JSC LIBERTY BANK
PILLAR 3 REPORT 2017

Table of Contents

1 INTRODUCTION

1.1 Disclosures According to Pillar 3 of the Basel 3 Capital Framework

The purpose of this document is to provide Pillar 3 disclosures of JSC Liberty Bank (the "Bank") as required by and in accordance with the National Bank of Georgia (the "NBG") regulation No 92/04 on "Commercial Banks' Pillar 3 Disclosure Requirements". The disclosures provided in this document are in accordance with Pillar 3 disclosure requirements framework established by the Basel Committee on Banking Supervision and European Union regulation No 575/2013 on "Prudential Requirements for Credit Institutions and Investment Firms" (Capital Requirements Regulation, or "CRR").

1.2 Verification

The disclosures in this Pillar 3 Report have been verified and approved by the Management Board of the JSC Liberty Bank. This document is prepared in accordance with the Bank's internal governance procedures approved by the Supervisory Board. This Pillar 3 Report is fully compliant with the NBG regulation No 92/04 on "Commercial Banks' Pillar 3 Disclosure Requirements" adopted in June 2017 and other regulations set by the NBG. Per NBG regulation it is not required to have Pillar 3 disclosures audited by external auditor, therefore the information provided in this Pillar 3 Report is unaudited.

1.3 Basis of Preparation

All numbers in this document are reported on a standalone basis and in accordance with the local accounting standards set by the NBG, unless otherwise noted. Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such disclosures is not regarded as material. Article 3.3 of the NBG regulation on commercial banks' Pillar 3 disclosure requirements permits in exceptional cases to omit disclosure of the information, which if disclosed could have an adverse impact on the bank. For differences between accounting and regulatory scopes of consolidation, see Appendix Table 16. For methods of regulatory consolidation, see Appendix Table 17.

1.4 Frequency and Media

In accordance with the NBG requirements, the Bank will continue to make available its Pillar 3 Report on an annual basis and selected quantitative charts on a quarterly basis. A copy of this document can be found on the Bank's website (www.libertybank.ge/en/ir/financial-information/regulatory-financial-reporting-to-the-national-bank-of-georgia) and on the NBG website (www.nbg.gov.ge/index.php?m=673)

1.5 Location of Pillar 3 Disclosures

The table below details how the Bank has complied with each article under the CRR as well as with the NBG regulation.

Main Disclosures in the Pillar 3 Report Mapped to CRR and NBG Regulation

CRR Ref.	Pillar 3 Disclosure Topic	Article in NBG's Regulation	Location in Pillar 3 Report
431	Scope of disclosure requirements	Article 3.8	Section 1.1
432	Non-material, proprietary or confidential information	Article 3.3	Section 1.3
433	Frequency of disclosure	Articles 3.1; 3.5	Section 1.4
434	Means of disclosures	Article 3.4	Section 1.4
435	Risk management objectives and policies	Article 6.2	Section 6
436	Scope of application	Article 6.1; Annex 2: Table 21	Section 1.3
437	Own funds	Annex 1: Table 9; 10	Sections 7.2, 7.5.1 and 7.5.3
438	Capital requirements	Annex 1: Table 5; 9.1; 11; 13	Sections 7.3.1, 7.5.2 and 7.5.3
439	Exposure to counterparty credit risk	Annex 1: Table 15	Annex: Table 15
440	Capital buffers	Annex 1: Table 9.1	Sections 7.1 and 7.3
441	Indicators of global systemic importance	N/A	N/A
442	Credit risk adjustments	Article 6.3; Annex 1: Tables 16-19	Sections 8.1, 8.2.4, 8.3 and 8.5
443	Unencumbered assets	N/A	N/A
444	Use of ECAIs	Article 6.3	Section 8.2.5
445	Exposure to market risk	Article 6.3 (გ)	Section 9
446	Operational risk	Article 6.3 (გ) Annex 2: Tables 22; 23	Section 10
447	Exposures in equities not included in the trading book	N/A	N/A
448	Exposure to interest rate risk on positions	N/A	Section 9.2
449	Exposure to securitisation positions	N/A	N/A
450	Remuneration policy	Article 7; Annex 2: Tables 24-27	Section 5
451	Leverage	N/A	Section 7.6
452	Use of the IRB Approach to credit risk	N/A	Sections 7.5.1-7.5.3
453	Use of credit risk mitigation techniques	Article 6.3 Annex 1: Table 12	Section 8.6
454	Use of the AMA to operational risk	N/A	N/A
455	Use of Internal Market Risk Models	N/A	N/A

Note: N/A stands for not applicable.

2 KEY FIGURES AND BUSINESS STRATEGY

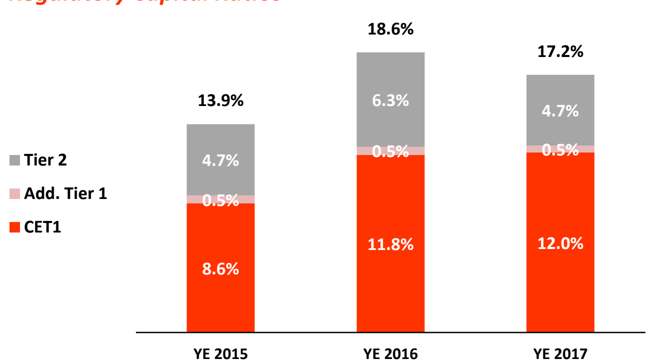
2.1 Key Figures

Headquartered in Tbilisi, Georgia, JSC Liberty Bank (the "Bank") is the third largest bank in Georgia, as measured by the total assets of ₾ 1,810 million (per NBG) as of 31 December 2017. The Bank operates only in Georgia and has the largest retail network comprised of 645 branches and service outlets.

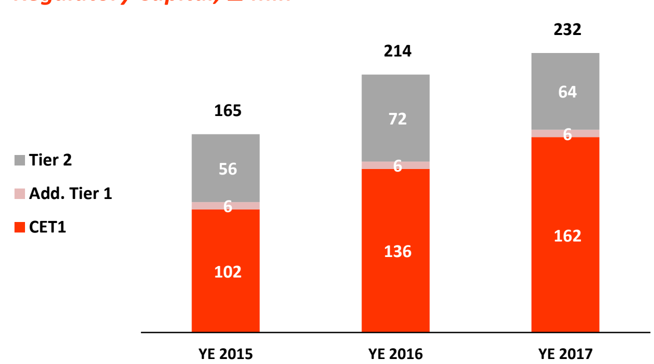
During 2017, the Bank continued to strengthen its capital base. Common Equity Tier 1 Capital ("CET1") reached ₾ 162 million, up 19% y-o-y, reflecting strong internal capital generation after dividends paid on the Bank's ordinary and preferred shares.

Risk-weighted exposures ("RWE") grew to ₾ 1,355 million, driven by growth in total assets and change in NBG regulation requiring higher risk-weighting for operational risk and increased risk-weighting for unsecured loans.

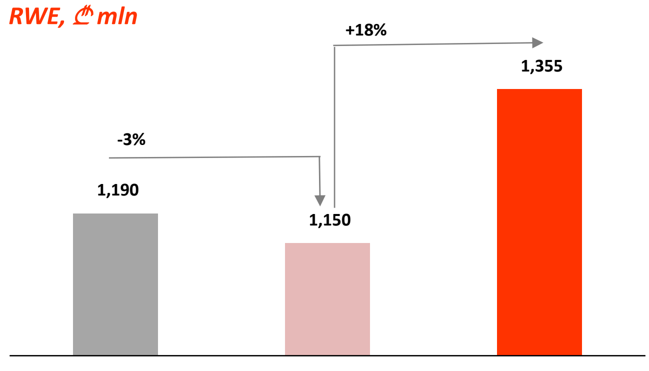
Regulatory Capital Ratios



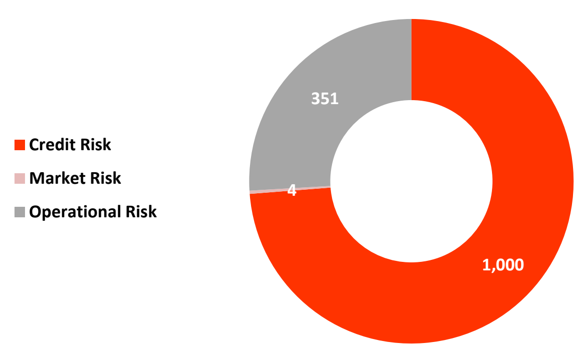
Regulatory Capital, ₾ mln



RWE, ₾ mln



Distribution of RWE by risk type YE 2017, ₾ mln

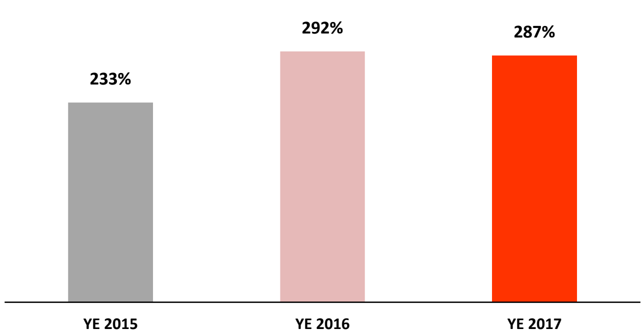


On 4th of May 2017, Fitch Ratings affirmed the Bank's Long-Term Foreign Currency Issuer Default Rating ("IDR") of 'B+' with Stable Outlook, Short-Term Foreign Currency IDR of 'B', Support Rating of '4' and Support Rating Floor of 'B'.

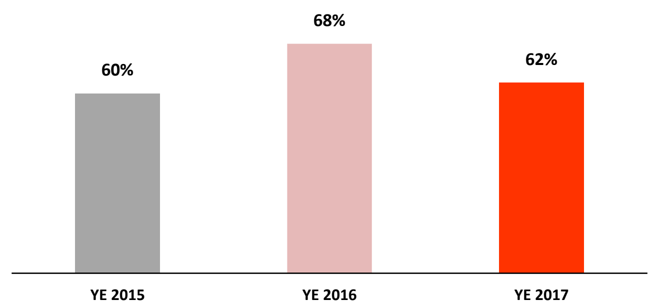
On 30th of May 2017, Standard & Poor's affirmed the Bank's long-term counterparty credit rating of 'B' and short-term counterparty credit rating of 'B' and revised its Outlook from Stable to Positive.

The Bank's liquidity position remained solid during 2017. As of YE 2017, total Liquidity Coverage Ratio (per NBG) and Liquidity Ratio (per NBG) stood at 287% and 62%, respectively. For more information on various key metrics, see Appendix Table 1.

Liquidity Coverage Ratio



Liquidity Ratio



The Bank reported net income of ₾ 52.4 million in 2017, up 48% y-o-y. As of 31 December 2017, the Bank's total assets stood at ₾ 1,809.7 million, up 10% y-o-y, and total shareholders' equity amounted to ₾ 226.2 million, up 21% y-o-y.

Additional Financial Information

	For the year ended		
₾ millions, unless otherwise noted	*31 December 2017*	*31 December 2016*	*Change*
Net interest income	149.6	118.1	27%
Total operating income (revenue)	219.9	180.6	22%
Net income	52.4	35.3	48%
Earnings per share, ₾	0.0118	0.00790	49%
Return on average total equity(1)	25.8%	21.3%	
Return on average total assets(2)	3.1%	2.2%	
Total assets	1,809.7	1,648.8	10%
Net loans	848.7	655.3	30%
Total liabilities	1,583.4	1,462.5	8%
Total shareholders' equity	226.2	186.3	21%
Book value per ordinary share, ₾	0.0494	0.0404	22%

(1) Return on average total equity (ROAE) equals net income of the period divided by average total shareholders' equity for the same period.
(2) Return on average total assets (ROAA) equals net income of the period divided by average total assets for the same period.

See Appendix Tables 1 and Table 2, for detailed balance sheet and income statement information.

2.2 Business Strategy

The Management Board's objective is to maximise shareholder value by further developing the Bank into a leading commercial bank in Georgia, focusing on the mass retail market and corporate segments. The Bank has a multi-faceted distribution network, which includes full-service branches, service centers, smaller-scale sales outlets branded as PAYExpress, Liberty Express mobile branches, ATMs, remote banking as well as outlets located at various third party businesses.

In 2018, the Bank plans to focus on gradual transformation into relationship-driven universal banking institution via entering into corporate lending market. The decision was prompted by the release of the encumbrance against 60.5% Bank's ordinary shares when the Bank revived access to wholesale funding and capital market instruments. This gives opportunity to materially reduce current cost of funds, thus allowing the Bank to tap highly competitive corporate banking, and then capitalise on cross-selling to new payroll clientele and increase income from foreign currency dealing.

The Bank plans to invest in IT systems and infrastructure. The enhancements and upgrade of the core software is scheduled to finish by the end of 2018. Additional modules will be developed and comprehensive data warehouse will be built that will include data marts oriented for specific business units.

The Bank has been progressing in automated loan disbursements. Currently, 60% of total loan book is disbursed automated through various pre-scored and instant modes, such as ATMs, cash payment terminals ("CPTs"), outdoor sales tablet teams and branch tellers including outbound call centre. It is planned to future enhance the efficiency in 2018 and shift business lines such as micro lending and payroll consumer loans to fully automated sales pattern.

Interest income is expected to increase by 8% in 2018, mainly driven by interest income generated by corporate loan portfolio and additional interest income received from increased retail loan portfolio. The loan book growth will be partially funded by the available excess liquidity, however additional funds would be attracted from retail and corporate clients, resulting in increased interest expense. Over the last 3 years the Bank managed to diversify away from large corporate current accounts and gradually moved to small size and quite diversified stable retail deposit base (with fixed maturity terms). In order to optimise the liability side and reduce interest expense, in March 2018 the Bank initiated the substitution of its highly expensive sub-debt contracts with lower-yielding sub-debt contracts, that would result in savings of more than ₾ 5 million per annum.

The Bank's gross loans to total assets ratio increased from 44.6% in 2016 to 52.8% in 2017 and gross loans to client balances and deposits ("CBDs") ratio increased from 57.7% in 2016 to 72.0% in 2017. It is the Bank's strategy in 2018 to further optimise excess liquidity buffers (historically created to secure large client concentrations) through growth of retail and corporate loan portfolios. Overall, the Bank expects to increase its loan book by more than 50%.

The risk factors that might adversely affect the Bank's business strategy are outlined in Section 6.7.

3 OWNERSHIP AND GROUP STRUCTURE

3.1 Ownership Structure

As of 31 December 2017 and 2016, the following shareholders owned more than 5% of the outstanding ordinary shares. Other shareholders individually owned less than 5% of the outstanding ordinary shares.

Ownership Structure

Shareholder	31 December 2017		31 December 2016	
	Ownership Interest, %	Voting Rights, %	Ownership Interest, %	Voting Rights, %
European Financial Group B.V.	60.46%	74.64%	–	–
Liberty Bank (Treasury Shares)	19.00%	–	19.00%	–
BNY Limited (Nominees)	6.96%	8.59%	10.19%	12.59%
Liberty Holding Georgia LLC (former Liberty Capital LLC)	–	–	58.18%	71.83%
Other shareholders (individually holding less than 5%)	13.58%	16.77%	12.63%	15.58%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Bank is a publicly traded company and its ordinary shares are traded on the Georgian Stock Exchange. The free float amounted to 24.0% as of 31 December 2017 (31 December 2016: 23.6%).

On October 13, 2017, European Financial Group B.V. ("EFG"), a company established and organised under the laws of the Kingdom of Netherlands, purchased 74.64% of equity interest in the Bank. The ultimate beneficial owners of the Bank are Irakli Rukhadze, Ben Marson and Igor Alexeev. For more details on shareholders and beneficiaries, see Appendix Table 6.

On November 2017, upon acquisition of the Bank controls by purchasing more than half of the total voting shares, the EFG hereby announced a mandatory tender offer as per Article 532 of the Georgian Law on Entrepreneurs offering to purchase remaining ordinary and preferred shares of the Bank. The mandatory tender offer started on 25th of November 2017 and ended on 25th of January 2018 inclusive. Within the mandatory tender offer EFG acquired 8,253,442 ordinary and 2,257,840 preferred shares. Accordingly, the EFG's voting ownership interest increased to 74.82% in subsequent period.

3.2 Group Structure

The Bank is the parent company of the following (table below) entities consolidated in the audited financial statements (per IFRS). For regulatory and prudential purposes these entities are not consolidated and the Bank is required to comply with all regulatory requirements on a standalone basis. As of 31 December 2017, total net investments (per NBG) in these entities amounted to ₾ 0.3 million (31 December 2016: ₾ 0.3 million) and are considered as immaterial.

Bank Ownership Interest

		The Bank Ownership Interest			
Name	**Country of Incorporation**	**31 December 2017**	**31 December 2016**	**Date of Incorporation**	**Activities**
Bus Stop LLC[1]	Georgia	100.00%	100.00%	27 August 2009	–
LBF Luxembourg S.A.[2]	Luxembourg	100.00%	100.00%	20 July 2015	Financial intermediary services
JSC Smartex[3]	Georgia	21.47%	21.47%	5 January 2009	Early-stage VC investments

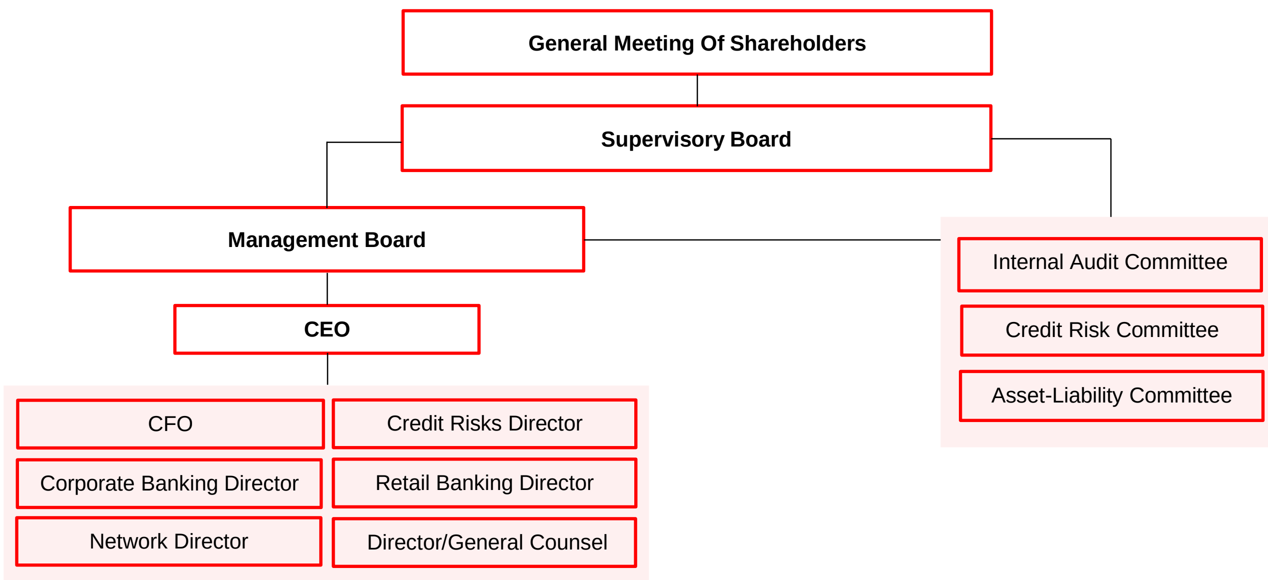
(1) Currently dormant.
(2) Currently dormant.
(3) 21.47% is held by the Bank and 78.53% is beneficially held by Mr. Vladimer Gurgenidze.

4 CORPORATE GOVERNANCE

4.1 Corporate Governance Framework

After EFG became the major shareholder of the Bank, several changes were made in the Supervisory and Management Boards, including the appointment of the new Chairman and CEO. Along with significant transformation in the Bank's future development strategy, main objectives remain unchanged, to deliver the long-term high quality returns for the Bank's shareholders on a sustainable basis.

The Bank's corporate governance framework is fully compliant with the local and international standards. Established policies and procedures used by the Supervisory and Management Boards are described in other sections of this Pillar 3 Report. The following diagram shows general organisational structure of the Bank as of 31 December 2017:



4.2 Annual General Meeting of Shareholders

An annual general meeting of shareholders ("AGM") is a mandatory yearly gathering of the Bank's interested shareholders. At the AGM, the Supervisory Board presents an annual report containing information for shareholders about the company's performance and strategy. Shareholders with voting rights vote on current issues, such as appointments to the Supervisory Board, executive compensation, dividend payments and selection of auditors.

4.2.1 Convening of the AGM

The AGM is held at least once a year. Under the Articles of Association of the Bank, the AGM is convened by the Supervisory Board within two months following the completion of the external audit of the Bank's books and in any event within six months from the end of the preceding fiscal year. Issues that have not been considered by the AGM and fall within the scope of the responsibilities of the AGM are considered and resolved on extraordinary general meetings ("EGM"). The number of EGM gatherings per year is not limited and may vary from year to year. EGM may be called for by either the Supervisory Board or the Management Board, or at the written request of the shareholders holding at least 5% of the Bank's voting shares. Shareholders that who do not attend AGM may vote by proxy, which can be done by mail.

4.2.2 Roles of the AGM

The major roles of the AGM are described below:

1. **Corporate Governance**

- Adoption, approval and amendment of the charter;
- Consolidation, merger, dissolution, liquidation, reorganization and/or transformation of the Bank;
- Election and dismissal of the members of the Supervisory Board;
- Increase or decrease of authorised charter capital of the Bank.

