silkroad Bank's Pillar 3 about capital adequacy and remuneration as defined by the National Bank of Georgia in line with the Basel III framework. The disclosure of Bank's basic information is mandatory for all commercial banks and leads to increased transparency and confidence of the risks facing the Bank and adequacy of supervisory capital.

2. Management Statement

The Bank's Board of Directors confirm the accuracy and the authenticity of all the data and information outlined in the Pillar 3's present statement. The document is prepared in full compliance with the internal processes agreed with the Supervisory Board. It is in line with all the requirements of "Rule for disclosure of information by commercial banks within the framework of Pillar 3" approved by the Order #92/04 of the President of the National Bank of Georgia, on 22 June, 2017 and other rules and norms established by the National Bank of Georgia.

3. Strategy

The target market of Silk Road Bank is the MSME and retail segments. Over the next 3 years, the bank plans to achieve rapid and stable growth, which will be mainly reflected in the increase of the loan portfolio and the number of customers, risks associated with the rapid growth will be considered and mitigated.

The Bank's strategic goals for the next three years are mainly focused on quality assets, development of new products and information technology infrastructure, enhancing of human resources and technical capabilities, adhere the prudent banking practices, improving and strengthening the risk management perspectives.

The Bank will invest in different sectors and industries in terms to avoid the losses caused by industry crushes, therefore the diversified sector sourcing will allow the Bank to gain maximum possible profits with minimum possible losses.

The Bank's strategy is to create a high standard of banking services in the MSME and retail sector. To be the preferred bank and reliable partner of entrepreneurs, their employees and their customers. Active player in the banking sector.

4. Regulatory Capital Main Indicators

The Bank's regulatory capital consists of the following elements: Tier 1 and Tier 2 capital. The Bank's Tier 1 capital is comprised by the following items:

Minimum requirements	2021		2020	
Pillar 1 requirements	Amount	Requirement	Amount	Requirement
CET 1	2,991,602	4.50%	2,535,351	4.50%
Tier 1	3,988,802	6.00%	3,380,468	6.00%
Total regulatory capital ratio	5,318,403	8.00%	4,507,291	8.00%
Combined buffer				
Conservation buffer	-	0.00%	-	0.00%
Countercyclical capital buffer	-	0.00%	-	0.00%
Systemic risk buffers	-	0.00%	-	0.00%
Pillar 2 requirements				
CET 1	2,807,093	4.22%	1,133,703	2.01%
Tier 1	3,743,026	5.63%	1,511,849	2.68%
Total regulatory capital ratio	9,295,918	13.98%	7,356,573	13.06%
Total requirements				
CET 1	5,798,695	8.72%	3,669,054	6.51%
Tier 1	7,731,828	11.63%	4,892,318	8.68%
Total regulatory capital ratio	14,614,321	21.98%	11,863,864	21.06%

Regulatory capital by the year end

	2021	2020
Tier 1 capital	49,632,390	49,015,557
Supplementary capital	2,863,095	174,042
Total regulatory capital	52,495,486	49,189,599
Risk weighted assets	66,480,040	56,341,137
Regulatory capital ratio	78.96%	87.31%

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the National Bank of Georgia ("NBG") in supervising the Bank.

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and is monitored monthly with reports outlining their calculation reviewed and subsequently submitted to the NBG.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may reassess its business strategy or adjust the amount of return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