2. **Approval Authorities**

- Approval or rejection of the reports of the Supervisory Board and Management Board;
- Approval of annual report and accounts;
- Selection, appointment and dismissal of independent auditors;
- Approval of the proposal of the Supervisory Board and/or the Management Board concerning the profit distribution, or make its own decision on profit distribution whenever such bodies fail to submit joint proposal.

3. **Controlling Powers**

- Making decisions on the acquisition, sale, transfer, exchange, (or such related transactions) or other encumbrance of the Bank's properties, the value of which is more than 10% (ten percent) of the equity value of the Bank.

4.2.3 Shareholder Meetings Held and Resolutions Adopted in 2017

AGM was held on 15^{th} of May 2017. The AGM approved:

- 2016 audited consolidated IFRS financial statements;
- Dividend payout on ordinary shares in the amount of ₾ 20.0 million;
- Dividend payout on convertible preferred shares in the amount of ₾ 1.0 million;
- New service agreement with then current executive Chairman Mr. Vladimer Gurgenidze.

The change of control that took place in the second half of 2017 brought significant changes in policy making and determination of priorities. In the wake of such policy changes and future development strategies, EGM took place in August 2017 and new members of the Supervisory Board, namely, Messrs. Irakli Otar Rukhadze, Giorgi Kalandarishvili and David Shonia were elected.

4.2.4 Communication and Media Announcement

The time, place and the agenda of both the AGM and EGM is published in printed media at least 20 days prior to the meeting date. Furthermore, as an additional measure to ensure the protection of rights of minorities, the shareholders holding at least 1% of the Bank's shares will be personally notified about the meeting and its respective agenda via registered mail or electronic mail.

4.3 Supervisory Board

Supervisory Board is responsible for promoting the highest standards of corporate governance in the Bank. The Supervisory Board acts in a way to promote the success of the Bank for the benefit of shareholders as a whole, and is accountable to the shareholders for creating and delivering sustainable value. It is the responsibility of the Supervisory Board to ensure that management not only delivers on short-term objectives, but promotes the long-term growth of the Bank as well. In addition to setting strategy and overseeing its implementation, the Supervisory Board is also responsible for ensuring that management maintains an effective system of internal control. An effective system of internal control should provide assurance of effective and efficient operations, internal financial controls and compliance with law and regulation.

4.3.1 Composition of the Supervisory Board

Under the Articles of Association, the Supervisory Board consist of three to seven members elected by General Meeting of Shareholders. As of 31 December 2017, a member of the Management Board may had served as a member of the Supervisory Board at the same time, provided that the members of the Management Board does not constitute majority on the Supervisory Board. However, under the new NBG regulation effective from 1st of June 2018, the member of the Supervisory Board should not be part of the Management Board and should not have executive duties.

The Supervisory Board elects the Chairman, who convenes the Supervisory Board meetings, determines the agenda and signs relevant meeting minutes together with the secretary of the meeting. The Supervisory Board meeting may be held via telephone or video conference calls if requested by any member of the Supervisory Board.

As of 31 December 2017, the Supervisory Board of the Bank comprised of the Chairman and two members:

- Chairman – Mr. Irakli Otar Rukhadze;
- Board member – Mr. David Shonia;
- Board member – Mr. Giorgi Kalandarishvili(1).

(1) Due to the change of control of the Bank in October 2017, Mr. Giorgi Kalandarishvili, in addition to being CEO of the Bank, was member of the Supervisory Board as well. However, as per new regulatory requirements, effective from 1st of June 2018, the Bank intends to optimise the composition of the Supervisory Board and the Management Board and Mr. Giorgi Kalandarishvili will not be member of the Supervisory Board anymore and will continue his activities only as the CEO of the Bank.

4.3.2 Supervisory Board Education and Experience

The Supervisory Board members have a range of knowledge and experience in financial analysis, capital markets, financial reporting, information technology, strategic planning, risk management, compensation, regulations, corporate governance and management. They have various backgrounds to promote the diversity of views. The members have reasonable understanding of local, regional and global, economic and market forces and legal and regulatory environment. Diversity of their expertise and skills has an important role in reduction of risks for the stakeholders of the Bank.

Irakli Otar Rukhadze

Skills and experience:

Irakli Otar Rukhadze was elected as the Chairman of the Supervisory Board of JSC Liberty Bank in October 2017. He has been a partner of Hunnewell Partners (UK) LLP, London, since 2011. Irakli was a Managing Director and partner of Salford Capital Partners, LP Salford Georgia, Tbilisi. In the capacity of a Managing Director Irakli managed Salford's Georgian operation while remaining responsible for specific areas globally (telecommunications, real estate). He successfully executed attractive deals in Georgia. Under his supervision and leadership, Georgian economy has obtained the investments of approximately USD 150 million. During 2001-2003 Irakli was a founder and partner of Argo Ventures LLC, Boston, MA. The company is focused on advising backed private companies, including mezzanine capital. Client list included global realty outsourcing - a successful US real estate analysis company whose investors now include Citigroup and First Union Securities. Furthermore, Irakli was the founder and CEO of Caucasus Advisors LLC, Boston, MA, responsible for the management of multimillion investment fund with the objectives to invest in the companies in the Caucasus region. Irakli also served as an engagement manager in McKinsey & Company Inc., Boston, MA and Dusseldorf, Germany where he led consulting and provided services in problem solving to improve client company performance.

Education:

Irakli Otar Rukhadze is a graduate of Tuck School of Business at Dartmouth College and holds a degree of Master of Business Administration. He also is the alumnus of Tbilisi State University with the degree of Master of Science in Mathematics and Economics.

David Shonia

Skills and experience:

David Shonia was elected as a member of the Supervisory Board of JSC Liberty Bank in October 2017. David has been the CFO of Hunnewell Partners Georgia since 2012. His primary responsibilities include the establishment of stable cash flow management policies and procedures, monitoring and controlling financial reports. David was the CFO of Salford Georgia during 2007-2011 and was responsible for preparation and maintenance of efficient financial structure in the companies under control of Salford Georgia as well as monitoring and control of financial reports. David was the financial director of Imedi TV (broadcasting company) during 2005-2007.

Education:

David graduated from European School of Management (Georgian-French Joint Institute), Tbilisi, Georgia and holds the Bachelor's Degree in business administration.

Giorgi Kalandarishvili

Skills and experience:

Giorgi Kalandarishvili was elected as a member of the Supervisory Board and appointed as the Chief Executive Officer of JSC Liberty Bank in October 2017. Prior to joining the Bank, Giorgi was a Project Director at Hunnewell Partners Georgia (since 2015). In 2010-2015, Giorgi was a Partner at Standard Group Ltd. Prior to joining Standard Group Ltd, Giorgi was a Project Manager at Forward Capital Ltd in 2008-2009. In 2005-2007, Giorgi served as the Chief Executive Officer of JSC Standard Bank. In 2001, Giorgi joined JSC AgroBusinessBank as Head of Credit Department and was appointed as the CEO in 2003. Before joining JSC AgroBusiness Bank, Giorgi served as a Partner at an audit company NACON. In 1998-1999, Giorgi was the Head of Investment Division at JSC TbilCreditBank. In 1997, he was the Manager of Investment Division at TBC Bank.

Education:

Giorgi has graduated from Higher School ESM-Tbilisi and holds a Bachelor's Degree in Business Administration.

4.3.3 Supervisory Board Diversity and Independence

The Supervisory Board considers that a diversity of skills, backgrounds, knowledge and experience are important to effectively govern the business. The Supervisory Board works to ensure that it continues to have the right balance of skills, experience, independence and the Bank knowledge necessary to discharge its responsibilities.

The Supervisory Board believes that its size and composition is appropriate, however, considering the change of control that took place in October 2017, it intends, as per new regulation, effective from 1st of June 2018 to have independent members of the Supervisory Board and separation of powers between the Supervisory Board and the Management Board. Each of the Bank's Supervisory Board members occupies and/or has previously occupied senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Supervisory Board's deliberations through their experience and insight enabling them to contribute significantly to decision making. No individual or group of individuals is able to dominate the decision making process and no undue reliance is placed on any individual.

4.3.4 Roles of the Supervisory Board

In order to ensure that the Supervisory Board meets its responsibilities, specific key decisions have been reserved for approval by the Supervisory Board. Below are identified and formalised the reserved matters for the Supervisory Board:

1. Strategy and Management

- Responsibility for the overall management of the Bank;
- Approval of the Bank's commercial and investment strategies;
- Approval of the annual operating and capital expenditure budgets;
- Approval of decisions which constitute an important change of the identity or the character of the Bank or its business or enterprise, including transfer of a material part, all or substantially all, of its properties or assets;
- Formulation or change of the risk management strategy;
- Requesting reports on the Bank's activities from the management board and reviewing the information provided by internal audit or external inspections.

2. Financial Reporting and Control

- Review and approval of the various policies of the Bank to ensure the Bank is operating at maximum effectiveness: accounting policies and practices, health and safety policy, environmental policy, internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, their classification and adequate provisioning;
- Exercise of voting rights connected to shares in any material subsidiaries of the Bank and adoption of their budget;
- Adoption of the budget of the subsidiary and any interim amendments to such budget;
- Inspection of the financial documentation, books and assets of the Bank, including without limitation, condition of cash, securities and goods of the Bank, either directly or through its individual members or invited experts;
- Factoring of the booked debts with an annual value in excess of US$ 500,000 or entering into any invoice discounting or similar arrangements with an annual value in excess of US$ 500,000.

3. Risks Framework and Appetite

- Responsible for identifying and controlling all major risks faced by the Bank;
- Establishing risk management framework;
- Determining the Risk Appetite Statement of the Bank and establishing risk appetite measures and metrics;
- Identifying concrete steps and measures in case the risk profile of the Bank exceeds Risk Appetite.

4. Internal Controls

- Adoption, termination or amendment of the Supervisory Board regulations or similar rules relating to the internal organisation of the Supervisory Board; as well as adoption, termination or amendment of regulations regarding to the organisation of meetings of the Supervisory Board by electronic means;
- Establishment of the Supervisory Board committee(s).

5. Contracts

- Approval of capital expenditure projects above US$ 500,000;
- Approval of significant transactions, or entering into any agreement or arrangement with a value of more than US$ 500,000 and being outside the scope of normal commercial banking activities;
- Disposal of (other than in the ordinary course of business) any asset or a material part of, the whole or a significant part of any of the Bank's businesses, in each case at a price or with a value of more than US$ 1,000,000 or where such disposal would cause the aggregate value for all disposals in any one financial year to exceed US$ 2,500,000;
- Borrowing any money or incurring any indebtedness in an amount in excess of US$ 1,000,000 excluding ordinary course of business and reasonable working capital needs;
- Entry into or termination of a long-term cooperation with another legal entity or company respectively, if the entering into the co-operation or the termination thereof involves future payment rights or obligations in excess of US$ 1,000,000 annually;
- Application for the Bank's moratorium on debt payments or any other similar action for creditor relief measures of the similar legal effect and in accordance with applicable law;
- Approval of loans made by the Bank in excess of US$ 2,500,000;
- Approval of related party transactions in accordance with the conflict of interest policy of the Bank.

6. Communication

- Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting;
- Approval of any public offering of the equity or equity related instruments other than sale of the Treasury Shares and ordinary course market making activities in the Bank's shares;
- Redemption of the Bank's shares, including mandatory redemption.

7. Appointments and Remuneration

- Changes in the structure, size and composition of the Management Board;
- Appointments to or removal from the Management Board;
- Appoint, nominate or dismiss key executives of any material subsidiary of the Bank;
- Appointment and removal of trade representatives;
- Determining the remuneration policy for the Management Board;
- Appointment and removal of Audit Committee members;
- Selection, retaining and dismissal of independent share registrar of the Bank.

8. Corporate Governance

- Supervising the activities of the management board and undertaking a formal and rigorous review of its own performance, that of its committees and individual members of the Management Board;
- Providing instructions to the Management Board on the general lines of the financial, social, economic and employment policies of the Bank;
- Review of the Bank's overall corporate governance arrangements;
- Convening an extraordinary general meeting of shareholders, if required in the interests of the Bank;
- Reviewing annual reports and the proposals of the Management Board on distribution of profits;
- Incorporation of a new subsidiary or undertaking or acquisition of an interest in any shares in the capital of any corporate body, or in any instrument convertible into the share capital of any corporate body or acquisition of any other interest in a company or other business undertaking.

9. Other

- Instigation, conduction or settlement of any litigation where the amount in dispute exceeds US$ 500,000, relates to criminal proceedings or proceedings with affiliated persons who are in managerial positions of the Bank;
- Entry into any partnership or joint venture arrangement with any person or entity;
- Making any political contribution or political donation;
- Sale or recapitalisation of any equity of the Bank and the approval of any transfer of or encumbrance over any of the shares (including the granting of any rights to acquire any shares or equity (related) right) other than pursuant to an approved employee incentive plan.

The Supervisory Board is also the decision making body for all other important matters that could be significant to the Bank because of their strategic, financial or reputational implications or consequences.

4.3.5 Operation and Meetings of the Supervisory Board

Meetings of the Supervisory Board (the "Meeting") are held at least once per quarter at the legal address of the Bank or at the request of any member of the Supervisory Board at any other location. With the agreement of all other members, the Chairman (himself, or at the request of any member) may call the Meeting verbally or otherwise within a shorter period of time. The members of the Supervisory Board may be represented by other members of the Supervisory Board. Each member may represent only one other member of the Supervisory Board. The issues that require decisions outside the scheduled Meetings are dealt through additional ad hoc meetings and conference calls. In total, the Supervisory Board met formally nine times during 2017 and the resolutions were passed in person or on a conference call. During the Meetings, the Supervisory Board receives updates from the internal operating functions on control and risk management, compliance, internal audit, human resources, major contracts reserved for the Supervisory Board and other corporate matters. In addition, there is also an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. These include the budget, regulatory reports, management accounts and conveyance of the annual general meeting of shareholders. Outside the Meetings, the Chairman and the Chief Executive Officer of the Bank maintain frequent contact (in person or otherwise) with each other and other members of the Supervisory Board throughout the year. Details of the Supervisory Board Meeting attendance in 2017 are provided in table below.

Supervisory Board Meetings

Members	*Scheduled Meetings Eligible to Attend*	*Scheduled Meetings Attended*	*Attendance, %*
Vladimer Gurgenidze(1)	6	6	100%
Malik Ishmuratov(1)	6	6	100%
Alexey Yusfin(1)	6	6	100%
Martin Paul Graham(1)	6	6	100%
Nurlan Abduov(1)	6	6	100%
Irakli Otar Rukhadze(2)	4	3	75%
Giorgi Kalandarishvili(2)	4	3	75%
David Shonia(2)	4	3	75%

(1) Vladimer Gurgenidze, Malik Ishmuratov, Alexey Yusfin, Martin Paul Graham and Nurlan Abduov resigned from the Supervisory Board membership in October 2017.

(2) Irakli Otar Rukhadze, Giorgi Kalandarishvili and David Shonia were elected to the Supervisory Board in September 2017.

4.3.6 Evaluation of the Supervisory Board Performance

The Supervisory Board continually strives to improve its effectiveness and recognises that its evaluation process is an important tool in reaching that goal. Overall, the Supervisory Board is considered to be strong, bringing a good balance of expertise and experience, offering real diversity of view and perspective.

4.4 Management Board

The Bank's day-to-day activities are carried out by the Management Board, whose members are appointed by the Supervisory Board. The Bank understands the importance of having a Management Board containing the right balance of skills, experience and diversity to enable them to discharge their respective duties and responsibilities effectively.

4.4.1 Composition of the Management Board

Law of Georgia on Activities of Commercial Banks and Law of Georgia on Entrepreneurs sets out as a main principle that there should be a clear division of responsibilities at the head of the company between supervising the company and the executive responsibility for running the company's business. The Management Board comprises of the Chief Executive Officer ("CEO") and the Directors. The CEO and each Director is appointed by the Supervisory Board.

The Management Board is headed by the CEO, who is responsible for all executive management matters affecting the Bank. All Directors report directly to him. His principal responsibility is running the Bank's business. The CEO is responsible for proposing, developing and supervising the Bank's strategy and overall commercial objectives, which he does in close communication with the Supervisory Board. The CEO and the rest of the Management Board are responsible for implementing the decisions of the Supervisory Board and its relevant committees.

As of 31 December 2017, the Management Board of the Bank comprised of the CEO and six Directors:

- Chief Executive Officer – Mr. Giorgi Kalandarishvili(1);
- Chief Financial Officer – Mr. David Melikidze;
- Retail Banking Director – Mr. Armen Matevosyan;
- Corporate Banking Director – Mr. David Verulashvili;
- General Counsel, Director – Mr. Tarasi Chantladze(2);
- Branch Network Director – Mr. Zurab Tsulaia(2);
- Credit Risks Director – Mr. Aleksandre Liparteliani(2).

(1) Due to the change of control of the Bank in October 2017, Mr. Giorgi Kalandarishvili, in addition to being CEO of the Bank, was member of the Supervisory Board as well. However, as per new regulatory requirements, effective from 1st of June 2018, the Bank intends to optimise the composition of the Supervisory Board and the Management Board and Mr. Giorgi Kalandarishvili will not be member of the Supervisory Board anymore and will continue his activities only as the CEO of the Bank.

(2) Mr. Tarasi Chantladze, Mr. Zurab Tsulaia and Mr. Aleksandre Liparteliani resigned from the Management Board in April 2018. In April 2018, Mr. Levan Tkhelidze was appointed as Chief Operations Officer and Mr. Mamuka Kvaratskhelia was appointed as Chief Risk Officer.

4.4.2 Management Board Education and Experience

The Management Board members have a range of knowledge and experience in various fields including finance and accounting, risk management, strategic planning, tax and legal issues, management and leadership, corporate governance and marketing. They have a reasonable understanding of local and regional economic and market conditions. They have deep understanding of the legal and the regulatory environment. Diversity of their expertise and skills has an essential role in creation of long-term shareholder value in the Bank.

Giorgi Kalandarishvili

Giorgi was elected as a member of the Supervisory Board and appointed as the Chief Executive Officer of JSC Liberty Bank in October 2017. Prior to joining the Bank, Giorgi was a Project Director at Hunnewell Partners Georgia (since 2015). In 2010-2015, Giorgi was a Partner at Standard Group Ltd. Prior to joining Standard Group Ltd, Giorgi was a Project Manager at Forward Capital Ltd in 2008-2009. In 2005-2007, Giorgi served as the Chief Executive Officer of JSC Standard Bank. In 2001, Giorgi joined JSC AgroBusinessBank as Head of Credit Department and was appointed as the CEO in 2003. Before joining JSC AgroBusiness Bank, Giorgi served as a Partner at an audit company NACON. In 1998-1999, Giorgi was the Head of Investment Division at JSC TbilCreditBank. In 1997, he was the Manager of Investment Division at TBC Bank. Giorgi has graduated from Higher School ESM-Tbilisi and holds a Bachelor's Degree in Business Administration.

David Melikidze

David was appointed as the Chief Financial Officer of JSC Liberty Bank in January 2015 after having served as the Deputy CFO for several years overlooking Finance department. His primary responsibilities include preparing annual budgets and monthly operational plans, managing the supervisory capital requirements, monitoring working cash balances, correspondent accounts, cash forecasts, reserve requirements and treasury operations, ensuring that the Bank is in compliance with all regulatory prudential ratios and other covenants. Before joining the Bank, David was a senior auditor in assurance and advisory business services at Ernst & Young dealing with annual audits (IFRS, US GAAP), quarterly reviews & compliances. David graduated with BBA degree from Caucasus School of Business majoring in economics and finance. Furthermore, he is a certified public accountant in USA and CFA level II candidate.

Armen Matevosyan

Armen was appointed as the Retail Banking Director of JSC Liberty Bank in 2010. His primary responsibilities include development and enhancement of retail banking channels and products. Armen has a very distinctive role in the Bank's turnaround, transforming it into a very significant and one of the leading competitors in retail banking market. Before joining the Bank, Armen was a deputy director – retail products & marketing at Rosbank, Moscow, Russian Federation. In 2009 he was a member of the Societe Generale team and supervised the affiliates throughout Albania, Montenegro and Serbia. Furthermore, throughout 2005-2009 Armen held different key offices in Societe Generale team such as an advisor to the Board, Deputy Commercial Director, Head of Internal Audit and Director of finance & IT. Armen is the alumnus of European School of Management, Tbilisi, Georgia and holds a Bachelor's degree in Business administration. Moreover, he is a master of professional accountancy and ACCA – chartered certified accountant.

David Verulashvili

David was appointed as the Corporate Banking Director of JSC Liberty Bank in 2014 after having served as the Co-head of Corporate and Merchant Banking Department for several years. His primary responsibilities include development and increase of corporate business, provision of various services and products to corporate clients, and communications and establishment of partnership with different entities of state sector. Before joining the Bank, David was the Head of Corporate Banking department at JSC Procredit Bank. He also held the office of Deputy Director of Corporate and Investment Banking department at JSC Bank of Georgia. Furthermore, David has an ample experience of working on various credit and corporate financing positions in banking sector starting from 2000. David has graduated from Tbilisi State University and holds both Bachelor's and Master's diplomas in informatics and enterprise management.

Tarasi Chantladze

Tarasi (Tato) was appointed as the Director, General Counsel of JSC Liberty Bank in 2015 after having served as the Head of Legal Department for several years. His primary responsibilities included provision of strategic advice to the Bank's Management on all legal and compliance issues, representation of the Bank in negotiations of complex corporate financing transactions, supervision of corporate governance matters, analysing regulatory changes and management of internal legal and litigation issues. Before joining the Bank, Tato worked as a foreign associate in DLA Piper, New-York, US, where his job responsibilities included drafting defence arguments in enforcement foreign arbitration awards, drafting memoranda on laws of foreign states. Tato also worked as an associate for Tbilisi office of DLA Piper. Tato is the alumnus of the George Washington University Law School, Washington D.C. and Tbilisi State University and holds LL.M degree in international and comparative law and master of law degree respectively. Furthermore, Tato is a member of New-York and Georgian bar associations.

Aleksandre Liparteliani

Aleksandre was appointed as the Credit Risks Director of JSC Liberty Bank in 2013 after having served as a Deputy CEO Corporate and Merchant Banking since 2009. Before joining the Bank, Aleksandre served as a Deputy CEO in charge of investments at JSC Liberty Consumer (currently Galt and Taggart Capital). He also held the office of CEO at JSC Caucasus Agro Development in 2009 and Co-director of corporate and investment banking department at JSC Bank of Georgia during 2005-2008. He was a board member of several well-known companies such as Teliani Valley, Info Georgia, Prime Fitness and has worked on several major projects. Aleksandre is a graduate of Tbilisi State University and has a post graduate degree in mathematics.

4.4.3 Roles of the Management Board

Besides carrying out day-to-day activities of the Bank, major roles of the Management Board are outlined below:

- Providing input to the agenda of the Supervisory Board and General Meeting of Shareholders;
- Provide the Supervisory Board with the annual business plan, including the budget, profit & loss forecast and the Bank's investments plan;
- Arrange for and supervise lending, settlements, financing, cash services, security, accounting and reporting of cash and valuables of the Bank, internal controls and accounting, ensure that the Bank provides proper service to the customers;
- Arrange for and supervise the functioning of the Bank's branches and service centres, ensuring that the managers of such branches and service centres fulfil their tasks and functions;
- Review the information obtained from internal audit or external inspections as well as the reports submitted by the branch managers and managers of the service centres, and make appropriate decisions based on the above information;
- Ensure the fulfilment of resolutions adopted by the Supervisory Board and/or the General Meeting of Shareholders;
- Develop policies, office rules and any other regulations and submit them to the Supervisory Board for the approval;
- Decide on the selection, dismissal, training and remuneration of staff (provided that the Management Board is bound to consider the recommendations of the Supervisory Board regarding certain top managers);
- Monitoring and adherence to the risk management principles set by the Supervisory Board and ensuring the Bank's risk profile is within the limits outlined in the RAS.

The Management Board is also the decision making body for all other activities not specifically reserved for the Supervisory Board and/or General Meeting of Shareholders.

4.4.4 Operation and Meetings of the Management Board

The activities of the Management Board are led by the CEO. The CEO is authorised to severally represent the Bank before any person, subject to the reserved matters for the Supervisory Board. Any transaction or any internal regulation, order or instruction of the Bank unless authorised by the signature of the CEO may be authorised by the signatures of all the remaining members of the Management Board. Subject to the consent of the Supervisory Board, the CEO may issue a power-of-attorney to the other Directors, authorising such Directors to severally represent the Bank in respect of various transactions and commitments.

The Management Board adopts its resolutions on Management Board meetings held at the premises of the Bank. In total, the Management Board officially met 65 times in 2017 and resolved various issues concerning the development of new products, staff reorganisation, approval and amendment to certain service fees and other activities of the Bank.

4.4.5 Evaluation of the Management Board Performance

The Supervisory Board continually evaluates the activities of the Management Board to reach overall goals of the Bank and strongly believes that the Management Board continues to operate and perform effectively and has a good balance and mix of expertise.

4.5 Code of Conduct and Ethics

The Bank is committed to the highest standards of conduct in all aspects of its business activities. Issues regarding the behaviours and standards of conduct applicable to all individuals working in the Bank are regulated by certain policies and regulations approved by the Supervisory Board or the Management Board.

In 2018, the Bank intends to further enhance its professional conduct and ethics standards and approve specific code of ethics and professional conduct in the near future.

4.5.1 Corporate Manual

The Bank provides a safe working environment in which employees are treated fairly and with respect. The Bank is committed to empowering employees to excel and reach their full potential, rewarding them on the basis of merit and does not tolerate discrimination or harassment of any kind. The Bank values clear and open communications with its employees. Employees are expected to promptly raise any concerns about unethical or illegal conduct and the Bank will investigate all concerns raised in good faith, while maintaining confidentiality and protecting the reporting employee.

The following values are set in the corporate manual of the Bank:

1. Principles of the Bank

All employees are loyal towards their work and take efforts to achieve maximum results. Each employee should persistently strive to achieve goals set to him/her.

2. Performance

The Bank believes that only a team of professionals will be able to resolve the problems of the Bank effectively. For the purpose of a team formation and development, all employees should:

- Strive to increase their professionalism;
- Take responsibility in compliance with their functions and abilities;
- Ensure fulfilment of their objectives in a timely manner;
- Meet the qualification requirements determined for the positions occupied by them;
- Be familiar with the work of all the divisions of the Bank;
- Reasonably plan and spend the Bank's resources, define optimal level, accuracy and control of delegation.

3. Flexibility and initiative

The Bank attaches great importance to flexibility and initiative that are essential for the growth of the Bank in the conditions of accelerated variability of the market. The Bank encourages its employees to:

- Develop own capabilities;
- Achieve set goals;
- Ensure creative approach and initiatives;
- Search for ways of permanent perfection of working processes;
- Always strive to increase professionalism;
- Search for ways to increase the customers' satisfaction;
- Strive to create and maintain competitive advantage of the Bank.

4. Teamwork and partnership

Healthy working atmosphere at the Bank, mutual respect among the employees and faithful attitude towards the work are one of the Bank's top priorities.

5. Transparency and trust

Transparency and trust is the basis of communication with the Bank's customers, shareholders, partners and stakeholders. The Bank uses all sources of information: business meetings, group discussions, internet, intranet, press conferences to disseminate unbiased information.

6. Interaction between the employees

The Bank is focused on long-term cooperation with the employees. The Bank is authorised to ensure social protection of its employees which includes health insurance, professional growth and increase of social welfare. All managers share responsibilities regarding results and appropriate motivation of their subordinate employees, and understand their responsibility for fulfilling their official duties with high quality and for achieving common goals.

7. Obligatory rules of conduct of an employee

All employees must understand that a positive image of the Bank is an important precondition for achieving the goals. The employee should always protect the Bank's interests and image in front of the customers and partners. An employee must be honest and objective towards his/her clients as well as his/her colleagues and subordinates, should respect and protect his/her colleagues' interests and not only avoid situations that cause conflicts, but also avoid situations which may provoke even a small conflict.

8. Gambling activities

An employee, whose duties are connected with the care of the material valuables (cash, precious metals, accounting documents, any immovable and movable property), or who may incur damages to the Bank (by any action or inactivity), is prohibited to participate in or organise gambling activities (including gambling tournament, slot machines) and betting (bookmakers) as defined under the Laws of Georgia.

4.5.2 Regulation on the Management of the Conflicts of Interest

In order to protect interests of the Bank depositors and creditors and ensure the Bank's adequate supervision and control of the transactions with affiliated parties, certain employees are expected to be free from actual or potential conflicts of interest that may influence their judgement or actions when working for the Bank. For this purpose, the Supervisory Board has approved the regulation on the management of the conflicts of interest, thus, enhancing the Bank's commitment to act ethically and take assertive measures to properly identify and manage, if permissible, potential conflicts of interest.

For the management of the conflicts of interest, the Bank identifies related/affiliated parties, creates respective list of such related parties, categorises such list, identifies process of the transactions subject to control/reporting and sets out types and list of transactions approval of which is exclusively reserved for the Supervisory Board.

4.5.3 Information Security

The Bank holds information about its customers, suppliers and colleagues in the strictest confidence and in compliance with applicable law and regulations. Principles and basic rules for information security management within the Bank's technical infrastructure is regulated by the information security policy. General objective of the information security management system is to protect information utilised by the Bank in attaining its business goals. Information security must be managed in line with the Bank's risk management and business continuity, thus by reducing the occurrence and potential damage caused by information security incidents. Goals are in line with the Bank's business objectives, RAS, strategy and business plans, for protecting confidentiality, integrity and availability of underlining information processes and assets. Protection of integrity, availability, and confidentiality of assets is the responsibility of the owner of each asset.

5 REMUNERATION

The Bank is one of the leading employers in Georgia with over 5,000 employees. Total personnel expenses for 2017 amounted to ₾ 70.2 million, up 7% y-o-y.

5.1 General Remuneration Framework

The Bank believes that its long- term success depends on the talent of its employees, therefore the main objective of remuneration strategy is to attract, retain and motivate the best talents in the market. On the other hand, the Bank's value proposition is the competitive compensation package with plenty of professional development opportunities and challenging working environment. Remuneration systems are managed by the Supervisory and Management Boards with the support of the HR department.

The Bank is positioning as a socially responsible and fair player on the labor market. According to the Bank's Remuneration framework, employees are paid competitive salary compared to the similar positions available in the market. The same approach is applicable for creating compensation packages for existing employees. Employee remuneration consists of monthly salaries and bonus scheme. Bonus scheme is performance based and varies by business lines and particular positions. The Bank permanently conducts market salary surveys and analysis, based on which it takes remuneration related decisions.

The Bank is focused to create better working atmosphere for all employees and maintain their sustainable performance. Employees who adhere to the Bank's values and contribute to the Bank's success are rewarded accordingly. Various performance assessment methodologies and reward systems are used, which include both, financial and non-financial benefits. Besides performance based monetary bonuses, the Bank provides employees with competitive health insurance packages, six months of maternity leave at full pay, as well as paid annual and sick leaves. Additionally, the Bank offers free internal calls, corporate mobile cell numbers and other specialised benefits.

5.1.1 General Bonus Pool Policy

In 2010, the Bank has implemented the policy of setting aside and distributing, annual cash bonuses to its employees. The Policy estimates the distribution of predefined amount of the pre-tax profit result as per the financial statements from the previous year.

For the back-office employees and middle management, bonuses are calculated based on the Bank's annual pre-tax profit and are fully discretionary. The allocation of amounts per employee is based on the level of their respective key business objective ("KBO") fulfillment. KBOs are set and agreed at the beginning of the assessment period. Employees are aware of their role and responsibilities within their competences and have clear understanding of their input in organisation goals and objectives.

5.1.2 Remuneration of Front Office Employees

Remuneration of front office employees consists of fixed monthly salary and monthly variable bonuses. Performance plan is defined for each Front Office position which is usually set and agreed prior to the start of the new month. The plan includes specific targets and is transparent and fully understandable. The plan is in line with Bank's strategic goals and might change from month to month. Credit officers earn bonuses based on the quantity and the quality of loans issued. Teller bonuses are calculated according to the quantity, volume and duration of attracted deposits. Front office employees' and sale representatives' performance measures are set by the Management Board.

5.1.3 Remuneration of Back Office Employees

Remuneration of back office employees consists of fixed monthly salary. In addition, monthly variable bonuses are distributed depending on the position and performance. The Bank has explicit performance appraisal system for the back office employees. Based on annual feedback sessions, full and balanced picture of employees' professional and personal skills is obtained. This process and outcome are essential for the Management Board to support high performance and ensure that employees' interests are aligned with those of investors.

Most of the Head Office employees are eligible to the General Bonus Pool. Bonus amount is based on the performance at the department level and individual fulfillment of the KBOs.

5.2 Remuneration of the Management Board

Remuneration given to each member of the Management Board is closely related to the achievement of respective KBOs and the Bank's general performance by the end of the given calendar year. All kinds of incentive programs and cash awards of the members of the Management Board are subject to approval of the Supervisory Board. The following tables present KBOs of the CEO and CFO for 2017:

KBOs of the CEO

	Importance
Financial Performance, combined	65%
Revenue to exceed ₾ 199 million	
Cost/Income Ratio not to exceed 64%	
Net Provisions not to exceed the lower of ₾ 32 million and Cost of Risk of 4.5%	
Net Income to exceed ₾ 33 million	
Common dividend payout of ₾ 20 million by July 2017, with CAR no less than 18.5% and 12.5% as per Basel 1 and Basel 2/3 methodologies, respectively	20%
IFRS 9 - Full adoption and transition to IFRS 9	15%

KBOs of the CFO

	Importance
Qualification and adjustment-free & timely issuance of the 2016 financial statements	15%
Timely and accurate NBG/regulatory reporting	10%
Tax compliance, no more than ₾ 200K adjustment or fines	15%
Treasury/ALCO, combined	15%
LCR cross-currency compliance (₾: above 110% and below 160%) maintained throughout the year	
Treasuries/NBG CD/Interbank interest income to exceed ₾ 23.4 million	
FX-related revenue to exceed ₾ 7.9 million	
Interest expense - maintain blended cost of funds below 8.7% throughout the year	10%
Opex & Capex, combined	15%
Cost/Income ratio not to exceed 63%	
Capex & intangibles spend not to exceed ₾ 34.7 million	
IFRS 9 - Full adoption and transition to IFRS 9	10%
IT-related KBOs, combined	10%
Implementation of the cash management module (including cash collection/ATMs/cash vaults, etc.)	
Successful completion of Treasury module	

For 2017, total remuneration of the seven member Management Board amounted to ₾ 9.4 million, of which total fixed remuneration comprised ₾ 3.3 million and total variable remuneration comprised ₾ 6.1 million. As of 31 December 2017, Management Board members owned 12.7 million ordinary shares of the Bank. For more details on remuneration awarded to the Management Board, see Appendix Tables 20-23.

5.3 Remuneration of the Supervisory Board

Remuneration of the Supervisory Board members is set by the AGM and is closely related to the achievement of respective KBOs and the Bank's general performance by the end of the given calendar year. The following table presents the KBOs of the Chairman of the Supervisory Board for 2017:

KBOs of the Supervisory Board Chairman

	Importance
Net Income to exceed ₾ 33 million	50%
Common dividend payout of ₾ 20 million by July 2017, with CAR no less than 18.5% and 12.5% as per Basel 1 and Basel 2/3 methodologies, respectively	50%

For 2017, total remuneration of the Supervisory Board amounted to ₾ 2.5 million, of which total fixed remuneration comprised ₾ 2.4 million and total variable remuneration comprised ₾ 0.1 million. As of 31 December 2017, Supervisory Board members did not own ordinary shares of the Bank. For more details on remuneration awarded to the Supervisory Board, see Appendix Tables 20-23.

5.4 Staff having a Material Impact on the Bank's Risk Profile

Staff in key managerial positions are responsible for the business activities under their supervision. The Bank identifies employees whose professional activities have a material impact on the Bank's risk profile based on the following criteria:

- The employee is a member of the Management or Supervisory Board;
- The employee is a Director or deputy Director;
- The employee is a regional manager;
- The employee is Head of one of the key departments including: audit, finance, accounting, credit risks, legal, IT, HR, operational, ERM, treasury, control and planning, investor relations, procurement, taxation, processing, micro lending and private banking.

The number of staff having a material impact on the Bank's risk profile excluding Supervisory and Management Board members totals 38 as of 31 December 2017. For 2017, total remuneration of these 38 employees amounted to ₾ 4.6 million, of which total fixed remuneration comprised ₾ 2.9 million and 31 employees were compensated with variable remuneration of ₾ 1.7 million. For more details on remuneration awarded to the staff having a material impact on the Bank's risk profile, see Appendix Tables 20-23.

6 RISK MANAGEMENT

Risk is inherent in the Bank's activities but managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk, operational risk and other non-financial risks. The risk management framework adopted by the Bank sets the boundaries of risk bearing capacity for each risk and business line and ensures its compliance.

6.1 Risk Management Framework

The Supervisory Board of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions, products and services offered. The Bank, through its management standards, procedures and trainings aims, has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The responsibility of the individuals accountable for risk management is to ensure the compliance of the Bank to the RAS set by the Supervisory Board of the Bank. The compliance is ensured by continuous monitoring of the RAS parameters. With the active involvement of Management Board, risk management functions ensure proper communication and clarity at all levels regarding risk objectives, constant monitoring of risk profile against risk appetite, timely escalation of risk-related alerts and design of mitigating actions.

The Bank's risk management framework consists of the following four components:

1. **Risk Management Principles** provide the qualitative foundation of the risk management framework. These include:
    - Promotion of a robust risk culture;
    - Accountability for risk by the Business Lines;
    - Independent central risk oversight;
    - Avoidance of and / or reduction in excessive concentrations;
    - Ensuring that the risks are clearly understood, measurable and manageable.
2. **Strategic Principles** provide qualitative benchmarks to guide the Bank in its pursuit of the Governing Financial Objectives, and to gauge the degree of alignment between new initiatives and the Bank's Risk Appetite. Strategic Principles include:
    - Placing emphasis on the diversity, quality and stability of earnings;
    - Focusing on core businesses by leveraging the Bank's competitive advantages;
    - Making disciplined and selective strategic investments.

3. **Governing Financial Objectives** focus on the long-term build-up of shareholder value and the sustainability of the Bank's business franchise. These objectives focus on the internal generation of capital through sustainable earnings growth, improving the Bank's access to capital on reasonable commercial terms, and maintenance of adequate capital in relation to the Bank's risk profile.

4. **Risk Appetite Measures** provide objective metrics that gauge the risk and articulate the Bank's Risk Appetite. They provide a link between the actual risk-taking activities and the Risk Management Principles, Strategic Principles and Governing Financial Objectives. These metrics include capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets and limits.

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The key risks of the Bank are managed by the following committees and units with the active involvement of Management Board:

- Credit risk is managed by the Credit Risk Committee;
- Liquidity risk is managed by the Assets and Liabilities Management Committee ("ALCO");
- Market risk is managed by the ALCO;
- Operational risk is managed by the Operational Risk Management ("ORM") department;
- Information security and technology risks are managed by Information Security department.

Business lines represent the primary owners of risks affecting daily activities and operations within the Bank. Business processes incorporate controlling activities performed by the relevant risk unit representatives. Units with risk management functions that are independent from the core businesses contribute to the management and internal control of risks. They represent the second line of control and defense, the first one being ensured by the businesses. The following departments are responsible for day-to-management of credit, liquidity, market, operational and other financial and non-financial risks:

- Enterprise Risk Management ("ERM");
- Treasury;
- Credit Underwriting;
- Credit Administration;
- Credit Controlling;
- Operational Risk Management ("ORM");
- Information Security.

Anti-money laundering ("AML") and compliance risks are managed by the ORM department. Regulatory risk is managed by the ERM department.

6.1.1 Audit Committee

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. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Audit Committee assists Supervisory Board in relation to risk management and internal financial control to review the adequacy and effectiveness of the controls over financial reporting and certain types of operational risk. The Audit Committee also monitors the Bank's compliance with the corporate governance policies and procedures related to anti-bribery and anti-corruption, conflicts of interest and whistleblowing. Considering the abovementioned, the Audit Committee considers that its overall internal control framework is effective.

Major roles and key responsibilities of the Audit Committee are as follows:

- Set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the internal audit service of the Bank;
- Supervise the compliance of the Bank with the applicable laws;
- Responsible for overseeing the Internal Audit function, which serves as the Bank's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Bank;
- Approve the regulations governing internal audit services and ensure the independence of the internal audit service from the Bank's Management Board;
- Review the quarterly/semi-annual reports of the internal audit service, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- Approve the annual operations plan prepared by the internal audit service and perform the plan's quarterly review;
- Assess the activities of each of the employees of the internal audit service in consideration of their professional skills and performance and make appropriate decisions;
- Facilitate functioning of external auditors of the Bank.

6.1.2 Credit Risk Committee

The Credit Risk Committee has an overall responsibility to manage credit risks in respect to all kinds of business activities on an enterprise level. It performs major role in identification of possible significant credit risks in Bank's portfolio and has the authority to make a final decision on approval or rejection of proposed credit risk related transactions. The Credit Risk Committee has developed credit risk assessment policies and procedures which is consistent with the Bank's current risk profile and future growth plans. Various credit risk units and departments are input providers to the Credit Risk Committee. To ensure sound credit risk environment, comprehensive control and monitoring systems are implemented, where roles and responsibilities of entities and staff involved in credit risk management are clearly defined.

Main responsibilities of the Credit Risk Committee are the following:

- Review and approve the risk management framework and policies;
- Approve credit exposures within identified limits;
- Supervise and manage on-balance and off-balance credit and concentration risks;
- Set credit limits by client category and operation type;
- Early identification of possible credit risk losses;
- Maintain an appropriate credit administration, measurement and monitoring process across all business lines.

6.1.3 Assets and Liabilities Management Committee

Core functions of the ALCO are management of the capital, liquidity, interest and funding risks. Members of the Committee with voting rights are: CEO, CFO, Operations Director, General Counsel and Head of Investor Relations. Visiting members from Treasury, ERM and Finance departments are providing the relevant analytical inputs for effective decision making process. ALCO meetings are conducted on a monthly basis or at any time deemed necessary.

The primary objectives of the ALCO are the following:

- Develop short-term and long-term funding plan considering the Bank's investment capabilities to avoid excessive liquid funds;
- Establish the level of liquidity risk tolerance as part of the risk appetite statement;
- Manage interest rates and interest rate gap;
- Monitor early warning indicators along with monthly liquidity stress-tests and acts according to its results;
- Manage liquidity risk mitigation tools and maturity gap of assets and liabilities;
- Approve interbank counterparty exposure limits;
- Implement the Recovery Plan in the event of liquidity crisis situations.