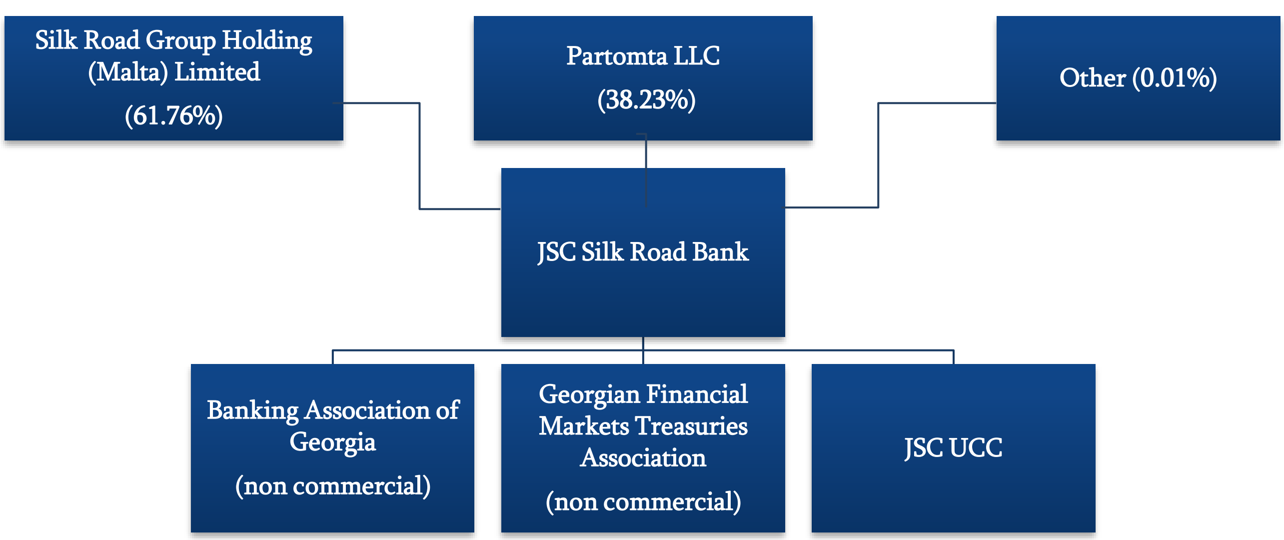
As at 31 December 2021, the Bank had to maintain the currency induced credit risk (CICR) buffer of 0.11% (2020: 0.13%), Risk buffer for credit portfolio concentration of 4.68% (2020: 3.23%) and net GRAPE buffer of 9.2% (2020: 9.7%). All the rest Pillar II buffers were to preserve at nil percent (2020: nil). Under total Basel III requirements the Bank was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 21.98%, 11.63% and 8.72%, respectively (2020: 21.06%, 8.68% and 6.51%, respectively)

As at 31 December 2021, share capital of the Bank comprised 611,464 of authorized fully paid shares with nominal value GEL 100 each (2020: 611,464 authorized fully paid shares with the nominal value 100 GEL each).

5. Ownership and Group Structure

During 2021, there was a change in shareholders of the bank - Partomta LLC (I/N 404580271) has become 38.23% owner of the bank. As at 31 December 2021 Bank's parent company is Silk Road Group Holding (Malta) limited (I/N C41521) - 61.76% owner of the bank (2020: Silk Road Group Holding (Malta) limited (I/N C41521) – 99.99%). The Bank's beneficiary owners are Giorgi Ramishvili, Yerkin Tatishev, Aleksi Topuria and David Franz Borger.

Ownership and Group Structure:



Corporate Governance

The Bank's corporate structure consists by the Shareholders' General Meeting, Supervisory Board and the Board of Directors, each has its own responsibility and authority in accordance with the Georgian legislation and the Bank's Charter. Key objectives in designing the corporate governance structure of the Bank are to warrant the highest degree of transparency and accountability at all levels, and to incentivize agents (directors) to act in conformity with the objectives of the business and its shareholders. The governance structure was designed so as to warrant a clear distinction between the functions of the Supervisory Board and the Board of Directors, which assigns to the former the supervision of the management ("decision controlling"), and to the latter the responsibility for the operative business ("decision management").

The General Meeting of Shareholders

The General Meeting of the Shareholders is the Bank's highest governing body, which elects the supervisory board members, which itself is responsible for supervising the Board of Directors.

<u>Rights of the General Meeting of Shareholders:</u>

- Change of the bank's charter;
- Amendment of the bank's authorized capital, trade name, legal address
- Reorganization and liquidation of the Bank;
- The decision on merger or division;
- Restriction of preferred share purchase option for shareholders, during additional capital emission;
- Decision making on distribution of net profit;
- Appointment/dismissal of Supervisory Board members;
- Approval of the Management and Supervisory Board reports;
- Determination of remuneration for Supervisory Board members;
- Selecting an independent auditor;
- Approval of Supervisory Board regulation;
- Approval of acquisition/disposal/exchange of property, if its value is more than 50% of the bank's total assets.