With fulfilling its core responsibilities, the Committee is ensuring the development and implementation of an appropriate assets and liabilities management policy. The policy is the main guidebook for performing comprehensive monitoring and in-depth analysis pertaining to the Bank's balance sheet and its related indicators.

6.1.4 Enterprise Risk Management Department

As part of the overall strategy of the Bank to strengthen the risk management framework, by the year-end 2015 Enterprise Risk Management ("ERM") department was established. The ERM function facilitates cross-risk activities such as aggregation and analytics, cross-risk reporting and addresses issues that are not specific to a single type of risk. Major risk functions of ERM are outlined as follows:

- Being in charge of Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Plan documents;
- Assisting Management Board and Supervisory Board in coordinating RAS review process and in monitoring, controlling and reporting of RAS compliance;
- Conducting enterprise-wide, liquidity and other ad-hoc stress tests;
- Day-to-day communication with Treasury department and additional input provider for ALCO;
- Managing and reporting of Regulatory Risk.

6.2 Risk Appetite Statement

6.2.1 Risk Appetite

The Supervisory Board of the Bank is responsible for establishing the framework and determining the Bank's Risk Appetite. The Bank's Risk Appetite is documented in the Risk Appetite Statement ("RAS"). The Risk Appetite is broadly defined as the types and degree of risk the Bank is willing to accept on behalf of its shareholders and depositors in its strategic, tactical and transactional business actions. The Risk Appetite is expressed as a set of concrete, quantifiable boundaries on the various risk taking activities which the Bank should not cross. The RAS also sets various limits on counterparties to avoid concentration risks.

Risk capacity (also known as risk-bearing capacity) represents the Bank's overall ability to absorb potential losses. Risk profile is a snapshot of the Bank's risk portfolio at a specific point in time (past, present, or future). The Risk Appetite is not the same as (and must be lower than) the Bank's risk-bearing capacity and may also differ from the Bank's risk profile. Risk profile should generally be lower than Risk Appetite. Risk profile could be higher than Risk Appetite on an exceptional basis (for instance, due to external shocks or marked shift in the Bank's Risk Appetite) for finite and brief periods of time.

The Bank's Risk Appetite Measures are designed to provide safeguards and guidelines to achieve and improve the Bank's strategic objectives:

- Ensuring capital adequacy at all times;
- Ensuring sound management of the liquidity and funding risk that includes: LCR and Liquidity Ratio maintained comfortably above the regulatory minimums; limitations on single client exposures; concentration limits; stress tests endurance (base, mild and severe cases) and achieving and maintaining a well-diversified funding structure;
- An upfront assessment against the stated Risk Appetite should be submitted to the Supervisory Board for significant new projects / investments, new products, and entry into new market segments or business lines;
- Maintaining sustainable economic profit commensurate with the risks taken;
- Avoiding significant losses from small or peripheral businesses that are not critical to the Bank's strategic success.

Whenever the Bank's risk profile exceeds the Risk Appetite set by the Supervisory Board, a concrete set of steps must exist together with the Management Board tasked with executing these steps in order to bring the Bank's risk profile in line with its Risk Appetite within a defined period of time.

Management Board and all Heads of Department are responsible for the implementation of, and compliance with, the Risk Appetite Statement.

6.2.2 Monitoring, Reporting and Review

The Supervisory Board is ultimately responsible for controlling overall risk profile of the Bank. The Credit Risk Committee, ALCO and Information Security, ORM and ERM departments are responsible for monitoring risks and ensuring compliance with the Risk Appetite. The ERM department has the overall responsibility for continuous monitoring of RAS parameters and limits, and reporting on compliance with RAS on a quarterly basis to the Supervisory Board.

The RAS Compliance Report was launched in Q2 2016. The RAS Compliance Report provides quantitative metrics and measures as well as qualitative information concerning the Bank's compliance with the RAS parameters. The ERM department is responsible for providing RAS Compliance Report to the Management Board and Supervisory Board on a quarterly basis.

The Risk Appetite Statement is reviewed at least annually, or whenever there is a significant change to the Bank's operating environment in which case the review process is initiated by the Supervisory Board. The Management Board can propose to the Supervisory Board that the RAS requires review, however the Supervisory Board decides whether to start the process. The review is coordinated by the ERM department. Proposed changes to the Risk Appetite Statement are endorsed by the Management Board and approved by the Supervisory Board.

6.3 Types of Risk

The Bank faces a variety of risks as part of its business activities with the most significant ones described below.

6.3.1 Credit and Counterparty Risk

The credit risk is the risk that the borrower or any counterparty (obligor, debtor, etc.) will fail to meet its obligations in accordance with agreed terms. These obligations are typically part of the Bank's traditional non-trading lending activities, primarily loans. Default risk, the most significant element of the credit risk, refers to the risk of losses due to defaults by counterparties. The Bank distinguishes country risk as a separate kind of the credit risk. The country risk for the Bank is the risk stemming from the unexpected deterioration of the creditworthiness or default of Georgia due to social unrest, political instability, war or other unfavorable developments in the country.

6.3.2 Market Risk

Market risk is the risk of incurring a loss of value due to adverse changes in market prices or rates, including interest rates and foreign exchange rates, and their levels of volatility. Market risk arises mainly from trading activities. The Bank is not exposed to market risk related to trading activities, since the Bank, in line with its risk appetite, is not engaged in trading activities. The market risk related to the banking activities encompasses the risk of loss on equity holdings, and the interest rate and foreign exchange risk stemming from banking intermediation activities. The Bank is exposed to interest rate and foreign exchange risks in its banking books.

6.3.3 Operational Risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks. Credit or market events such as default or fluctuations in value do not fall in the scope of operational risk. Compliance risk is included under operational risk. Compliance risk is the potential that the Bank may incur regulatory sanctions, financial loss and/or reputational damage arising from its failure to comply with applicable laws, rules and regulations. The operational risk does not cover the reputational risk.

6.3.4 Liquidity Risk

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to fulfill these obligations at a higher cost.

6.4 Concentration Risk

The concentration risk mainly arises from imperfect diversification in assets and liabilities structure. It is vital to establish the prudent internal monitoring and management procedures to identify and mitigate the concentration risk, since possible negative effects may seem irrelevant at glance though may jeopardise the Bank's stable financial position, capital adequacy and liquidity in different stress scenarios.

On the asset side, the Bank is exposed to two types of concentration risks. The first type, single-name concentration, relates to imperfect diversification of idiosyncratic risk in the portfolio because of its large exposures to specific individual obligors or asset types. The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectoral factors which are mainly induced by excessive exposures to specific economic sectors. On the liability side, funding structure can impact the Bank's short-term and long-term liquidity positions. Dependence on specific individuals, entities or industries could lead to unanticipated run-offs, where the Bank may be unable to meet its payment obligations at a reasonable price.

The Bank uses various internal procedures and policies for the Concentration Risk management and complies with regulatory concentration risk requirements. As part of the risk appetite framework, the Bank sets measures and limits for both credit, funding and investing operations that may cause the undesirable Concentration Risks. Where the Bank's concentration limits exceeds the Risk Appetite set by the Supervisory Board, a concrete set of actions are predefined and the Management's task is to bring the Bank's risk profile in line with its Risk Appetite within a reasonable time.

At the end of 2017, the NBG introduced single-name and sector Concentration Risk buffers as part of the Pillar 2 framework. The calculation of concentration risk is based on the Herfindahl-Hirschman Index ("HHI") methodology and is subject to monthly reporting.

6.5 Stress Testing

To ensure dynamic risk supervision and management, the Bank has developed the stress testing framework as described below.

6.5.1 Stress Testing Framework

The Bank uses stress tests in order to project its capital and liquidity needs in various adverse scenarios. The stress tests cover all the material risks and enable the Bank to assess the effect of unfavourable economic trends on various risk types. Stress testing forms an integral part of the risk management system. The Bank uses scenario based approach in order to assess the impact of adverse developments in the economy on its capital adequacy and liquidity buffers. The stress tests are conducted on an enterprise level.

The Bank uses the stress tests in the capital planning and applies stress to the risks and the income and cost structure. Stressing the income and cost affects the Bank's capital, while stressing the risk exposures affects RWE. Stress tests are carried out at least annually as part of the ICAAP.

6.5.2 Stress Testing Methodology and Scenario Definition

The stress testing methodology consists of four steps. The first step is to define and prepare the internal stress test scenarios. Each scenario consists of the macroeconomic variables. The Bank has a base case scenario that represents its forecast of financial trends during normally expected state of economy and a recession case scenario that represent shocks to the economy that are not expected but are plausible. The scenarios reflect the current as well as the predicted economic conditions and are adjusted accordingly by the Management Board. The second step is to determine the effect of the scenarios on the various risk types and capital. When the stress test scenarios are translated into effects on the risks, the income and cost structure, the Bank calculates capital requirement ratios under each scenario. Finally, the results are evaluated by the Management Board in order to ensure consistency and reliability. The findings are then reported to the Supervisory Board.

In addition to the enterprise-wide stress testing, the Bank uses various specialised scenarios that give the Management Board an understanding of the effect on the Bank under specific types of events.

6.6 Recovery Plan

The Bank maintains the Recovery Plan that outlines possible recovery options if the Bank was to find itself in a distressed situation. The Recovery Plan serves as additional risk management tool and aims to shorten recovery period and minimise losses in case of crisis. Based on the overall risk profile of the Bank and the Bank-specific risks, the plan contains specific triggers that would require the Management Board to initiate the Recovery Plan.

The Recovery Plan describes and quantifies the events that could trigger the recovery. In order to envisage the critical amounts causing the Recovery Plan activation the analysis was made of baseline forecasted (budgeted) scenario. Since the precise nature of an event that will cause pressure on the Bank cannot be known in advance, the plan is designed to be flexible in response to the severity of the stress event and provides a menu of options that could be used as needed during the distress. The plan describes respective mitigating factors/actions and the effect of their application on the existing pressures.

The capital triggers are monitored by ERM department on a monthly basis. Any potential trigger event is escalated to the Management Board level and should be discussed at the meeting. If triggered, the Recovery Plan strategy will be executed under the supervision of the Management Board.

6.7 Risk Factors

1. Macroeconomic factors could impact the Bank's financial position

Negative economic conditions will have an adverse impact on Bank's overall performance in different aspects. Unfavorable variance in forecasted factors such as Gross Domestic Product ("GDP") growth, exchange rate, unemployment, inflation etc. may trigger various stress scenarios that could have negative impact on the Bank's financial position.

2. High competition in financial sector

The Bank is operating in highly competitive sector where the pricing pressure especially in retail segment is intense. Due to increased competition, the Bank may be unable to meet its business objectives and sustain unforeseen losses.

3. The Bank depends on access to financing and other sources of liquidity, which may be restricted for reasons beyond its control

Inability to access short-term and long-term funding due to market-wide stress events could lead to various problems in Bank's liquidity position. If the funding constraints persist, it would have negative impact on depositors' and investors' confidence level.

4. Changes in interest rates may adversely affect the Bank's profitability

Interest rate sensitivity refers to the potential changes in market interest rates that can adversely affect the Bank's financial position. Any mismatch between interest bearing assets and liabilities structure could have negative material impact on the Bank's net interest margin ("NIM").

5. The Bank is subject to extensive supervision and regulation by the NBG and in some cases by the Government of Georgia

All Banks operating in Georgian financial market must comply with the NBG's regulations. The regulations are set on the liquidity and capital requirements, business and day-to-day operations, and may have significant impact on the Bank's strategic objectives. As the exact nature of the future regulatory changes is unpredictable, risk factor remains that needs prudent management and timely actions. Additional regulations may directly or indirectly have negative impact on the Bank's profitability and financial position.

6. The Bank is exposed to legal risks that could negatively affect its profitability

Legal risk can either arise from ordinary business activities or from unexpected events. It is inherently difficult to predict the outcome of proceedings, however they often damage the Bank's reputation and have adverse financial effect in some cases.

7. The existing risk management framework may not be as effective and the Bank may face unanticipated risks, which could lead to losses

The Bank through its risk management policies and procedures established constructive control framework in which all employees understand their roles and obligations. Nonetheless, current risk management techniques and strategies may not be fully effective in mitigating all risk exposures and could lead to losses.

8. Operational failure, frauds and other breaches in the information technology systems could result in losses

Although the Bank has no appetite towards the operational risks related to fraud, information security (including IT) and compliance breaches, the threats remain and require continuous monitoring, updates and investments.

7 CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

7.1 Regulatory Framework

Starting from 30 June 2014, the Bank has to comply with minimum capital adequacy ratios stipulated by "Regulation on Capital Adequacy Requirements for Commercial Banks" approved under Decree # 100/04 (the "Pillar 1 Regulation") of the President of the NBG dated 23 October 2013. The Pillar 1 Regulation follows the Bank of International Settlements ("BIS") Basel 2/3 framework, however the regulation deviates from BIS Basel guidelines in some aspects. The Pillar 1 Regulation sets the minimum solvency requirements and defines the rules that banks must use to measure risks and calculate associated capital requirements. The Pillar 1 Regulation also sets additional buffers that must be met with Common Equity Tier 1 Capital, namely: Conservation buffer, Countercyclical buffer and Systemic Risk buffer.

On 18th of December 2017, the NBG introduced "Regulation on Capital Buffer Requirements for Commercial Banks under Pillar 2" approved under Decree # 176/04 (the "Pillar 2 Regulation") of the President of the NBG. The scope of Pillar 2 Regulation is to set additional capital buffer requirements for commercial banks for the risks that are not covered under the Pillar 1 Regulation. Additional capital requirements can be set through the following buffers: Unhedged Currency Induced Credit Risk buffer, Credit Portfolio Concentration Risk buffer, Net Stress-Test buffer and Net GRAPE (General Risk Assessment Program) buffer. While the regulation sets the transitional period until year 2022, after 2022 the Pillar 2 buffers should be complied with at least 56% using Common Equity Tier 1 Capital, at least 75% using Tier 1 Capital and for the remaining 25%, Tier 2 Capital could be used.

To strengthen market discipline, on 22 June 2017, the NBG introduced "Regulation on Commercial Banks' Pillar 3 Disclosure Requirements" approved under Decree # 92/04 (the "Pillar 3 Regulation") of the President of the NBG. Pillar 3 Regulation sets out qualitative and quantitative disclosure requirements which will allow market participants to make better assessment of risks faced by a given institution.

Until 31st of December 2017, the commercial banks also had to comply with capital requirements as defined by the "Regulation on Capital Adequacy Requirements for Commercial Banks" approved by Decree # 18/04 (the "Old Pillar 1 Regulation") of the President of the NBG. Starting from 1st of January 2018, the banks are no longer required to comply with the Old Pillar 1 Regulation.

7.2 Regulatory Capital

Under the Pillar 1 Regulation, Tier 1 Capital is the going-concern capital which consists of instruments that have the capacity to unconditionally absorb losses as they arise, allowing the Bank to remain in business. The instruments allow for payments to be fully discretionary (non-payment is not an event of default) and for full principal loss absorption. Tier 1 Capital is comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

The Bank's Common Equity Tier 1 Capital is the primary source of the capital base which corresponds to total common shareholders' equity less regulatory adjustments applied. Additional Tier 1 Capital consists of the perpetual non-cumulative convertible preferred shares issued by the Bank. Tier 2 Capital is the supplementary source of the capital base and consists of the subordinated debt qualifying for inclusion in Tier 2 Capital and general reserves limited to a maximum of 1.25% of the Bank's credit risk-weighted exposures.

Table below sets out the details of the Bank's capital base under the Pillar 1 Regulation. More detailed information on Regulatory Capital could be found in Appendix Table 9. For information on reconciliation of balance sheet to regulatory capital, refer to Appendix Table 10.

Regulatory Capital

₾ millions, unless otherwise noted	*31 December 2017*	*31 December 2016*	*Change*
Common Equity Tier 1 Capital prior to regulatory adjustments	**220.1**	**180.1**	**22%**
Qualifying common share capital	44.0	43.8	0%
Share premium on qualifying common share capital	33.9	33.9	0%
Accumulated other comprehensive income(1)	29.0	20.2	43%
Other disclosed reserves	1.7	1.7	0%
Retained earnings	111.6	80.5	39%
Common Equity Tier 1 Capital: regulatory adjustments	**(57.7)**	**(44.1)**	**31%**
Revaluation reserves on assets	(29.0)	(20.2)	43%
Accumulated unrealised revaluation gains on assets through P&L(2)	(2.0)	(2.1)	-3%
Intangible assets	(26.3)	(21.5)	23%
Investments in subsidiaries/affiliates	(0.3)	(0.3)	-1%
Common Equity Tier 1 Capital	**162.4**	**136.0**	**19%**
Additional Tier 1 Capital	**6.1**	**6.1**	**0%**
Tier 1 Capital	**168.6**	**142.2**	**19%**
Tier 2 Capital	**63.9**	**72.3**	**-12%**
Subordinated debt	51.4	60.8	-15%
General reserves	12.5	11.5	9%
Regulatory Capital	**232.5**	**214.4**	**8%**

(1) Accumulated other comprehensive income comprises of revaluations of domicile properties.
(2) Accumulated unrealised revaluation gains on assets through profit and loss (P&L) include such gains to the extent that they exceed accumulated unrealised revaluation losses through P&L.

As of 31 December 2017, Regulatory Capital and Tier 1 Capital under the Old Pillar 1 Regulation comprised ₾ 236.9 million and ₾ 118.5 million, respectively (31 December 2016: ₾ 0.3 million and ₾ 118.5 million, respectively).

7.3 Capital Requirements

7.3.1 Capital Adequacy Requirements

Principal measures to assess the capital adequacy of a credit institution from a regulatory perspective are regulatory capital ratios, defined as regulatory capital divided by risk-weighted exposures (the "RWE"). Under the Pillar 1 Regulation, the NBG requires the banks to maintain the minimum Regulatory Capital Ratio of 8.0% of the RWE, Tier 1 Capital Ratio of 6.0% of the RWE, and Common Equity Tier 1 Ratio of 4.5% of the RWE, computed based on the Bank's stand-alone financial statements. As of 31 December 2017, the Bank had to maintain Conservation buffer of 2.5% and Unhedged Currency Induced Credit Risk buffer of 0.06%, while Countercyclical, Systemic Risk, Credit Portfolio Concentration Risk, Net Stress-Test and Net GRAPE buffers were set to zero. Unhedged Currency Induced Credit Risk buffer had to be maintained by at least 56% using CET1 Capital and at least 75% using Tier 1 Capital. As of 31 December 2017, total capital requirements for the Bank were 10.56% for Regulatory Capital Ratio, 8.54% for Tier 1 Capital Ratio, and 7.03% for Common Equity Tier 1 Ratio.

Under the Old Pillar 1 Regulation, the NBG required the banks to maintain the minimum Regulatory Capital Ratio of 9.6% of the RWE and Tier 1 Capital Ratio of 6.4% of the RWE.

As of 31 December 2017, the Bank was fully compliant with minimum and total capital requirements under the Pillar 1 Regulation. The Bank was also fully compliant with the Old Pillar 1 Regulation. The table below provides RWE under Pillar 1 Regulation and the corresponding minimum capital requirement (8.0% of the RWE). For additional details on risk-weighted exposures see Appendix Table 5. For information on off-balance sheet items refer to Appendix Table 4, part N4.