During 2021, two General Meeting of Shareholders were hold, where results of Bank's 2020 audited IFRS financial statements were reviewed and potential change in SB members were discussed (SB changes were postponed till next meeting).

Supervisory Board

The Supervisory Board consists of five members (none of them are also a member of Board of Directors), of which two (including chairman), are independent members. Supervisory Board members are appointed for 4 (four) years. Re-appointment of Supervisory Board members is unlimited. The authority of the Supervisory Board member continues till the contract expiration or, after the contract expiration till the General meeting of Shareholders, where the new Supervisory Board member is elected.

The Bank's Supervisory Board is actively involved in the Bank's activities and is systematically informed regarding Bank's important operations. During 2020, 29 (twenty nine) Supervisory Board meetings were hold, where the following matters were discussed and approved: acquisition/disposal of fixed assets, replacement/removal of collateral for related party loans, approval of various policies, appointment of an internal auditor, changes in the Board of Directors, approval of an updated structure, review of the Bank's ongoing results, approval of 2022-2024 budget, approval taking of subordinated loan, approval of recovery plan and internal audit regulations/instructions and review internal audit results and findings, review the AML Department's 2020 activity report, etc.

<u>Rights of the Supervisory Board:</u>

- Determination the bank's business policy, accepts and approves policy guidelines;
- Approval the strategic and annual plan of the bank's development, including the budget;
- Preparation of recommendations for the General Meeting of Shareholders and fulfilment tasks assigned by the General Meeting of Shareholders;
- Choose/release the members of the Board of Directors (including general director);
- Approval internal policies and procedures for creating credit, investment, currency, asset and liability management, asset assessment, their classification and adequate coverage of possible losses. Also, approval the internal provisions of the Bank's Credit Committee, Directorate, Corporate Secretary and Audit;
- Approval the amount of minimum and maximum interest rates applicable to the bank's credit resources and deposits;
- Control the activities of the Bank's Management;
- Decision on acquisition, alienation or loading of the property owned by the Bank;
- Decision regarding bank financing, either through taking loans, issuing bonds, or other forms of finance;
- Request direct reporting from the auditor;
- Approval of acquisition/disposal/exchange of property, if its value is more than 10% of the bank's share capital;
- Approval establishment/liquidation of a subsidiary;
- Approval starting/terminating of new banking business.

Independence of the Supervisory Board member is determined by the Corporate Governance Code and the Georgian Legislation.

Supervisory Board Diversity

Diversity of skills, backgrounds, knowledge, and experience is important for the Supervisory Board to effectively govern the business. The Bank believes that its size and composition, as well as the size and composition of the Bank's Supervisory Board are appropriate. Each of the Bank's Supervisory Board member occupies, and/or has previously occupied senior positions in a different directions of business, in different countries. When making each decision, all above mentioned, gives the Supervisory Board the opportunity to rely on the personal and varied experience of the Supervisory Board members. The degree of independence of the members of the Supervisory Board, is in full compliance with the relevant requirements of the National Bank of Georgia.

Irakli Managadze
Chairman of Supervisory Board (Independent member)

Chairman of Supervisory from February 2019

Education:
1991-Tbilisi State University, Scientific Research Institute of Social Economic and Regional Problems.

Professional Experience:
1991-1992-Attaché of the Ministry of Foreign Affairs of Georgia;
1992-1993-State Committee on Foreign Economic Relations, Chief Expert of Economic Relations Department with America and Western Europe;
1993-1994-Cabinet of Ministers of Georgia, Head of Economic Management Department;
1994-Cabinet of Ministers of Georgia, with relation of International Finance and Economic Organizations, Leading State Adviser;
1994-1996-deputy director of the World Bank (Washington D.C. USA);
1998-2005-President of the National Bank of Georgia;
2005-2015-Senior Policy Advisor, EBRD, Financial Institutions Group, London;
2015-Present-Senior Advisor J. Stern & Co. LLP, London, UK;
2017-present-Consultant, the World Bank Group, Washington D.C. USA;
2018-2019-Member of the Supervisory Board, Liberty Bank JSC, Georgia.

Irakli Managadze has the degree of the candidate for economics sciences.

Vasil Kenkishvili

Deputy Chairman / Co-Chairman of Supervisory Board

Co-Chairman of Supervisory Board from 2018

Education:

1995-2000- I.Javakhishvili Tbilisi State University, Law Faculty, Tbilisi, Georgia, Lawyer;

2000-2003-Institute of State and Law of the Academy of Sciences of Georgia, Tbilisi Georgia, Aspirant;

2003-2004-American University, Washington College Of Law, Washington D.C. USA, LLM/Master of International Legal Studies.

Professional Experience:

2005-Georgian International Oil Corporation (GIOC) Tbilisi, Georgia, Legal Consultant;

2004-2006-JSC “Georgian Railway”, Head of the Department of Legal Support of Restructuring;

2010-2011-SRG Investments Limited, Director;

2011-2018-JSC Silk Road Bank, Chairman of the Supervisory Board;

2011-Present, SRG Investments Limited, General Director.

David Franz Borger

Member of Supervisory Board

Supervisory Board member from 2014

Education:

1985-1987-Berufsakademie, Mannheim, Germany, Studied in Applied Information Technology, Degree: Wirtschaftsassistent;

1990-1995-Witten/Herdecke University, Germany, Studied in Business Economics, Degree: Diplom-Ökonom;

1996-2000-London School of Economics, United Kingdom, Research in the financial evaluation of risk and the accounting of financial instruments, University Degree: PhD in Accounting and Finance

Professional Experience:

1993-1996-International Trade Center (ITC UNCTAD/WTO), Geneva, Switzerland Consultant, project-based,

1996 -2000-London School of Economics, United Kingdom, Tutorial Fellow and Lecturer,

1996-2000-London School of Economics, United Kingdom, Tutorial Fellow and Lecturer,

2000-2003-Boston Consulting Group, Munich, Germany, Project Leader,

2008-2009-Terracotta Group Ltd., Board member, Business Development,

2005-Present-Silk Road Services GmbH, Managing Director.

Mzia Kokuashvili

Member of Supervisory Board (Independent member)

Supervisory Board member from 2018

Education:

1986-1992-I. Javakhishvili state University of Georgia, Construction Economics and Management Economics, Bachelor's Degree;

1999-2001-Georgian Federation of professional accountants and audits, Certificate of Professional accountant.

Professional Experience:

2005-2007-Lomisi LTD, Chief Accountant;

2007-2009-Interplast LTD, Chief Accountant;

2009-2010-Barambo LTD, Chief Accountant;

2010-Present-Financial Management Group LTD, Auditor;

2010-Present-FMG Consultant LTD, Managing Partner, Director.

Mamuka Shurgaia

Member of Supervisory Board

Supervisory Board member from 2014

Education:

2002-2006-Caucasus Business School, Finance.

Professional Experience:

2006-JSC "TBC Bank" Deposits Manager;

2006-2011-"Ernst & Young" Tbilisi Office, Senior Auditor;

2011-2012-SRG Investments Limited, Deputy Director, Finance;

2012-Present-SRG Investments Limited, Financial Director.

Evaluation of the Supervisory Board, its committees and members.

The evaluation of Supervisory Board ("The Board" afterwards) is carried out in accordance with the requirements of the Corporate Governance Code of Commercial Banks approved by the President of the National Bank of Georgia. The evaluation includes Supervisory Board, its members and committees. The evaluation is carried out annually by the Board. The evaluation includes Supervisory Board, its members and committees operating under the Board. The evaluation is carried out annually.

According to the evaluation of the Supervisory Board, the composition, number of members, competence, experience and skills of the Board ensured the effective work of the Board and it is in line with the scale and needs of the Bank. On some issues that need improvement, the Board will continue to work to address them in the near future.

According to the assessment, the meetings of the Supervisory Board, as well as audit and risk committees (composed by the members of the Supervisory), were held upon necessity. The intensity and duration of the meetings was sufficient to discuss important issues facing the bank and to make respective decisions.

Relevant meeting minutes of the Supervisory Board and committees are prepared by the corporate secretary. Decisions/meeting minutes are submitted both, to the Supervisory Board and the National Bank of Georgia.

Board of Directors

The banks' day-to-day activities are carried out by the Board of Directors. Its members (directors) are appointed by the supervisory board for the term not exceeding 4 (four) years.

The representation power of the Bank is granted to the member of the Board of Directors – directors, who are registered in the entrepreneurial register.