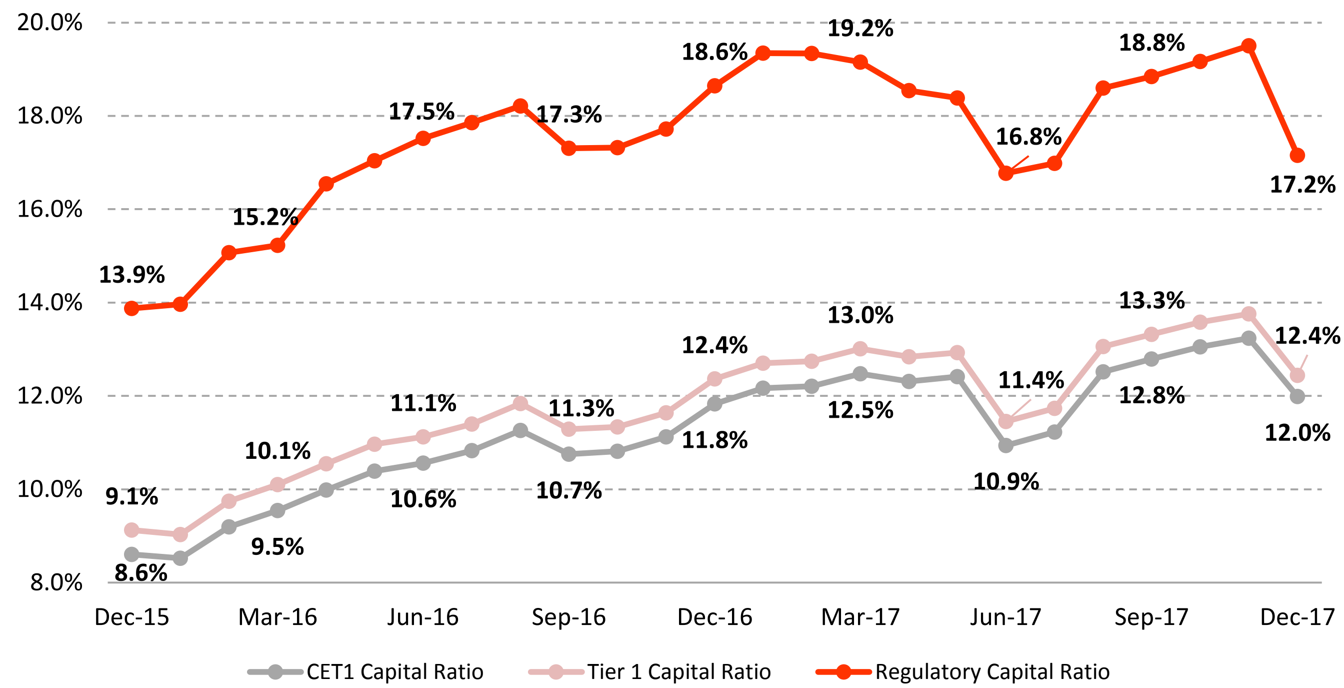
Minimum Capital Requirements and Risk-weighted Exposures

	31 December 2017		31 December 2016		
₾ millions, unless otherwise noted	*Risk-weighted Exposure*	*Minimum Capital Requirement*	*Risk-weighted Exposure*	*Minimum Capital Requirement*	*Change[(1)]*
Credit risk	**999.7**	**80.0**	**916.6**	**73.3**	**9%**
Balance sheet items	**980.1**	**78.4**	**883.4**	**70.7**	**11%**
Central governments or central banks	75.5	6.0	203.0	16.2	-63%
Commercial banks	48.3	3.9	32.2	2.6	50%
Corporates	54.0	4.3	52.0	4.2	4%
Retail	552.4	44.2	453.9	36.3	22%
Exposures secured by residential property	3.1	0.2	4.6	0.4	-34%
Past due items	2.6	0.2	4.1	0.3	-36%
High-risk category	108.5	8.7	4.3	0.3	nmf
Other items[(2)]	135.7	10.9	129.4	10.3	5%
Off-balance sheet items	**10.4**	**0.8**	**8.1**	**0.6**	**28%**
FX induced credit risk[(3)]	**-**	**-**	**17.6**	**1.4**	**-100%**
Counterparty credit risk	**9.2**	**0.7**	**7.4**	**0.6**	**24%**
Market risk	**4.3**	**0.3**	**2.8**	**0.2**	**51%**
Operational risk	**351.4**	**28.1**	**230.6**	**18.4**	**52%**
Total	**1,355.4**	**108.4**	**1,150.0**	**92.0**	**18%**

(1) Percentage change in the RWE is same as the percentage change in the capital requirement.
(2) Other items primarily comprise the PPE in the amounts of ₾ 132.8 million and ₾ 126.7 million as of 31 December 2017 and 31 December 2016, respectively. The minimum capital requirement for PPE amounted to ₾ 10.6 million and ₾ 10.1 million as of 31 December 2017 and 31 December 2016, respectively.
(3) Under Pillar 2 Regulation, FX induced credit risk was removed from calculation of RWE and was added as Unhedged Currency Induced Credit Risk buffer.

As of 31 December 2017, the CET1 Capital Ratio of 12.0%, the Tier 1 Capital Ratio of 12.4% and the Regulatory Capital Ratio of 17.2% were well above the required minimum. The figure below reports monthly regulatory ratios from December 2015 to December 2017.

Monthly Regulatory Ratios



As of 31 December 2017, Regulatory Capital Ratio and Tier 1 Capital Ratio under the Old Pillar 1 Regulation comprised 20.8% and 10.4%, respectively (31 December 2016: 23.4% and 12.1%, respectively).

7.3.2 Change in Risk-weighted Exposures

As of 31 December 2017, risk-weighted exposures in the amount of ₾ 1,355.4 million by type of risk break down as follows: credit risk accounted for 73.8% of RWE, market risk accounted for 0.3% of RWE and operational risk accounted for 25.9% of RWE. Between 31 December 2017 and 31 December 2016, RWE for credit risk increased by ₾ 83.2 million, RWE for operational risk increased by ₾ 120.8 million, whereas RWE for market risk increased immaterially by ₾ 1.5 million. The two tables below present the change in RWE between YE 2017 and YE 2016 for credit and operational risks.

Change in Credit Risk RWE

₾ millions, unless otherwise noted

YE 2016 Credit Risk RWE	**916.6**
Increase due to growth in the loan portfolio	140.4
Increase due to higher risk-weighting for unsecured loans introduced by the NBG	51.4
Decrease of FX funds in the NBG	(127.5)
FX induced credit risk (not accounted in RWE and introduced as Pillar 2 buffer)	(9.9)
Other increases	28.7
YE 2017 Credit Risk RWE	**999.7**

Change in Operational Risk RWE

₾ millions, unless otherwise noted

YE 2016 Operational Risk RWE	**230.6**
Increase due to increase in 3-year average revenue used in Basic Indicator calculation	37.1
One-off increase due to higher risk-weighting introduced by the NBG	83.7
YE 2017 Operational Risk RWE	**351.4**

7.4 Capital Management

The Bank assumes risks as a normal part of its business model and expects to incur some financial losses from time to time. Under normal circumstances, such losses are expected to be covered by the Bank's earnings. However, in any given year, due to various internal or external factors, the losses might exceed the earnings and would need to be covered from the capital.

The Bank's capital management objectives consist of ensuring its solvency at all times, complying with the supervisory and internal capital requirements, and maintaining a prudent capital cushion in order to protect the Bank from known (and, to some extent, the unknown) risks.

7.4.1 Capital Management Organisation

Supervisory Board approves decisions related to changes in capital structure of the Bank and establishes the following:

- The minimum internal capital requirements outlined in the RAS;
- The principles and guidelines for capital planning, capital issuance and dividend distributions;
- The strategies for addressing potential capital shortages.

The Bank's management of its total capital is based on the Internal Capital Adequacy Assessment Process (the "ICAAP"), which represents its main capital management tool. Besides, as an additional capital management tool, the Bank maintains the Recovery Plan which includes regulatory capital alert thresholds and recovery strategies.

7.4.2 Monitoring and Reporting of Capital Adequacy

The Bank monitors its capital adequacy parameters on a monthly basis to maintain the level of capital adequacy commensurate with the risks incurred. The ERM department takes the organisational and technical measures to ensure that all of the capital control parameters are calculated and reported to the Management Board and Supervisory Board in a timely manner. If capital adequacy is expected to drop below the limits set by the NBG or the limits set by the RAS, the Bank's Supervisory Board is responsible for formulating a strategy to be carried out by the Management Board to offset this trend by limiting or reducing risks or by strengthening the capital base.

7.4.3 Capital Planning

Part of the ICAAP is planning the future capital needs in relation to the business environment, growth and strategic plans of the Bank. Potential major changes to the risk profile, and thereby the future capital needs, are estimated using the ICAAP. The input is used in the strategic decision-making process by the Supervisory Board and the Management Board.

Capital planning is incorporated in strategic planning process which aligns risk strategy and appetite with the Bank's commercial objectives. The capital plan is developed by the Management Board and approved by the Supervisory Board. The Management Board is responsible for the review and monitoring of the capital plan and position. The capital plan is a function of the estimated (budgeted) forecast of capital, risk and earnings.

7.5 Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is used by the Bank to identify and assess the risks, maintain sufficient capital to face these risks and apply appropriate risk management techniques to ensure the adequate capitalisation on an ongoing and forward looking basis. The key components of ICAAP are to assess the Bank's current, future and potential capital needs. The current capital needs are determined by the comprehensive identification, assessment and measurement of risks, and translation of the risk measures into regulatory and economic capital measures. The future capital needs are determined the same way as above using a forecast of the risk profile and capital requirements resulting from the business and strategic capital planning process. The potential capital needs and financial impacts are assessed through the stress testing framework adopted by the Management Board and endorsed by the Supervisory Board. The results are assessed against the minimum requirements set by the regulator and the RAS.

A full ICAAP is performed by the Management Board as often as required, but at least once a year. The results are reported in ICAAP Report and cover at least the following:

- Compliance with the minimum capital adequacy ratios set by the NBG and the RAS;
- Planning of the capital base and capital adequacy ratios;
- Assessment of internal capital adequacy requirement and calculation of Economic Capital;
- Assessment of liquidity and funding risk;
- Detailed credit risk, market risk and operational risk assessment;
- Results of the enterprise-wide, capital and liquidity stress tests.

7.5.1 Internal Capital Adequacy Assessment Methodology

The Bank assesses its internal capital adequacy as the ratio of the total capital supply divided by the total capital demand. The internal capital adequacy ratio of more than 100% signifies that the capital supply is sufficient to cover the capital demand determined by the Ban's risk positions. Capital supply and capital demand are defined as follows:

Capital supply:

Capital Supply equals the Bank's total shareholders' equity less revaluation reserves on assets plus Tier 2 Capital. In compliance with the Basel 3 guidelines, the Bank does not include the revaluation reserves on PPE in the capital supply. Tier 2 Capital consists of any eligible instruments under Pillar 1 Regulation guidelines and also includes the excess of total eligible provisions over total expected loss amount. Since the Bank uses internal ratings based ("IRB") approach to calculate RWE, Tier 2 Capital eligible provisions over total expected loss amount is limited to 0.6% of credit RWE.

Capital demand:

Capital Demand equals total economic capital requirement ("ECR") for all risks plus intangible assets. Economic capital is the amount of capital that is required to ensure that the Bank stays solvent. Economic capital differs from the regulatory capital in the sense that the regulatory capital is the mandatory capital (required by the NBG), while economic capital is the best estimate of the required capital that the Bank uses internally to manage the risks.

Economic capital is estimated for credit, market and operational risk as follows:

ECR for credit risk:

A one-factor Merton type credit model, proposed by Basel Committee on Banking Supervision[1], has been utilised to estimate the credit ECR for retail loan portfolio and exposures to sovereigns, central banks and commercial banks. In line with Basel 2/3 guidelines, the Bank calculates Value-at-Risk ("VAR") with 99.9% confidence level on a one-year time horizon. Such high confidence level corresponds to credit rating of A- and implies a probability that the estimated ECR would exceed the VAR once in a thousand years. Given the Bank's IDR of B+, 99.9% confidence level is considered very conservative and is in line with the Bank's risk strategy. The economic capital which is to cover only unexpected losses is calculated by subtracting expected loss from VAR estimate.

The inputs in VAR calculations are confidence level, exposure at default ("EAD"), probability of default ("PD"), correlation, loss given default ("LGD") and maturity adjustment. For balance sheet items, EAD equals the gross balance sheet exposure less any non-performing assets. Undrawn loan commitments are included in EAD where applicable with 50% conversion factor applied. PD and LGD for retail loan portfolio is estimated using internal data of the Bank. For sovereigns, central banks and commercial banks, PD is estimated based on the ratings provided by Fitch Ratings and respective default probabilities based on Fitch Ratings research and LGD is assumed 45%. Maturity adjustment is applied to ECR of sovereigns, central banks and commercial banks.

Credit ECR for other exposures, including the PPE, tangible assets, some retail and corporate exposures, other balance sheet exposures and other off-balance sheet items, has been calculated using the Standardised Approach following the Pillar 1 Regulation framework and applying 8% minimum capital requirement. Reflecting the current sovereign rating and higher risk associated with lending to unrated corporate clients, all unrated corporate exposures are assigned 150% risk-weight under the Standardised Approach.

ECR for market risk

ECR for market risk includes ECR for foreign exchange risk and interest rate risk in the banking books. The Bank calculates the ECR for foreign exchange risk as maximum overall open foreign currency position kept by the Bank during a one-year period prior to the reporting date multiplied by 8%. ECR for interest rate risk in the banking books is estimated as the sensitivity of NII to the 200 bps change in the interest rates.

ECR for operational risk

ECR for operational risk is estimated using basic indicator approach following the Pillar 1 Regulation guidelines.

7.5.2 Economic Capital Requirement

To determine overall (non-regulatory) risk position as measured by the ECR, the Bank aggregates the ECR across the risk types by simple addition. The diversification benefits are not taken into account that underlines the Bank's conservative approach to ECR estimation. The table below sets out the Bank's ECR by the risk types.

[1] Basel Committee on Banking Supervision, "International Convergence of Capital Measurement and Capital Standards", June 2006.

Economic Capital Requirement by Risk Types

₾ millions, unless otherwise noted	*31 December 2017*	*31 December 2015*	*Change*
Credit risk	129.5	111.0	17%
Market risk	6.0	4.6	30%
Operational risk	28.1	24.2	16%
Total economic capital requirement	**163.6**	**139.9**	**17%**

As of 31 December 2017, the total ECR for the Bank equaled ₾ 163.6 million compared to the total ECR of ₾ 139.9 million as of 31 December 2016. The ECR for credit risk increased by ₾ 18.5 million, mainly driven by increase in retail loan portfolio. ECR for marker risk increased by 30% y-o-y, reflecting higher economic capital for interest rate risk in the banking books. ECR for operational risk increased by ₾ 3.9 million, since the Bank uses basic indicator approach that relies on relevant three-year average indicators.

As of 31 December 2017, the ECR was ₾ 20.5 million more compared to the capital requirement (at 10.56% of RWE) under the Pillar 1 Regulation. The table below provides the differences by risk types between the ECR and capital requirement under the Pillar 1 Regulation.

Difference between ECR and Capital Requirement under the Pillar 1 Regulation

	31 December 2017			*31 December 2016*		
₾ millions, unless otherwise noted	*ECR*	*Regulatory Capital Requirement (at 10.56%)*	*Difference*	*ECR*	*Regulatory Capital Requirement (at 10.50%)*	*Difference*
Credit risk	129.5	105.6	24.0	111.0	96.2	14.8
Market risk	6.0	0.5	5.5	4.6	0.3	4.3
Operational risk	28.1	37.1	(9.0)	24.2	24.2	0.0
Total	**163.6**	**143.1**	**20.5**	**139.9**	**120.7**	**19.1**

As of 31 December 2017, the ECR for credit risk amounted to ₾ 129.5 million, while the capital requirement under the Pillar 1 Regulation was ₾ 24.0 million lower and equaled ₾ 105.6 million. The higher ECR for credit risk is mainly driven by higher economic capital for retail loans, sovereigns and central banks due to the use of the IRB approach. The ECR for the market risk was ₾ 6.0 million compared to ₾ 0.5 million capital requirement under the Pillar 1 Regulation. The difference is attributed to ₾ 4.7 million capital requirement for the interest rate risk in the banking book which is not included in Pillar 1 capital requirement and higher ECR for the foreign exchange risk. The ECR for operational risk amounted to ₾ 28.1 million, while capital requirement under the Pillar 1 Regulation comprised ₾ 37.1 million. The difference of ₾ 9.0 million is attributed to the fact that under the Pillar 1 Regulation capital requirement for operational risk equals 10.56% of RWE while RWE equals ECR divided by 8%.

7.5.3 Assessment of Internal Capital Adequacy

The Bank has assessed its internal capital adequacy as of 31 December 2017 and the results are provided in the table below.

Internal Capital Adequacy

₾ millions unless otherwise noted	31 December 2017	31 December 2016	Change
Capital supply			
Shareholders' equity	226.2	186.3	21%
Revaluation reserves on assets	(29.0)	(20.2)	43%
Tier 2 Capital(1)	61.1	69.1	-12%
Capital Supply	**258.4**	**235.2**	**10%**
Capital demand			
Economic capital requirement	163.6	140.2	17%
Intangible assets	26.3	21.5	23%
Capital demand	**190.0**	**161.7**	**18%**
Internal capital adequacy ratio	**136.0%**	**145.4%**	

(1) Tier 2 Capital includes the eligible subordinated debt in the amounts of ₾ 51.4 million and ₾ 60.8 million as of 31 December 2017 and 31 December 2016, respectively, and the excess of total eligible provisions over total expected loss amount, limited to 0.6% of credit risk-weighted exposures, in the amounts of ₾ 10.7 million and ₾ 8.3 million as of 31 December 2017 and 31 December 2016, respectively.

The internal capital adequacy ratio of more than 100% signifies that the Bank's capital would be sufficient to cover any unexpected losses with 99.9% confidence level. As of 31 December 2017, the internal capital adequacy ratio was 136.0% and the internal capital buffer comprised ₾ 68.4 million.

7.5.4 Stress Tests

The Bank uses macroeconomic stress tests in the ICAAP in order to project its regulatory adequacy ratios in various scenarios. The stress tests support the Bank's compliance with the regulatory capital requirements and they are an important tool of the internal capital planning process. While stress testing framework sets general guidelines and scenarios for the stress tests, the Management Board approves the input parameters and the severity of shocks to be used in the assessment of the capital adequacy. The macroeconomic stress test parameters and results are also reviewed and approved by the NBG.

The Bank conducted the latest stress tests as of 31 December 2017. The results of the stress tests show that the Bank would have been able to withstand a recession without breaching minimum regulatory capital requirements (7.0% for CET1 Capital Ratio, 8.5% for Tier 1 Capital Ratio and 10.5% for Regulatory Capital Ratio) set under the Pillar 1 Regulation.

The stress test scenario estimates a potential loss of ₾ 60.0 million in crisis situation. Given the stress severity, internal capital adequacy ratio is not expected to fall below 103.3%.

Overall, the stress test results underline the strong capital base of the Bank.

7.6 Leverage Ratio

The BIS Basel 3 framework introduced a simple, non-risk-based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements. A simple Leverage Ratio framework is critical and complementary to the risk-based capital framework. The Leverage Ratio should adequately capture both the on-balance and off-balance sheet sources of banks' leverage. The Leverage Ratio is defined as the capital measure divided by the exposure measure.

The Bank calculates its Leverage Ratio in accordance with the standards set by the Basel Committee on Banking Supervision in "Basel 3 leverage ratio framework and disclosure requirements" dated January 2014 and revisions published in "Basel 3: Finalising post-crisis reforms" dated December 2017. The Bank aims to maintain Leverage Ratio that is significantly higher than the 3% minimum set by the Basel Committee. The Bank's Leverage Ratio was 9.3% and 8.6% as of 31 December 2017 and 31 December 2016, respectively. The table below provides details on Leverage Ratio calculations.

Leverage Ratio

₾ millions, unless otherwise noted	*31 December 2017*	*31 December 2016*	*Change*
On-balance sheet exposures	**1,799.8**	**1,639.8**	**10%**
On-balance sheet items	1,826.4	1,661.6	10%
(Asset amounts deducted in determining Tier 1 capital)	(26.6)	(21.8)	22%
Off-balance sheet exposures	**12.1**	**12.3**	**-2%**
Off-balance sheet exposures at gross notional amount	33.2	32.0	4%
(Adjustments for conversion to credit equivalent amounts)	(21.1)	(19.6)	7%
Derivative exposures	**3.5**	**2.7**	**27%**
Total leverage ratio exposures	**1,815.4**	**1,654.9**	**10%**
Tier 1 capital	**168.6**	**142.2**	**19%**
Leverage Ratio	**9.3%**	**8.6%**	

8 CREDIT RISK

Credit risk is the risk that the borrower or any counterparty (obligor, debtor, etc.) will fail to meet its obligations in accordance with agreed terms. These obligations are typically part of the Bank's traditional non-trading lending activities, primarily loans. Default risk, the most significant element of the credit risk, refers to the risk of losses due to defaults by counterparties. The Bank distinguishes the country risk as a separate kind of a credit risk. The country risk for the Bank is the risk stemming from the unexpected deterioration of the creditworthiness or default of Georgia due to social unrest, political instability, war or other unfavorable developments in the country. Credit risk may be further amplified by concentration risk, which arises from a large exposure to a given risk or to one or more counterparties.

8.1 Exposure to Credit Risk

The Bank has developed policies ensuring that all credit exposures are identified and classified consistently and appropriately. Data for exposure identification and risk mitigation item classification has been tracked on regular basis. These policies and procedures have been submitted to the NBG and are subject to regular reviews and monitoring.

Under the Pillar 1 Regulation, total credit risk exposure of the Bank as of 31 December 2017 amounted to ₾ 1,819.9 million, up 8% y-o-y. The table below sets out detailed breakdown of total credit risk exposures under the Pillar 1 Regulation.

Exposure to Credit Risk under the Pillar 1 Regulation

₾ millions, unless otherwise noted	*31 December 2017*	*31 December 2016*	*Change*
Central governments or central banks	352.0	507.5	-31%
Commercial banks	230.9	146.2	58%
Corporates	59.3	57.9	3%
Retail	759.1	634.2	20%
Claims secured by mortgages	8.8	13.3	-34%
Past due items	3.0	4.0	-26%
High-risk category	90.5	1.7	nmf
Other items	296.2	275.0	8%
Balance Sheet Items	**1,799.8**	**1,639.8**	**10%**
Off-balance sheet items	10.9	11.4	-4%
FX induced credit risk	-	29.9	-100%
Counterparty credit risk	9.2	7.4	24%
Total Exposure to Credit Risk	**1,819.9**	**1,688.5**	**8%**

See Appendix Table 7, for linkages between financial statement assets and balance sheet items subject to credit risk weighting. Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes could be found in Appendix Table 8.

8.2 Credit Risk Management

Credit risk management at the Bank is overseen by the Credit Risk Director (Deputy CEO), under the supervision of the Management Board and the Supervisory Board. There are four departments under the supervision of the Credit Risk Director:

- Counterparty credit risk processing and analytics;
- Portfolio quality management and reporting;
- Problem loan management;
- Controlling.

Various counterparty types are examined to assess the credit risk exposure and the outstanding counterparty risk is determined in each case or each segment of the portfolio. The risk factors and results are continuously assessed using impact and likelihood, based on the empirical data, expert judgment and internal credit scoring.

8.2.1 Decision Making Procedures

Bank has adopted systems and procedures which divide the decision making process into the following three major categories:

- Corporate exposures;
- Retail exposures;
- Automatised retail exposures.