The Board of Directors is authorized to take decisions if the meeting is attended by more than half of the members.

The Board of Directors consists of at least three (3) members, including General Director, and decision is made by a majority of votes. Each member has one voting right. In case of equal distribution of votes, the vote of the General Director is decisive.

Rights of the Board of Directors:

- Supervise lending, financing, cash services, accounting and reporting, internal controls, security, and other majority activities of the Bank to ensure that the Bank provides proper service to the customers;
- Deal with any other matters assigned to the Board of Directors (or its individual members) by the supervisory board and/or the general meeting of shareholders;
- Develope the policy, normative and other regulatory documents approved by the Supervisory Board and ensure respective compliance with such documents;
- Preparation and presentation of Bank's business plan for approval to the Supervisory Board;
- Appointment/dismissal of emlpoyees, including determination of respective reimbursement;
- Invitation of extraordinary General Meeting of Shareholders (upon necessity);
- Approval of the bank's internal regulations;
- Approval of regulations on for each internal unit of the bank;
- Develop policies, rules and regulations, which is subsequently approved by the Supervisory Board and ensure enforcement of each regulation.

Qualifications of the Members of the Board of Directors

Archil Lursmanashvili
Chief Executive Officer

Departments under control:
Security, Human resources, Administration.

Education:
2005-2009-Bachelor of Business Administration, Caucasus University, Georgia.

Professional Experience:
2009-2012-PwC Georgia LLC, Financial Audit Consultant / Senior Financial Audit Consultant;
2012-2014-„SRG Investments“ LLC, Financial Manager;
2014-2021-„SRG Investments“ LLC, Deputy CFO;
2021-Present- JSC "Silk Road Bank, Chief Executive Officer.

Giorgi Gibradze
Chief Legal Officer

Departments under control:
Risk management department, Enforcement division, Legal department.

Education:
1993-1997, Tbilisi secular university "GAENATI", Humanitarian and Social faculty, Academic degree of Master of Laws.

Professional Experience:
2005-Head of Legal Department of JSC "Kakheti Energy Distribution";
2005-Senior Specialist of JSC "People's Bank of Georgia" Legal Department;
2005-2021-Head of the Legal Department, Risk Director at JSC "Silk Road Bank”;
2021-Present- Chief Legal Officer at JSC "Silk Road Bank”.

Natia Merabishvili
Chief Operating Officer

Departments under control:
Operational Department, Central Back Office, Central Branch, Logistics.

Education:
1987-1992-Tbilisi I.Javakhishvili State University, Macroeconomics;
1993-1994-University of Ferrara, Macroeconomics, Italy;
2010-2012-Association of Chartered Certified Accountants (ACCA) .

Professional Experience:
1992-1993-National Bank of Georgia, economist of cash circulation department;
1993-National Bank of Georgia, Chief Economist of the Foreign Currency Exchange Department;
1994-1999-National Bank of Georgia, Head of Licensing Division;
1999-2007-National Bank of Georgia, Head / Deputy of Head of Monetary Operation Department;
2007-2011-JSC Silk Road Bank Head of Administration of Interbank Operations, Head of Department of Service Center Management, Head of Operational Department;
2011-2021-CFO at JSC "Silk Road Bank";
2021-Present-COO at JSC "Silk Road Bank".

Beka Kvezereli
Chief Financial Officer

Departments under control:
Accounting, Reporting and Budgeting Department, Treasury Unit.

Education:
2008-2012-Grigol Robakidze University, BBA;
2012-Duale Hochschule Baden Wuttemberg, Germany, Internaitonal Business;
2014-2017-Association of Chartered Certified Accountants (ACCA), Member;
2018-Present-Chartered Financial Analyst Institute (CFA), Level I and Level 2.

Professional Experience:
2015-2017-KPMG Georgia LLC, Auditor;
2017-2019-KPMG Georgia LLC, Senior Auditor;
2019-Present-Deputy CEO, Finance at JSC "Silk Road Bank";
2021-Present-CFO at JSC "Silk Road Bank".

Irakli Bendeliani
Chief Technology Officer

Departments under control:
Software development Unit, Infrastructure Management Unit, Services&Support Unit.

Education:
2004-2008-Ivane Javakhishvili Tbilisi State University, Faculty of Exact and Natural Sciences, Physical Informatics.

Professional Experience:
2008-2010- Programmer JSC BTA Bank;
2010-1015-Head of Software Department, JSC BTA Bank;
2015-2021- Head of Information Technology Department, JSC "Silk Road Bank";
2021-present- Chief Technology Officer, JSC "Silk Road Bank".

Audit Committee

The Committee is a permanent collegial body and is fully accountable to the Supervisory Board. The Audit Committee is a significant element of the Bank's corporate governance system. The Audit Committee supervises the activities of the Internal Audit Department, develops appropriate recommendations for this service and protects the interests of shareholders in terms of the reliability of financial statements. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

During 2021, two audit Committee meetings were held. Issues discussed and approved included: Audit plan/results of AML department, approval of 2020 IFRS Financial Statements, Approval of Pillar 3 annual reporting, status of NBG 2022 mandatory transition to IFRS, selection of new internal audit candidates, etc.

The Audit Committee is comprised by three members, including chairwoman as independent member. The rights and responsibilities of the board of the Audit Committee are:

- Supervise the compliance of the Bank with the applicable laws;
- Approve the regulations governing the Bank's internal audit department and ensure the effective functioning of the internal audit department of the Bank;
- Ensure the independence of the internal audit department from the Bank's Management Board;
- Approve the operation plan of the internal audit department for the following fiscal year;
- Review the reports of the internal audit department, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;

- Supervise the activities of the internal audit, ensure its compliance with quarterly and annual operation plans;
- Assess the activities carried out by the internal audit department;
- Together with the Bank's Supervisory Board and Management Board ensure the cooperation of the internal audit department with other structural units of the Bank;
- Make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of internal audit department;
- Facilitate the activities of the external auditors; and
- Upon request of the Supervisory Board, prepare and present specific reports to it.

Executive level committees

Assets and Liabilities Committee (ALCO)

Assets and Liabilities Committee (ALCO) is engaged in managing and supervising market risk, liquidity risk, currency risk, interest rate risk. ALCO sets and monitors compliance with external or internal liquidity requirements, plans future cash flows, sets limits to manage interest rate risk, currency risk, liquidity and solvency risks. ALCO comprises of treasury, financial risk and reporting department employees and bank's top management. ALCO meetings are held regularly.

Composition of ALCO

- Chief Financial Officer - Chairman of the Committee;
- Chief Operating Officer - Member;
- Chief Executive Officer - Member;
- Head of Treasury Department – Member.

Responsibilities of ALCO

- Efficient management of the Bank's assets and liabilities.
- Reviews current and prospective liquidity positions and funding sources;
- Management of financial risks in order to achieve optimal ratio between risks and yield;
- Develops parameters for the pricing and maturity distributions of deposits, loans and investments;
- Monitoring of financial risks (liquidity, interest and currency risk).

Credit Committee

Credit Committee is engaged in supervising, managing and approving credit exposures to Bank's retail, MSME, corporate and private banking clients.

The bank has a two level credit committee, which has separate maximum limits.

Credit committee is held, if at least two voting right members are attending the meeting.

Credit officer / senior credit officer participates in the Credit Committee with a voting rights if loans are ≤ 5,000 GEL. For loans over GEL 5,000 credit officer / senior credit officer do not have voting rights.

For loans above GEL 5,000, Credit Committee should include at least one Risk Management Officer and Credit Officer with voting rights.

Loan application is initiated at branch / front office level and then sent to appropriate level of committee for approval.

Composition of Credit Committee:

I level committee

- Chief Executive Officer - Chairman of the Committee;
- Chief Financial Officer – Member;
- Chief Legal Officer – Member.

II level committee

- Credit officer (without voting rights for loans amounting >5,000 GEL);
- Head of retail loans department;
- Specialist of risk management department.

Responsibilities of Credit Committee:

- The decision on credit service;
- Management of different lending process;
- Set up specific action plans related to credit products;
- Decision making over the issues discussed during the committee, and respective control over the execution.

The Methodological Committee

The objective of the Committee is to organize, structure, and optimize ongoing business process through creation/updating of internal regulations in conjunction with Board of Directors.