Counterparty assessment and credit approval procedures (steps) include the following:

For corporate customers:

- Application process and due diligence of the client's financial position – done by SME/CB credit analyses unit;
- Client's business specifications / management assessment – done by SME/CB credit analyses unit;
- Client's legal due diligence (when necessary) – done by legal unit of the Bank;
- Collateral assessment / appraisal – done by collateral assessment unit of the Bank (independent from the front office);
- Client's risk assessment and appraisal (based on SME / CB report, client's free cash flow sufficiency for servicing the requested loan) – done by the Bank's credit risk assessment unit.

For retail customers:

- Application process and collection of first-hand documents from the client (proof of income, liabilities, collateral, inflows and costs of the family, other necessary information) – done by the Bank's operators / retail loan managers at Service Centres & Branches;
- Review and identification of client's credit rating – done by the independent credit risk teams.

For automatised retail loans:

- Assessment is done by an automatic processing (approval & rejection) system, which is a linear check software solution based on the minimum requirements (credit score and cut-off criteria) – the methodology, score cards and automatisation are reviewed and approved by the Management Board.

The decision-making limits and authorities are separated between several credit committees. The structure and model of the credit committees is adopted and approved by the Management Board. The Bank uses centralised approach model, where most of the decision making power is concentrated at the Head Office leaving the branches with the maximum limit of ₾ 10 thousand per loan.

The Bank has adopted the following credit committees and respective limits:

For corporate loans:

- Credit committee chaired by the Credit Risk Director with ₾ 1.5 million approval limit;
- Credit committee chaired by the CEO with US$ 2.5 million (or ₾ equivalent) approval limit;
- Loans exceeding US$ 2.5 million (or ₾ equivalent) are approved by the Supervisory Board.

For retail loans:

- Individual approval level for Credit Risk underwriter up to ₾ 30 thousand;
- Low level credit committee chaired by Head Credit Risk Processing and Analytics department with approval limit of ₾ 50 thousand;
- High level credit committee chaired by the Credit Risk Director and/or Retail Banking with approval limit of ₾ 300 thousand.

8.2.2 Monitoring, Portfolio Management and Reporting

The Management Board reviews and supervises loan portfolio management. The credit risk team performs the analysis on loan portfolio segregation and clustering, cost of risk, trend calculation and reporting. The Portfolio Quality Administration & Reporting department consolidates data and reports to the following recipients:

- Operational reports used on the branch/business unit level for daily portfolio at risk ("PAR") and loan loss provision ("LLP") overview and management;
- Management reports on the business line level for daily / monthly overview and management of product / business line and its quality (PAR, LLP, changes in composition and concentrations);
- Top Management level reports on business line level for more consolidated groups of portfolio.

The Bank has adopted a system where there are three independent portfolio management and monitoring layers:

- Business lines responsible for specific product produce daily / monthly reports on commercial activities, also reflecting general portfolio statistics and quality (PAR and LLP);
- Credit risk management team, independent from commercial business owner, is responsible for portfolio quality monitoring and reporting on a monthly basis. The reports reflect PD, LGD, DPD, PAR and LLP on various loan products. The credit risk management team should alert the Management Board if portfolio parameters deviate from their normal forecasted levels;
- The Bank has a reporting and portfolio overview system at the Financial department level, responsible for the loan book segregation and analysis for budgeting and planning purposes.

8.2.3 Credit Risk Measurement

Credit Risk measurements and assessments are based on the principle that the following factors vary for different borrower types:

- The factors relevant to creditworthiness;
- The available data sources;
- Credit risk levels.

As previously mentioned, the Bank has adopted standards for segmenting the loan book for assessing the creditworthiness of all the Bank's borrowers based on the specific risk involved.

On the basis of business considerations, the Bank distinguishes between the following general segments:

- Sovereigns/central governments;
- Banks/institutions;
- Corporates;
- Retail customers, including mass market retail loans;
- Private banking customers.

The Bank has adopted a system where the credit risk is measured at the moment of the loan origination. Thus, all the loans are individually provisioned at origination. The Bank considers the client grade as equivalent to the provision bucket.

Risk is considered as a default probability less recovery expectation for the specific products and client groups. Expectations of PD and LGD are incorporated in the Bank's score cards used for clients' individual assessment and decision-making. Historical data is usually reviewed and expected losses are adjusted (score cards adjusted respectively) on a quarterly basis. The credit risk management team is in charge of tracking loss events, its statistics and testing the forms of score cards and software solutions used for individual decision-making.

8.2.4 Impairment

For regulatory purpose the Bank calculates its LLP following the NBG regulation on "Commercial Banks' Asset Classification and Loan Loss Provisioning" approved on 10 August 2017. For audited financial statements the Bank calculates LLP in accordance with the most recent IFRS standards.

Impairment Methodology per NBG Regulation

In 2017 NBG approved updated regulation on "Assets Classification and the Creation and Use of Reserves for Losses by Commercial Banks" to ensure that commercial banks have the adequate internal procedures and reporting standards for the classification of their assets and provisioning obligations. With numerous changes in the methodology, the most considerable introductions were payment-to-income (PTI) and loan-to-value (LTV) ratios. Breaching these ratios results in higher risk-weight on underlying exposure and as a result increase in RWE. High risk-weights apply only when the loan is classified in standard category and the main source of income is not from the business activities. For the business (Corporate, SME and Micro) loans, NBG has elaborated the prudent profitability, performance and risk assessment ratios such as: Debt/EBITDA, EBITDA/Interest Expenses, EBIT/Interest Expenses and Equity/Assets. During transitional period determined by the new regulation, the Bank has successfully developed and implemented relevant infrastructure and policies to be fully compliant with the regulatory requirements and to adequately present the Bank's financial position.

Simultaneously, the Bank is optimizing the existing impairment methodology to report accurate, complete and up-to-date information on its assets' quality. Current credit risk management framework is consistent with the NBG's asset classification which compromises five categories along with relevant LLP rate:

- Standard – 2%;
- Watch – 10%;
- Substandard – 30%;
- Doubtful – 50%;
- Loss – 100%.

The Bank examines various trigger factors to assess underlying asset's accurate category, where DPD/PAR is major classification factor. In addition, the Bank developed enhanced credit risk monitoring based on the analysis of the borrowers' financial situation, including the regular revaluation of the collateral. This approach facilitates the early identification of the potential credit impairment.

IFRS Impairment Methodology

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The main consideration for the individual assessment include whether any payment of principal or interest are overdue by more than 90 days for all loans. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are evaluated on each reporting date. The calculations are made by homogenous products, meaning that all the statistical data and parameters are collected and computed for each product individually. To determine the Probability of Default ("PD"), the Bank applies Marginal Mortality Rate ("MMR") in order to define the PD for various loan products by their age (number of the months from loan issuance to the reporting date: maximum history of 36 months to the lowest of 24 months, depending on the loan product). Recovery Rate ("RR") of the defaulted loans (defined as DPD >90) includes the cash paid from the default date cumulatively until the reporting date. The paid sums are discounted by the average effective weighted interest rate for the product. The Loss Given Default ("LGD"), equals 1 − RR. The loans written off during the period being analysed, are treated as defaulted and are involved in definition of both PD and LGD. The credit portfolio on the reporting date is classified into three categories: standard portfolio exposed to the PD in the next 12 months; nonstandard portfolio exposed to the PD during its lifetime and defaulted portfolio.

- For standard portfolio, possible loan loss allowance equals total exposure provisioned at 12 months PD and LGD;
- For nonstandard portfolio, possible loan allowance equals total exposure provisioned at lifetime PD and LGD;
- For defaulted portfolio, possible loan loss allowance equals total exposure provisioned at LGD only.

IFRS 9

IFRS 9 requires the Bank to record an allowance for expected credit losses ("ECL") on all of its debt financial assets at amortised cost or fair value through other comprehensive income ("FVOCI"), as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the PD in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

According to the new model for the recognition of impairment losses, introduced by IFRS 9, there is "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL The chart below illustrates IFRS 9 "three stage" approach to provisioning.

IFRS 9 Provisioning Stages

Stage 1	Stage 2	Stage 3
As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serve as a proxy for the initial expectations of credit losses For financial assets, interest revenue is calculated on the gross carrying amount (i.e. without adjustment for expected credit losses)	If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognised. Lifetime expected credit losses are only recognised if the credit risk increases significantly from when the entity originates or purchases the financial instrument. The calculation of interest revenue on financial assets remains the same as for Stage 1.	If the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance). Financial assets in this stage will generally be individually assessed. Lifetime expected credit losses are still recognised on these financial assets.

The Bank plans to adjust current impairment methodology in order to be fully compliant with IFRS 9 standards starting from 1 January 2018.

8.2.5 External Credit Assessment Institutions

According to the NBG's regulatory framework, banks are allowed to use credit rating services from External Credit Assessment Institutions ("ECAIs") to determine the risk-weights of exposures. The NBG sets the list of eligible ECAIs that comply with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency. A bank may nominate one or more eligible ECAIs to be used for the determination of risk-weights to be assigned to assets and off-balance sheet items. If a credit assessment by an eligible ECAI is available for an exposure, then its risk-weight is determined according to the "Regulation on Capital Adequacy Requirements for Commercial Banks" and used in calculation of a bank's capital adequacy ratios. Exposures should take into account all amounts both in principal and in interest owed to it.

The Bank has selected Fitch Ratings and Standard & Poor's Rating services for the purpose of external credit risk assessment. These ratings are used to determine the equivalent credit quality steps and assign the proper risk-weight that are in accordance with NBG's s credit quality assessment scale. The Bank uses the credit assessments produced by an eligible ECAI for a certain class of items in continuous way and consistently for all exposures belonging to that class.

As of 31 December 2017, the Bank used ECAIs to calculate risk-weights for the following items:

- FX denominated exposures to central governments and central banks;
- Exposures to commercial banks;
- Exposures to corporates.

Local currency denominated exposures to the NBG and Georgian Government are assigned 0% risk-weight.

8.3 Credit Risk-weighted Exposures

Under the Pillar 1 Regulation, the banks are only allowed to use the Standardised Approach to Credit Risk (the "SACR"). The SACR is based on flat risk-weighting or external ratings. In order to mitigate the credit risk fully, the Bank takes only gold and deposits into consideration, while collateral in the form of residential property reduces the risk-weighting. The table below sets out the credit risk exposures allocated to the risk-weightings before credit risk mitigation ("CRM") is used, the CRM and the credit RWE after the CRM is applied.

Credit Risk-weighted Exposures under the Pillar 1 Regulation

As of 31 December 2017 *₾ millions, unless otherwise noted*	*0%*	*20%*	*35%*	*50%*	*75%*	*100%*	*150%*	*250%*	*Credit RWE before CRM*	*CRM*	*Credit RWE after CRM*
Governments or central banks	276.5	-	-	-	-	75.5	-	-	75.5	-	75.5
Commercial banks	-	225.1	-	5.0	-	0.8	-	-	48.3	-	48.3
Corporates	-	-	-	2.3	-	57.0	-	-	58.2	4.2	54.0
Retail	-	-	-	-	759.1	-	-	-	569.3	16.9	552.4
Claims secured by mortgages	-	-	8.8	-	-	-	-	-	3.1	-	3.1
Past due items	-	-	-	0.3	-	2.1	0.6	-	3.1	0.5	2.6
High-risk category	-	-	-	-	-	2.6	86.1	1.8	136.3	27.7	108.5
Other items	159.0	1.8	-	-	-	135.4	-	-	135.7	-	135.7
Balance Sheet Items	**435.5**	**226.9**	**8.8**	**7.6**	**759.1**	**273.4**	**86.7**	**1.8**	**1,029.6**	**49.4**	**980.1**
Off-balance sheet items	-	-	-	-	0.0	10.9	-	-	10.9	0.5	10.4
FX induced credit risk	-	-	-	-	-	-	-	-	-	-	-
Counterparty credit risk	-	-	-	-	-	-	-	-	9.2	-	9.2
TOTAL	**435.5**	**226.9**	**8.8**	**7.6**	**759.1**	**284.3**	**86.7**	**1.8**	**1,049.7**	**49.9**	**999.7**

As of 31 December 2016 *₾ millions, unless otherwise noted*	*0%*	*20%*	*35%*	*50%*	*75%*	*100%*	*150%*	*250%*	*Credit RWE before CRM*	*CRM*	*Credit RWE after CRM*
Governments or central banks	304.5	-	-	-	-	203.0	-	-	203.0	-	203.0
Commercial banks	-	138.0	-	7.2	-	0.9	-	-	32.2	-	32.2
Corporates	-	-	-	2.3	-	55.5	-	-	56.7	4.7	52.0
Retail	-	-	-	-	634.2	-	-	-	475.7	21.7	453.9
Claims secured by mortgages	-	-	13.3	-	-	-	-	-	4.6	-	4.6
Past due items	-	-	-	0.2	-	3.2	0.6	-	4.2	0.1	4.1
High-risk category	-	-	-	-	-	-	-	1.7	4.3	-	4.3
Other items	145.0	0.9	-	-	-	129.2	-	-	129.4	-	129.4
Balance Sheet Items	**449.5**	**138.9**	**13.3**	**9.8**	**634.2**	**391.9**	**0.6**	**1.7**	**910.0**	**26.6**	**883.4**
Off-balance sheet items	-	-	-	-	10.9	0.5	-	-	8.6	0.5	8.1
FX induced credit risk	-	-	-	-	-	-	-	-	22.5	4.8	17.6
Counterparty credit risk	-	-	-	-	-	-	-	-	7.4	-	7.4
TOTAL	**449.5**	**138.9**	**13.3**	**9.8**	**645.1**	**392.4**	**0.6**	**1.7**	**948.5**	**31.9**	**916.6**

For more details on credit risk-weighted RWE, see Appendix Table 11. For detailed breakdown of CRM, refer to Appendix Table 12 and for details on the effect of CRM, see Appendix Table 13. For more information on counterparty credit risk, refer to Appendix Table 15.

8.4 Credit Risk Concentration

The Bank's retail segment oriented business model results in completely granular credit portfolio, consequently the single-name concentration is close to zero and the HHI as of 31 December 2017 amounted to 0.0002%. The diversification among economic sectors is also high which implies low sector concentration measured by HHI of 9.46% as of 31 December 2017. There were no qualitative characteristics that would indicate that the Bank is exposed to credit portfolio concentration risk.

As of 31 December 2017, the Bank was in full compliance with all concentration limits set by the RAS and concentration limits set by the NBG.

8.5 Restructured Loans

The Bank has adopted and implemented strict restructuring policy. In line with the policy, the restructuring of an unsecured credit exposure could be initiated only if the client clearly identifies verified source of income sufficient for repayment of the loan within the restructured schedule. Restructured unsecured credit exposure LLP rate equals to the maximum of what the loan had before restructuring. Bank has implemented the best practice whereby subsequent restructurings are not encouraged and are subject to the high level Credit Committee approval. Decision-making on the restructuring is separated from business unit responsible for loan collection at front office level. The table below sets out count and gross volume of outstanding restructured loans.

Restructured Loans

₾ millions, unless otherwise noted	Corporate Business Line		Retail Business Line		Total	
Reporting Date	Count	Gross Volume	Count	Gross Volume	Count	Gross Volume
As of 31 December 2016, of which:	**2**	**0.5**	**6,507**	**18.7**	**6,509**	**19.2**
- Not overdue	-	-	4,630	14.2	4,630	14
- <30 days overdue	-	-	456	1.4	456	1
- 30-60 days overdue	-	-	95	0.4	95	0
- 60-90 days overdue	-	-	78	0.2	78	0
- 90-150 days overdue	-	-	87	0.3	87	0
- >150 days overdue	2	0.5	1,161	2.3	1,163	3
Total NPL (90+ days overdue)	**2**	**0.5**	**1,248**	**2.6**	**1,250**	**3**
NPL Rate	**100%**	**100%**	**19%**	**14%**	**19%**	**16%**
As of 31 December 2017, of which:	**1**	**0.1**	**6,337**	**16.7**	**6,338**	**16.8**
- Not overdue	1	0.1	4,434	12.4	4,435	12.4
- <30 days overdue	-	-	348	0.8	348	0.8
- 30-60 days overdue	-	-	84	0.4	84	0.4
- 60-90 days overdue	-	-	64	0.2	64	0.2
- 90-150 days overdue	-	-	97	0.3	97	0.3
- >150 days overdue	-	-	1,310	2.7	1,310	2.7
Total NPL (90+ days overdue)	**-**	**-**	**1,407**	**3.0**	**1,407**	**3.0**
NPL Rate	**0%**	**0%**	**22%**	**18%**	**22%**	**18%**

8.6 Credit Risk Hedging and Mitigation

The Bank uses various credit risk mitigation instruments that provide partial or full protection against the risk of debtor insolvency. The main two categories are personal guarantees and collateral. Personal guarantees are commitments made by a third party to replace the primary debtor in the event of the latter's default. During the credit approval process, an assessment is performed on the guarantor's ability to meet its obligations. The Bank's collateral primarily consists of the following:

- Residential and commercial real estate;
- Gold and other precious metals;
- Vehicles;
- Cash and cash equivalent (deposits, CDs).

Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity. The collateral valuation process is independent from the loan application initiation as well as from its financial monitoring. Credit Risk Management department is responsible for approving the operating procedures for guarantee and collateral valuation during loan origination phase or upon the renewal of credit application. For more information on assets pledged as security for receivables of the bank, refer to Appendix Table 5, part N5.

The Bank uses credit risk mitigation ("CRM") to decrease its risk-weighted exposures. The CRM is in line with credit risk mitigation policy adopted by the Bank and approved by the NBG.

9 MARKET RISK

Market risk is the risk of incurring a loss of value due to adverse changes in market prices or rates, including interest rates and foreign exchange rates, and their levels of volatility. Market risk arises mainly from trading activities. The Bank is not exposed to market risk related to trading activities, since the Bank, in line with its RAS, is only engaged in limited trading activities. The market risk related to the banking activities encompasses the risk of loss on equity holdings, and the interest rate and foreign exchange ("FX") risk stemming from banking intermediation activities. The Bank is exposed to interest rate and foreign exchange risks in its banking books.

9.1 Foreign Exchange Risk

9.1.1 Foreign Exchange Policy and Limits

The objective of the FX policy is to establish parameters for the Bank for the management of foreign currency exposures. The process of FX management includes, but is not limited to:

- Using adequate methodology for the FX risk identification and quantitative measurement;
- Daily monitoring of the open FX position;
- Minimising FX risk through compliance with the established limits;
- Revealing existing and anticipated negative tendencies of increased FX Risk followed by the analysis of its causes and implications;
- Making recommendations on the FX Risk Management Strategy;
- Determining the types and limits on instruments used in the FX operations.

The basis for setting internal limits includes the following: local FX market volume, activeness of the banks and their clients in individual currencies, actual volumes of operations and exchange rate volatility for respective periods. FX position limits are established for both total open FX position ("OCP") and individual currencies. For US$, OCP is limited to 17% of Regulatory Capital, while for other currencies OCP is limited to 3% of Regulatory Capital. OCP is managed by Treasury department on a centralised level.

FX policy sets volume limits per trade including for FX forwards & FX swaps. FX policy also sets trading position aggregate intraday limits and trading position limits. The limits are set for dealer and for Treasury department.

FX policy sets daily value at risk ("VAR") limit on OCP. The VAR is measured on the open positions only in US$ and Russian Ruble as in normal course of the FX activities the Bank holds no significant open positions in other foreign currencies. The overall VAR on the FX position is calculated by adding the VAR on both open positions not taking into account the correlation between the rates of the currencies. The OCP VAR is calculated and presented to the Management Board by the Treasury department on a daily basis. If necessary, the Treasury department works out a plan of correction and presents it to the ALCO.

9.1.2 Risk-weighted Exposure and Capital Requirement

Under the Pillar 1 Regulation, a narrow definition of the market risk is used as it only takes into account foreign-exchange risk. The RWE for foreign-exchange risk equal to overall OCP as defined in the NBG regulation on "Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks". As of 31 December 2017, the RWE for the market risk amounted to ₾ 4.3 million with the total capital requirement (including Pillar 2 buffers) of ₾ 0.5 million, reflecting the Bank's low risk appetite towards speculation on FX market direction.

9.1.3 Stress Tests

As the VAR concept gives a prediction of potential losses on the assumption of normal market conditions, it is supplemented by the calculation of stress tests. These stress tests measure the risk to which the Bank is exposed, based on expectations assumed under the various scenarios. Stress tests are carried out on a monthly basis on the existing banking book and off-balance sheet FX positions.

9.2 Interest Rate Risk

Movement in interest rates will affect the net interest income ("NII") and consequently the NIM. The earnings of the interest bearing assets and costs of the interest bearing liabilities are closely related to the market interest rate volatility as changes in the interest rates affect the underlying value of the Bank's assets, liabilities and off-balance sheet instruments.

The major form of the interest rate risk in the Bank arises from timing differences in maturity for the fixed rates assets, liabilities and off-balance sheet items.

9.2.1 Measurement and Management of the Interest Rate Risk

Methodology used by the Bank to measure the interest rate risk is the gap analysis. The analysis involves grouping assets and liabilities by their maturity period, or the time period over which the interest rate will change, such as less than three months, three months to one year, etc. The gap for each category is then expressed as the ₾ value of assets minus liabilities. A large, negative gap would indicate that the Bank has a greater amount of liabilities that are repriced during that time than assets, and therefore the Bank would be exposed to an increase in interest rates. A positive gap would suggest an exposure to a decline in interest rates. Interest rate gap is modified with the major adjustment made to balances on interest-bearing current accounts that are reallocated from "Up to 1 month" maturity range to respective contractual time ranges.