The Methodological Committee composition:

- Chief Operating Officer - Chairman of the Committee;
- Chief Legal Officer - Co-chairman of the Committee
- Head of Legal Department - Member;
- Central Branch Manager – Member;
- Head of Operational Department – Member;

- Head of Credit Risk Management Department- Member ;
- Head of Operational Risks and Credit Administration Division - Member;
- Chief Information Officer – Member;

6. Risk Management

Management of risk is fundamental to the business of banking and forms an essential element of Bank's operations. Risk management policies aim to identify, analyze and manage risks faced by Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. It should be also mentioned that in the short term, the bank intends to continue moderate growth, but plans to strengthen risk management function, which is going to be reflected in a detailed review of existing risk management strategies, introduction of necessary risk management systems and staffing of risk management functions. Changes in risk management function in the medium and long term will allow the bank to be more growth-oriented and at the same time ensure timely and effective risk management.

The risk management process should provide transparent risk management process and confidence from stakeholders, promote the sustainable growth, continuous operations and presenting risk management as a competitive advantage for the bank.

Daily risk management is supervised by the Risk Director, who itself is under the control of General Director.

Bank identifies and manages following risks related to its business:

Credit risk - the most material risk type for the bank and arises from the possibility that counterparty to a financial instrument may fail to meet its contractual obligation and this failure may cause a loss to Bank. The Bank's credit risk control is carried out by the Credit Risk Department and the decisions are made on different levels of Credit Committee, which is composed by the employees of risk management department at all levels. Highest level of Credit Committee members also includes Directors of the Bank. Certain credit decisions are made by the Supervisory Board in accordance with internal policies and the National Bank's Risk Policy.

Collateral plays an important role in mitigation of the credit risk. Collateral is valued in accordance with NBG regulations and registered in public register.

Total collateral value on credit portfolio by the end of 2020 amounted GEL 20.7 mln and has following structure:

Types of collateral:

- Real Estate	74.0%
- Third party guarantee	26.0%

The Bank currently has an internal credit model agreed with the National Bank of Georgia for one type of retail credit product, but it is not used actively by the Bank. Credit-Info Georgia credit ratings are used in the loan approval process when reviewing all types of borrowers and credit products.

The bank has also introduced limits on related parties. These limits are set by the Supervisory Board.

From 2018 Bank has adopted new loan provisioning policy which meets requirements of IFRS 9 standards. New model was developed with the help of external consultants (KPMG). The new model is more sophisticated compared to previous model. Bank calculated Expected Credit Loss by incorporating following components into calculations: Probability of Default, Exposure at Default, Loss Given Default. The new model also allows to incorporate macroeconomic scenarios into Expected Credit Loss calculations.

Financial assets on which the expected losses are applied:

- NBG nostro accounts;
- Funds placed in other credit institutions;
- Interbank deposits;
- Investment securities;
- Loans to customers;
- Other financial assets.

Liquidity risk - arises from the mismatch of the maturities of liabilities and assets. This mismatch may affect on the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Daily liquidity is managed by the Treasury Department. The Bank also complies with short-term Liquidity coverage ratio (LCR) and Nest stable funding (NSFR) coefficients as required by NBG.

Liquid funds are placed only in high liquidity financial instruments such as cash, deposits in the National Bank and local commercial banks; The Bank also actively utilizes Investment Securities.

Market risk - is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of currency risk, interest rate risk and other price risks. Market risk mainly arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The Bank does not have a trading portfolio and is not involved in speculative trading. Accordingly, it faces mainly interest and currency risk.

Interest rate risk - The bank faces the interest risk caused by traditional banking activities related to the revaluation of mismatch between interest bearing assets and liabilities. The daily risk management process of interest risks is carried out by treasury department in accordance with the framework set by Assets and Liability Committee (ALCO).

Currency risk - the bank understands the risk of loss of losses due to the revaluation of the assets and liabilities caused by the exchange rate change. The bank's strategy towards currency risk is not to get involved in speculative activity through an open currency position. The daily FX Risk management process is carried out by treasury department in accordance with the framework set by ALCO.

Operational risk – is the risk of loss arising from systems failure, human error, fraud or external events (such as cyber attack risks, etc). Such events and/or failure may cause damage to bank's reputation, have regulatory or legal implications, may result in financial losses. Risk management department is responsible for managing the operational risk.