The Bank uses an indicator system that implies identifying the major trends for product categories and monitoring deviation from these trends, to evaluate the potential changes in interest rate levels. In addition to the gap analysis, the following data is analysed on monthly basis to better assess the possible changes in interest rate risk:

- Early repayments of loan principals - deviation from loan repayment schedule is deemed as a warning signal and indicates to the change of market loan product terms;
- Drawdown on committed credit cards facilities - decline of the volume or the growth rate, except if budgeted, in the credit cards portfolio is considered as an indicator and represents the basis for detailed analysis in light of market interest rates;
- Early breaches of time deposits – in case of deviation from average parameters, which is considered as a signal to the changes in interest rates, real factors affecting the trends are identified and potential influence on the interest rate risk is evaluated;
- Shortening of deposit maturities - certificates of deposit ("CD") portfolio is analysed using growth parameters and maturity aspects;
- Current account balances over their 200-day moving averages - analysis of the current and demand accounts is conducted by comparing actual balances with the respective 200-day moving averages. Large deviations are taken into account immediately and their causes are thoroughly examined. The results are used to evaluate potential changes in the interest rates;
- Changes in interest rates;
- Changes in the shape of the yield curve.

Within the scope of the interest rate risk management, the Bank analyses macroeconomic and financial data and identifies those factors that might have an impact on interest rate levels or yield curve shapes. Based on the forecasts, the Bank evaluates the need to change the product terms and sets the priorities.

In the process of the interest rate risk management the Bank uses the earnings approach, focusing on the risks to the reported earnings over the one-year time period. As mentioned above, the measurement of the interest rate risk is done through the gap analysis summarising the repricing mismatches for each defined time horizon and the potential impact on the net interest income over a year for a given rate change. The estimated interest rate risk should not lead to change in the NIM by more than 50 basis points ("bps").

If the results of the analysis highlight significant negative trends, detailed analysis is conducted for assets and liabilities volumes, maturity structures and possible changes in interest rates. When necessary, decisions are made by the ALCO.

9.2.2 Sensitivity of Earnings to Interest Rate Risk and Economic Capital Requirement

The impact of the interest rate risk on NII is evaluated for a one-year period. The starting point is the interest rate gap (reported monthly to the NBG) which is modified according to the Bank's assessment of more relevant repricing terms. The interest rate gap is adjusted using the following assumptions:

For assets:

- Balances on correspondent accounts in foreign banks, on which interest rate is zero due to current market conditions, are transferred from non-interest to floating-rate within a one-month interval;
- Share of past due loans that historically are repaid before they become NPLs are transferred from more than one year to the respective interval;
- Floating rate loans are allocated between one month and three months' time bucket.

For liabilities:

- Term deposits that have market-linked interest rates are placed in corresponding repricing period instead of maturity period;
- Interest-bearing current accounts of legal entities are allocated based on their contractual maturity;
- Historical average of term deposits that are breached is allocated within a one-month maturity interval.

Using adjusted interest rate gap, the Bank calculates the exposure to the interest rate risk for each time bucket and sensitivity of total NII during one-year period to specific changes in interest rates. The NBG refinancing rate is considered to be the basis for interest rate changes. The interest rate change is assumed to be an increase by 200 bps. The sensitivity of NII is calculated using a 200 bps change, except for the correspondent accounts in foreign banks where an increase of 50 bps is applied.

As of 31 December 2017, sensitivity of NII to the 200 bps change in the interest rate was negative ₾ 4.7 million, which is also considered to be the ECR of the Bank for interest rate risk in the banking book. As of 31 December 2016, the sensitivity of NII to the 200 bps change in the interest rate was negative ₾ 3.3 million.

9.2.3 Hedging of the Interest Rate Risk

Treasury department uses the following instruments in managing and hedging of interest rate risk:

- Repos;
- Forward rate agreements;
- Interest rate swaps.

As the interbank derivatives market for ₾ denominated products remains under-developed, the main action to mitigate the interest rate risk is the respective change in interest rates of the Bank products.

10 OPERATIONAL RISK

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks. Compliance, information security and legal risks are included in operational risk. The operational risk does not cover strategic and reputational risks.

10.1 Operational Risk Management Structure

The Bank has established the Operational Risk Management (ORM) framework and takes all possible steps to understand exposure of the business to the variety of operational risks arising from inadequate or failed internal processes, people and systems or from external events. The aim of the ORM framework is to enable the Bank to collect, assess, manage, and report operational risk efficiently and effectively.

Supervisory Board is responsible for determining, approving and periodically reviewing ORM framework and all underlining policies. The major role of the Management Board in ORM framework is to facilitate consistent implementation of the operational risk management policies, processes and systems, that include all products, services and operations. Management Board ensures that operational risk management units are independent.

The ORM department within the Bank works in close cooperation with operational risk employees involved in core banking business. The ORM Department at the Bank is overseen by the CEO, under the supervision of the Chairman of Supervisory Board and frequent probing by the Audit Committee. The ORM department is notably responsible for the following tasks:

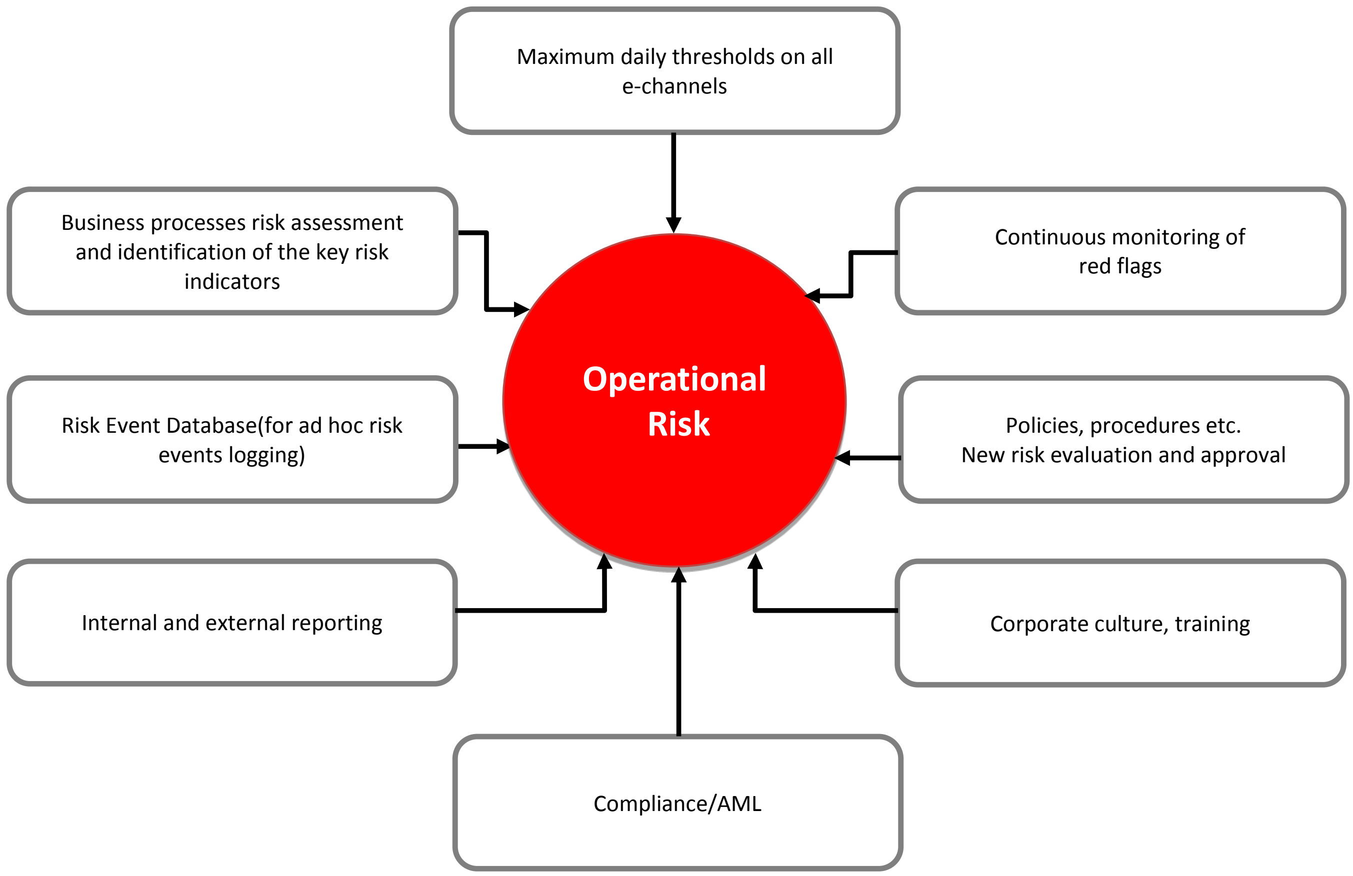
- Running the operational risk function, devising and implementing the Bank's operational risk control strategies;
- Defining methods for identifying, measuring, monitoring and reducing operational risk across the Bank;
- Permanent control of operational risks covering different business risks associated;
- Promoting operational risk culture throughout the Bank.

The following units are under the umbrella of the ORM department:

- Legal Compliance;
- Anti-money laundering ("AML");
- User management and access granting to the core banking and other systems;
- Banking cards and e-commerce control;
- Data-base cleanup;
- Procedures and process control;
- New risk approval ("NRA");
- Risk event database ("RED") management;
- Fraud prevention;
- Business process risk assessment and optimisation.

Structure of the operational risk is presented in the diagram below.

Operational Risk Structure



The Bank has an established Information Security department and chose ISO 27001 as Information Security Management Systems ("ISMS") as its core framework in order to achieve desired level of security. The aim of ISMS is to safeguard the Bank's information assets and ensure their confidentiality, integrity and availability ("CIA"). Established ISMS framework, which consists of four-phase-cycle Plan, Do, Check and Act ("PCDA"), serves to identify and address risk exposures related to CIA of the Bank's information assets. The ISMS framework allows forming of a systematic approach for establishing, implementing, operating, monitoring, reviewing, maintaining and improving the Bank's information security.

10.2 Operational Risk Assessment and New Risk Approval Process

The purpose of operational risk self-assessment is to assess the Bank's exposure to operational risk in order to improve risk monitoring and provide mitigating actions. Business processes are registered and documented in business process catalog. Each business process is exposed to the intrinsic risks inherent in the nature of a business, while not taking into account prevention and control mechanisms. For each business process, its major operational risks are identified based on the information provided from the following sources: client claims, audit reports, IT, legal and regulatory incidents, and past events. These business processes are additionally linked to the corresponding external and internal regulations. Risk-assessment matrix is developed and used to define the business process risk level, by calculating severity and frequency scores of the risk events. Based on the individual business process risk assessment matrix, Bank-wide risk map is developed. Based on the assessment, any deficiencies in risk prevention and/or mitigation measures are being corrected.

All materially new or materially changed business processes, products and services offered to clients, and instruments need to pass through new risk approval ("NRA") process before being implemented or used for the first time. The NRA is required to ensure that all new operational risks are assessed and all necessary preparations and tests are done to ensure successful implementation of the product or service. The owner of a new process will, together with the ORM department, determine if and what sort of NRA is appropriate. Two options are available:

- No NRA is required;
- NRA is appropriate with direct involvement of additional departments as suggested by the NRA form.

In 2016 NRA process was integrated with IT projects management system that reduces the risk of introduction of changes in banking systems without new risks assessment done by ORM and Information Security departments. Depending on the nature of the change all related departments are engaged in the risk assessment process, including the Information Security, Legal, Business and/or IT. Consolidated conclusions are prepared in written NRA form with detailed recommendations and submitted to the task owner for farther implementation, in accordance with the existing approved internal procedures. In case NRA is not required, some functional improvement recommendations are still provided to the task owner. Depending on the materiality of the new product/process NRA could be also supervised by the Management Board.

10.3 Operational Risk Event Database

An operational risk event is any circumstance where, through the lack or failure of a control, the Bank has, or could have, incurred a loss. The risk event database ("RED") is developed and maintained to ensure that all incidents, losses and near misses are evidenced and treated appropriately. It provides the Bank with a technical tool to systematically collect realised and potential risk events. This information is used to refine the identification of risks and the appropriate approaches to managing them. The collection of the data and a corresponding analysis is carried out by the ORM department in a centralised manner. To ensure complete documentation of all risk events in the RED, all managers or process owners are asked to confirm that any risk events that occurred in the past period have been entered into the RED or reported to the designated ORM employee.

10.4 Quantitative Data on Operational Losses

Over the past three years total operational losses amounted to ₾ 5.6 million. Table below provides information on historical operational loss data (unrounded amounts are provided in Appendix Table 18).

Historical Operational Losses

₾ millions, unless otherwise noted	2015	2016	2017	Total
Total amount of losses	2.1	1.7	1.8	5.6
Total amount of losses, exceeding ₾ 10,000	1.4	0.9	0.8	3.1
Number of events with losses exceeding ₾ 10,000	24	24	22	70
Total amount of 5 biggest losses	0.7	0.5	0.4	1.6

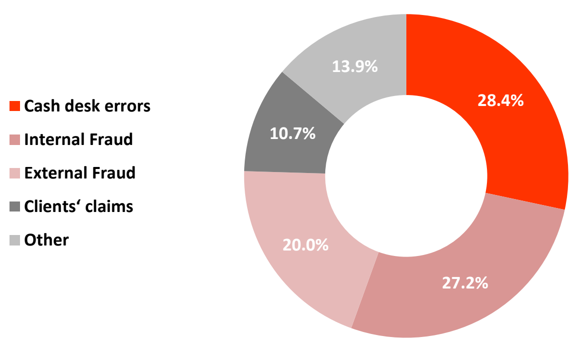
Over the past three years (2015-2017), operational risks were concentrated on average on four types, accounting for 86.1% of the Bank's total operational losses:

- Cash desk errors represented 28.4% of total operational losses. Losses incurred through such errors are small but very frequent and represent 87.3% of the total number of loss events.
- Internal fraud accounted for 27.2% of operating losses. Such losses are infrequent and represent only 1.6% of total loss events.
- External fraud represented 20.0% of operational losses. Such losses are rear, but have showed an increasing trend over the last three years.
- Clients' claims accounted for 10.7% of losses. The losses from client claims' have decreased in amount over the last three years by more than 40%.

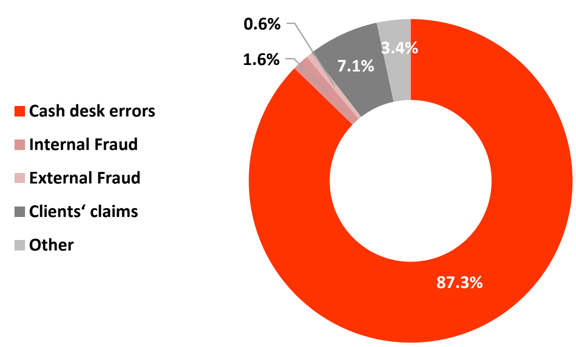
The operational losses breakdown by risk event type is presented in the charts below.

Operational Risk Losses Breakdown by Risk Event Type (2015-2017)

Amounts



Number of Events



10.5 Capital Requirement

The Bank uses the basic indicator approach to calculate the RWE for operational risk. As of December 2017, the RWE for operational risk amounted to ₾ 351.4 million with total capital requirement (at 10.56% of RWE) of ₾ 37.1 million, compared to RWE of ₾ 230.6 million and capital requirement (at 10.50% of RWE) of ₾ 24.2 million as of 31 December 2016. As of December 2017, ECR amounts to ₾ 28.1 million. Table below sets out detailed calculation of the RWE for Operational Risk as of 31 December 2017 (unrounded amounts are provided in Appendix Table 19).

Risk-weighted Exposure for Operational Risk

₾ millions, unless otherwise noted	2015	2016	2017	Average
Net interest income	113.0	118.1	149.6	126.9
Net fee and commission income	42.0	60.3	66.4	56.2
Other non-interest income	7.8	2.1	3.9	4.6
Total before deductions	**162.7**	**180.6**	**219.9**	**187.7**
Deductions: gain/(loss) on sales of fixed assets	0.0	1.5	(0.5)	0.3
Total after deductions	**162.8**	**179.1**	**220.4**	**187.4**
Basic indicator (15% of total after deductions)				**28.1**
RWE for operational risk (basic indicator divided by 8%)				**351.4**

It should be noted that before the NBG revised Pillar 1 Regulation in 2017, the Bank calculated RWE for operational risk by dividing basic indicator by 10.5% instead of 8%. Dividing basic indicator by 10.5% would have resulted in RWE for operational risk of ₾ 267.7 million, or ₾ 83.7 million less.

The Bank believes that based on its historical loss data, which for the past three years amounted to ₾ 5.6 million on a cumulative basis, the current allocation of ₾ 37.1 million of regulatory capital for operational risk is more than sufficient to cover any unexpected losses arising from operational risk for the next 12 months.

10.6 Corporate Insurance

The Supervisory Board has set the specific request that the Bank is hedged against operational risks through insurance. It is the Bank's policy to have internationally recognised insurance company to cover for Property Insurance (all Risks), Directors and Officers Liability, BBB & Computer Crime and Motor Fleet.

ERM department is responsible for managing insurance coverage timely updates and ensuring that the appropriate information is provided to the respective insurer in case a risk event falls under insurance protection.

Current corporate insurance coverage includes:

- Property insurance (all risks);
- Directors' and officers' liability;
- BBB & computer crime;
- Motor fleet insurance;
- ATM and pay-box terminals insurance;
- Health insurance for the Bank's employees.

11 LIQUIDITY RISK

Liquidity risk corresponds to the risk of the Bank being unable to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

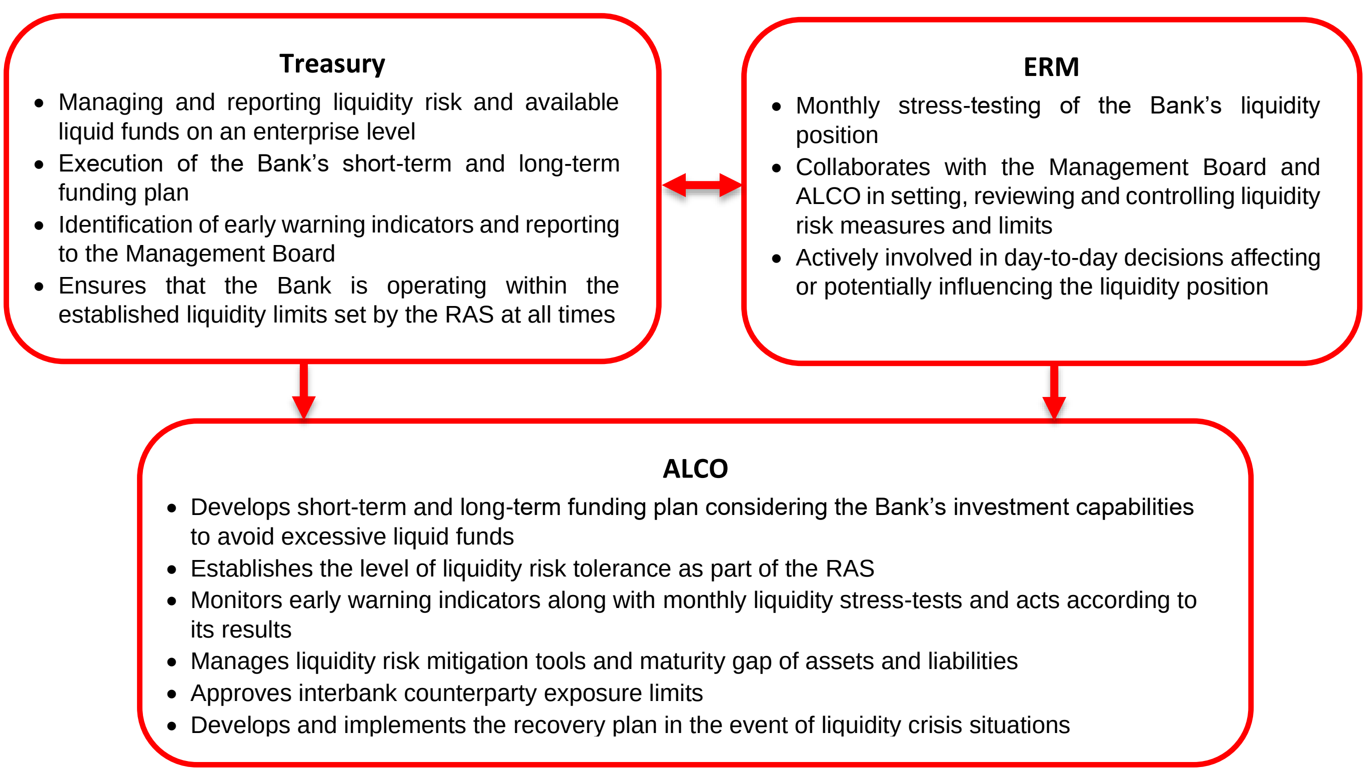
11.1 Liquidity Risk Management and Control

The adequate management of liquidity is essential for the Bank to ensure with a high degree of confidence that it is in a position to both address its daily liquidity obligations and withstand liquidity stress periods which could be induced by either bank-specific or market-wide events. Another primary objective of the liquidity risk management is to ensure that funding of its activities are in the most cost-effective way by managing daily liquidity obligations and adhering to regulatory constraints. Incorporation of these objectives along with other management policies should allow the Bank to develop its business activities sustainably in compliance with its RAS.