Compliance risk – - is a risk that Bank may not act in compliance with existing regulations, laws and agreements and may incur financial loss as part of such non-compliance.

Bank has approved risk management policies, procedures and established governance structures to manage these risks.

Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures. Board of Directors is responsible for implementing overall risk culture within the organization, monitoring and implementing risk mitigation measures, and ensuring that Bank operates within established risk parameters. Board of Directors presents to the supervisory board or approves independently, within its delegated authorities, risk related policies and procedures. Board of Directors is responsible for aligning risk strategy with Bank's overall strategy. Board of Directors controls risk related issues via various reports and committee meetings where risk related topics and performances are related.

Stress Testing

Stress Test, i.e. simulation of crisis is an instrument allowing to assess impact of potential unforeseen development on the Bank as a whole, as well as on particular elds of its activity. Those are used to enable Bank adequately assess and manage risk, evaluate capital adequacy and create buer necessary to maintain capital adequacy, if needed.

Hence, stress-testing is a signicant instrument for assessing sustainability and risk-prole of the Bank.

Stress test results are considered in terms of:

- Profit and Loss - one year projection is made, taking into account stress test effects;
- Interest Rate Risk – one year effect is calculated considering increased interest rates;
- Capital Adequacy - Supervisory capital is calculated by taking into account stress test effect both on supervisory capital elements itself and effects coming from post stress corrections.

7. Remuneration

Remuneration system involves certain forms of remuneration in compliance with the occupation, including the fixed remuneration, variable remuneration(bonus) and additional benefit (including and not only: the additions defined under the applicable legislation/internal regulations, pension contribution, business trip, professional development, health insurance, other forms of material incentive and other types of benefits).

The fixed part of remuneration is salary, while variable part includes bonuses (monthly, quarterly, one time) and other motivational payments.

The ratio of fixed and variable parts in the pay structure varies depending on the following factors:

- Variable parts of remuneration are higher on positions, which are directly involved in bank customer service (Front Office), such as: Credit Officers;
- The fixed remuneration is the main part back office employees. They may be granted for promotional pay as well as annual bonuses based on the performance results of the Bank.

Remuneration for the Supervisory Board members complies with their involvement, assigned responsibilities, efforts made and time resource. Remuneration for the Supervisory Board members includes fixed remuneration, the amount of which is fixed by the general meeting of shareholders.

The remuneration of members of the Supervisory Board and Bank employees is subject to annual review. The Bank's Supervisory Board defines, approves and controls the Bank's remuneration policy, including remuneration of Board of Directors.

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.

9. Environmental, Social, and Governance (ESG)

Due to the Bank size and volume of operations, by the 2021 Bank has not made significant changes in ESG related matters. 2021 ESG report is available on Bank's web-site: www.silkroadbank.ge.

10. Impact of COVID-19

The outbreak of COVID-19 in early 2020 and its rapid spread in the world has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Government of Georgia has taken measures to contain the outbreak, including imposing restrictions on the cross-border movement of people, entry restrictions for foreign visitors and instructing the business community to transfer employees to working from home. To enhance social distancing the schools, restaurants, cinemas and sports activities have stayed suspended for most of the 2020.

At the end of March 2020, the NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The measures, which were introduced with immediate effect, were mainly focused on capital adequacy and liquidity initiatives that allow banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations. Furthermore, through mobilisation of financing from international organisations and though its anti-crisis stimulus plan, the Government announced a series of support measures and packages for individuals and businesses to mitigate the negative economic impact of COVID-19.

COVID-19 outbreak in 2020 had immediate adverse effect on the Bank’s operations and resulted in a breach of the Bank’s minimum regulatory capital requirement imposed by the NBG. The Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on its business and the community.

During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to the COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides a positive overlook on the future prospects of the economy and business environment both in Georgia and around the world. Despite the fact, that, currently, there is still a high number of COVID-19 cases in the country, no lock-down is anticipated and the economy is gradually recovering, with positive outlook.

The Bank is monitoring the developing economic trends on the back of the COVID-19 pandemic and its impact on the business, customers and employees on an ongoing basis. There is still significant uncertainty over the magnitude of the global slowdown that will result from this pandemic, and the Bank will continue to take appropriate actions to proactively manage evolving circumstances.