The Bank has a comprehensive liquidity risk control framework to maintain sufficient liquidity reserves at all times, secure diversified funding structure, manage maturity gaps, comply with standards set by the NBG and maintain internal buffers that are consistent with the RAS.

The Treasury department manages liquidity risk on a centralised level and reports to the Management Board at least weekly. Key decisions on liquidity risk management, including the determination of liquidity risk limits, and monitoring are taken by the ALCO.

Main roles and responsibilities in liquidity risk management and control are listed in the diagram below:



11.2 Liquidity Requirements

In addition to internal liquidity risk management and control, the NBG requires all banks in Georgia to comply with the regulatory Liquidity Ratio and the liquidity coverage ratio (“LCR”) standards.

The regulatory Liquidity Ratio is a snapshot of the Bank’s current liquidity position and is calculated by dividing liquid assets over liabilities per NBG methodology. Daily reporting of the ratio is required, however the Bank must comply with the minimum limit of 30% on monthly average figures. The Bank’s Risk Appetite is to maintain a buffer of 10% on regulatory Liquidity Ratio at all times.

In September 2014, the NBG introduced the LCR, but it only became effective in September 2017. The LCR is calculated following Basel 3 framework, however, higher run-off rates apply. The LCR is intended to promote the short-term resilience of a bank’s liquidity risk profile over one month stress scenario. The ratio is defined as the amount of high quality liquid assets that could be used to raise liquidity, measured against the total volume of net cash outflows. The NBG requires all banks to maintain minimum total LCR of 100%, ₾ LCR of 75% and Foreign Currency (“FX”) LCR of 100% on a daily basis. The Bank’s Risk Appetite is to comply with NBG total and FX LCR minimum requirements, while ₾ LCR should be maintained with 30% buffer at all times.

Liquidity Coverage Ratio and Regulatory Liquidity Ratio

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Liquidity Coverage Ratio					
LCR (total), last day of the quarter	292.2%	314.0%	294.9%	300.8%	287.3%
LCR (total), minimum for the respective quarter	261.6%	268.3%	274.5%	277.2%	273.1%
LCR (₾), last day of the quarter	262.8%	268.1%	264.8%	295.6%	285.9%
LCR (₾), minimum for the respective quarter	221.4%	221.8%	235.2%	252.4%	258.9%
LCR (FX), last day of the quarter	330.9%	378.5%	336.1%	307.0%	289.0%
LCR (FX), minimum for the respective quarter	311.9%	327.7%	299.5%	299.7%	279.6%
Regulatory Liquidity Ratio					
Regulatory Liquidity Ratio, last day of the quarter	68.2%	68.5%	63.1%	60.7%	62.2%
Regulatory Liquidity Ratio, minimum for the respective quarter	62.4%	65.9%	61.6%	57.8%	57.4%

For more detailed information on LCR, see Appendix Table 14.

11.3 Liquid Funds and Maturity Gap Analysis

Liquid Funds comprise high quality liquid assets such as available cash and cash equivalents, liquid securities as well as other unencumbered central bank eligible assets (available repo limit). Available Liquid Funds comprise assets that can be freely transferred within the Bank to cover liquidity outflows in the event of a crisis, specifically calculated as: Liquid Funds less obligatory reserve requirement with the NBG, vault cash needed for daily operations and interbank deposits & Loros. As a result, Available Liquid Funds represent assets that are unencumbered and which could most readily be used as a source of liquidity over a short-term stress horizon without hindering the Bank’s daily operations. As of 31 December 2017, the Bank’s total Liquid Funds comprised ₾ 728.5 million and total Available Liquid Funds comprised ₾ 498.3 million. The table below presents details of the composition of Available Liquid Funds.

Available Liquid Funds

₾ millions, unless otherwise noted	31 December 2017			31 December 2016			Change		
	₾	FCY	Total	₾	FCY	Total	₾	FCY	Total
Cash	121.3	38.1	159.4	111.4	34.0	145.4	9%	12%	10%
Correspondent accounts and deposits with the NBG	46.1	75.5	121.6	54.4	203.0	257.4	-15%	-63%	-53%
Correspondent accounts and deposits with other banks	15.1	214.9	229.9	0.0	145.2	145.2	nmf	48%	58%
Available on call funding from the NBG	217.6	-	217.6	218.5	-	218.5	0%	nmf	0%
Total Liquid Funds	**400.0**	**328.5**	**728.5**	**384.3**	**382.2**	**766.5**	**4%**	**-14%**	**-5%**
Interbank deposits & Loro	0.2	3.4	3.6	0.1	1.8	1.9	28%	90%	85%
Obligatory reserve requirement	39.5	61.1	100.6	41.9	82.6	124.4	-6%	-26%	-19%
Vault cash needed for operations	90.0	36.0	126.0	90.0	38.0	128.0	0%	-5%	-2%
Total Available Liquid Funds	**270.3**	**228.0**	**498.3**	**252.3**	**259.8**	**512.1**	**7%**	**-12%**	**-3%**

Maturity gap of assets and liabilities is evaluated by Treasury department on regular basis. Modeling of assets and liabilities is necessary where contractual maturity does not adequately reflect the liquidity risk position. The most significant example in this context would be current and savings accounts from retail, corporate, municipal and other state entities. Broad base of customers considering the both, quantity and variety of depositor types, helps the Bank to adequately mitigate its unexpected fluctuations in balances. Such diversified accounts form a stable funding base for the Bank's operations and liquidity needs compatible with the target liabilities structure.

11.4 Stress Tests and Recovery Plan

The Bank uses stress testing and scenario analysis to evaluate the impact of a sudden and severe stress events on its liquidity position. The scenarios cover the Bank-specific and market related risk events.

ERM department with the support of Treasury department is responsible for designing the methodology of the stress scenarios and determination of appropriate parameters to translate input data into reliable outcomes. As a final user, ALCO examines the stress-test results and takes decisions, if necessary, on the implementation of corrective measures.

The Bank-specific risk events include significant run-off rates in highly concentrated sectors and other individual cases where the Bank may face liquidity problems. Market-wide stress tests combine sudden decrease in current and savings account balances and other events causing the shortage in market liquidity. As of 31 December 2017, under all conducted stress-test scenarios, the Bank maintained liquidity ratios well above the minimum levels required by the NBG and adequate liquidity position with the estimated Liquid Funds and Available Liquid Funds not falling below the limits set in the RAS.

The Bank maintains a Recovery Plan which includes pressure on liquidity triggers and recovery plan strategy. The liquidity triggers are monitored by Treasury and ERM departments on a daily basis. Any potential trigger event is escalated to the Management Board level and should be discussed on the ALCO meeting. The Recovery Plan is activated by the Management Board if the liquidity trigger is reached or if the liquidity position of the Bank deteriorates significantly. The Recovery Plan will be executed by the Head of Treasury department under close supervision of the ALCO and the Management Board.

12 APPENDIX

Disclosure of the tables provided in this Appendix is mandatory under the NBG regulation on “Commercial Banks’ Pillar 3 Disclosure Requirements”. Reporting date (period) for all tables is 31 December 2017 and all numbers are reported in Georgian Lari, unless otherwise noted.

Table 1: Key metrics

N		4Q 2017*	3Q 2017	2Q 2017	1Q 2017	4Q 2016
	Regulatory capital (amounts, GEL)					
	Based on Basel III framework					
1	Common Equity Tier 1 (CET1)	162,443,898	146,880,297	131,626,635	142,849,753	136,024,892
2	Tier 1	168,582,962	153,019,361	137,765,699	148,988,817	142,163,956
3	Total regulatory capital	232,494,384	216,439,947	201,799,705	219,371,128	214,438,710
	Risk-weighted assets (amounts, GEL)					
4	Risk-weighted assets (RWA) (Based on Basel III framework)	1,355,390,670	1,148,598,509	1,203,229,966	1,145,329,051	1,149,962,271
5	Risk-weighted assets (RWA) (Based on Basel I frameworks)	1,140,371,139	1,075,579,526	1,005,604,938	928,462,246	903,311,913
	Capital ratios as a percentage of RWA					
	Based on Basel III framework					
6	Common equity Tier 1 ratio (≥ 7.0 %) **	11.99%	12.79%	10.94%	12.47%	11.83%
7	Tier 1 ratio (≥ 8.5 %) **	12.44%	13.32%	11.45%	13.01%	12.36%
8	Total regulatory capital ratio (≥ 10.5 %) **	17.15%	18.84%	16.77%	19.15%	18.65%
	Based on Basel I framework					
9	Common equity Tier 1 ratio (≥ 6.4 %)	10.39%	11.23%	11.92%	15.25%	12.09%
10	Total regulatory capital ratio (≥ 9.6 %)	20.77%	20.61%	20.43%	23.99%	23.38%
	Income					
11	Total Interest Income /Average Annual Assets	15.44%	15.30%	15.08%	14.99%	14.93%
12	Total Interest Expense / Average Annual Assets	6.61%	6.65%	6.68%	6.77%	7.47%
13	Earnings from Operations / Average Annual Assets	5.20%	4.75%	4.07%	2.59%	3.94%
14	Net Interest Margin	8.82%	8.65%	8.40%	8.22%	7.47%
15	Return on Average Assets (ROAA)	3.09%	2.76%	2.45%	2.36%	2.23%
16	Return on Average Equity (ROAE)	25.76%	23.20%	20.56%	20.33%	21.22%
	Asset Quality					
17	Non Performed Loans / Total Loans	10.12%	10.36%	10.42%	10.29%	10.15%
18	LLR/Total Loans	11.11%	11.21%	11.10%	10.89%	10.93%
19	FX Loans/Total Loans	1.54%	1.74%	2.02%	2.47%	3.67%
20	FX Assets/Total Assets	20.00%	20.99%	22.58%	24.20%	26.05%
21	Loan Growth-YTD	29.78%	22.15%	16.05%	5.30%	3.19%
	Liquidity					
22	Liquid Assets/Total Assets	40.06%	40.95%	42.57%	44.67%	46.37%
23	FX Liabilities/Total Liabilities	25.95%	27.10%	28.60%	30.88%	32.82%
24	Current & Demand Deposits/Total Assets	36.11%	37.09%	37.85%	35.99%	36.80%
	Liquidity Coverage Ratio*					
25	Total HQLA	733,359,924	710,153,574	722,963,832	728,569,297	769,455,943
26	Net cash outflow	255,294,208	236,121,311	245,181,986	232,451,405	263,039,757
27	LCR ratio (%)	287.26%	300.76%	294.87%	313.43%	292.52%

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

*** These includes Minimum capital requirements (4.5%, 6%, 8%) and Capital Conservation Buffer (2.5%) according to article 8 of the regulation on Capital Adequacy Requirements for Commercial Banks.*

**** LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. See the table 14. LCR; Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.*

Table 2: Balance Sheet

in Lari		Reporting Period			Respective period of the previous year		
N	Assets	GEL	FX	Total	GEL	FX	Total
1	Cash	121,279,851	38,110,197	159,390,048	111,370,743	34,036,822	145,407,565
2	Due from NBG	46,134,030	75,497,427	121,631,457	54,440,057	202,970,131	257,410,188
3	Due from Banks	15,613,089	215,224,883	230,837,972	713,723	145,413,733	146,127,456
4	Dealing Securities	-	-	-	-	-	-
5	Investment Securities	218,146,845	-	218,146,845	243,041,197	-	243,041,197
6.1	Loans	940,096,217	14,677,300	954,773,517	708,702,799	26,976,941	735,679,740
6.2	Less: Loan Loss Reserves	(102,776,976)	(3,284,563)	(106,061,539)	(78,191,226)	(2,187,719)	(80,378,945)
6	**Net Loans**	**837,319,241**	**11,392,737**	**848,711,978**	**630,511,573**	**24,789,222**	**655,300,795**
7	Accrued Interest and Dividends Receivable	13,393,509	187,101	13,580,610	11,194,646	444,467	11,639,113
8	Other Real Estate Owned & Repossessed Assets	97,643	-	97,643	492,105	-	492,105
9	Equity Investments	147,088	110,169	257,257	147,088	146,185	293,273
10	Fixed Assets and Intangible Assets	160,905,358	-	160,905,358	149,388,980	-	149,388,980
11	Other Assets	34,611,366	21,501,370	56,112,736	17,932,902	21,741,272	39,674,174
12	**Total assets**	**1,447,648,020**	**362,023,884**	**1,809,671,904**	**1,219,233,014**	**429,541,832**	**1,648,774,846**
	Liabilities						
13	Due to Banks	734,629	3,854,769	4,589,398	843,533	2,237,269	3,080,802
14	Current (Accounts) Deposits	342,820,977	130,309,522	473,130,499	345,692,333	123,091,690	468,784,023
15	Demand Deposits	120,410,617	60,019,505	180,430,122	80,765,939	57,273,836	138,039,775
16	Time Deposits	547,764,077	123,880,660	671,644,737	457,225,319	211,499,365	668,724,684
17	Own Debt Securities	-	2,646,118	2,646,118	-	2,018,715	2,018,715
18	Borrowings	-	-	-	17,000,000	-	17,000,000
19	Accrued Interest and Dividends Payable	5,076,535	1,282,581	6,359,116	5,857,083	2,981,083	8,838,166
20	Other Liabilities	139,508,367	2,513,663	142,022,030	58,907,659	4,647,408	63,555,067
21	Subordinated Debentures	16,175,800	86,440,453	102,616,253	16,175,800	76,306,982	92,482,782
22	**Total liabilities**	**1,172,491,002**	**410,947,271**	**1,583,438,273**	**982,467,666**	**480,056,348**	**1,462,524,014**
	Equity Capital						
23	Common Stock	54,404,798	-	54,404,798	54,233,137	-	54,233,137
24	Preferred Stock	61,391	-	61,391	61,391	-	61,391
25	Less: Repurchased Shares	(10,454,283)	-	(10,454,283)	(10,454,283)	-	(10,454,283)
26	Share Premium	39,952,249	-	39,952,249	39,952,249	-	39,952,249
27	General Reserves	1,694,028	-	1,694,028	1,694,028	-	1,694,028
28	Retained Earnings	111,565,946	-	111,565,946	80,527,085	-	80,527,085
29	Asset Revaluation Reserves	29,009,502	-	29,009,502	20,237,225	-	20,237,225
30	**Total Equity Capital**	**226,233,631**	**-**	**226,233,631**	**186,250,832**	**-**	**186,250,832**
31	**Total liabilities and Equity Capital**	**1,398,724,633**	**410,947,271**	**1,809,671,904**	**1,168,718,498**	**480,056,348**	**1,648,774,846**

Table 3: Income Statement

in Lari		Reporting Period			Respective period of the previous year		
N		GEL	FX	Total	GEL	FX	Total
	Interest Income						
1	Interest Income from Bank's "Nostro" and Deposit Accounts	3,784,557	1,717,375	5,501,932	4,234,683	144,915	4,379,598
2	Interest Income from Loans	212,875,255	2,919,658	215,794,913	192,650,239	4,119,478	196,769,717
2.1	from the Interbank Loans	149,605	-	149,605	991,032	-	991,032
2.2	from the Retail or Service Sector Loans	27,107	29,985	57,092	139,323	54,653	193,976
2.3	from the Energy Sector Loans	-	-	-	-	-	-
2.4	from the Agriculture and Forestry Sector Loans	16,376	-	16,376	17,561	-	17,561
2.5	from the Construction Sector Loans	-	-	-	-	-	-
2.6	from the Mining and Mineral Processing Sector Loans	-	-	-	-	-	-
2.7	from the Transportation or Communications Sector Loans	-	-	-	-	-	-
2.8	from Individuals Loans	212,145,176	2,871,489	215,016,665	191,055,498	3,909,478	194,964,976
2.9	from Other Sectors Loans	536,991	18,184	555,175	446,825	155,347	602,172
3	Fees/penalties income from loans to customers	21,174,387	274,107	21,448,494	17,034,719	363,821	17,398,540
4	Interest and Discount Income from Securities	18,877,400	-	18,877,400	17,677,190	-	17,677,190
5	Other Interest Income	22,908	2,730	25,638	39,474	2,683	42,157
6	**Total Interest Income**	**256,734,507**	**4,913,870**	**261,648,377**	**231,636,305**	**4,630,897**	**236,267,202**
	Interest Expense						
7	Interest Paid on Demand Deposits	29,354,867	3,446,728	32,801,595	35,308,787	5,574,254	40,883,041
8	Interest Paid on Time Deposits	58,611,794	6,758,421	65,370,215	55,740,872	9,553,549	65,294,421
9	Interest Paid on Banks Deposits	92,023	1,126	93,149	126,564	1,313	127,877
10	Interest Paid on Own Debt Securities	2,912,309	10,658,226	13,570,535	2,864,053	7,945,281	10,809,334
11	Interest Paid on Other Borrowings	232,920	-	232,920	1,027,027	-	1,027,027
12	Other Interest Expenses	-	315	315	-	466	466
13	**Total Interest Expense**	**91,203,913**	**20,864,816**	**112,068,729**	**95,067,303**	**23,074,863**	**118,142,166**
14	**Net Interest Income**	**165,530,594**	**(15,950,946)**	**149,579,648**	**136,569,002**	**(18,443,966)**	**118,125,036**
	Non-Interest Income						
15	Net Fee and Commission Income	66,270,247	125,426	66,395,673	59,292,245	1,011,591	60,303,836
15.1	Fee and Commission Income	70,764,898	5,343,157	76,108,055	63,843,509	5,406,412	69,249,921
15.2	Fee and Commission Expense	4,494,651	5,217,731	9,712,382	4,551,264	4,394,821	8,946,085
16	Dividend Income	-	-	-	-	-	-
17	Gain (Loss) from Dealing Securities	-	-	-	-	-	-
18	Gain (Loss) from Investment Securities	24,465	(109,355)	(84,890)	5,011	15,080	20,091
19	Gain (Loss) from Foreign Exchange Trading	(33,882)	-	(33,882)	6,294,422	-	6,294,422
20	Gain (Loss) from Foreign Exchange Translation	1,536,374	-	1,536,374	(7,900,011)	-	(7,900,011)
21	Gain (Loss) on Sales of Fixed Assets	(478,280)	-	(478,280)	1,499,797	-	1,499,797
22	Non-Interest Income from other Banking Operations	2,235	-	2,235	4,480	-	4,480
23	Other Non-Interest Income	1,555,280	1,413,333	2,968,613	1,432,820	784,783	2,217,603
24	**Total Non-Interest Income**	**68,876,439**	**1,429,404**	**70,305,843**	**60,628,764**	**1,811,454**	**62,440,218**
	Non-Interest Expenses						
25	Non-Interest Expenses from other Banking Operations	166,809	-	166,809	53,009	-	53,009
26	Bank Development, Consultation and Marketing Expenses	8,261,156	1,123,306	9,384,462	9,263,947	1,184,052	10,447,999
27	Personnel Expenses	70,165,697	-	70,165,697	65,615,298	-	65,615,298
28	Operating Costs of Fixed Assets	1,346,985	-	1,346,985	1,345,079	-	1,345,079
29	Depreciation Expense	20,893,516	-	20,893,516	19,420,917	-	19,420,917
30	Other Non-Interest Expenses	28,635,353	190,311	28,825,664	27,487,688	188,158	27,675,846
31	**Total Non-Interest Expenses**	**129,469,516**	**1,313,617**	**130,783,133**	**123,185,938**	**1,372,210**	**124,558,148**
32	**Net Non-Interest Income**	**(60,593,077)**	**115,787**	**(60,477,290)**	**(62,557,174)**	**439,244**	**(62,117,930)**
33	**Net Income before Provisions**	**104,937,517**	**(15,835,159)**	**89,102,358**	**74,011,828**	**(18,004,722)**	**56,007,106**
34	Loan Loss Reserve	26,623,163	-	26,623,163	15,642,232	-	15,642,232
35	Provision for Possible Losses on Investments and	-	-	-	1,569,877	-	1,569,877
36	Provision for Possible Losses on Other Assets	715,184	-	715,184	501,867	-	501,867
37	**Total Provisions for Possible Losses**	**27,338,347**	**-**	**27,338,347**	**17,713,976**	**-**	**17,713,976**
38	**Net Income before Taxes and Extraordinary Items**	**77,599,170**	**(15,835,159)**	**61,764,011**	**56,297,852**	**(18,004,722)**	**38,293,130**
39	Taxation	9,385,303	-	9,385,303	3,000,000	-	3,000,000
40	**Net Income after Taxation**	**68,213,867**	**(15,835,159)**	**52,378,708**	**53,297,852**	**(18,004,722)**	**35,293,130**
41	Extraordinary Items	-	-	-	-	-	-
42	**Net Income**	**68,213,867**	**(15,835,159)**	**52,378,708**	**53,297,852**	**(18,004,722)**	**35,293,130**

Table 4: Off-balance sheet items per standardized regulatory report

In Lari		Reporting Period			Respective period of the previous year		
N	Off-balance sheet items	GEL	FX	Total	GEL	FX	Total
1	**Contingent liabilities and commitments**	**32,808,396**	**342,931**	**33,151,327**	**31,441,026**	**509,470**	**31,950,496**
1.1	Guarantees Issued	766,939	72,854	839,793	701,335	148,005	849,340
1.2	Letters of credit Issued	-	-	-	-	-	-
1.3	Undrawn loan commitments	32,041,457	270,077	32,311,534	30,739,691	361,465	31,101,156
1.4	Other Contingent Liabilities	-	-	-	-	-	-
2	**Guarantees received as security for liabilities of the bank**	**-**	**-**	**-**	**-**	**-**	**-**
3	**Assets pledged as security for liabilities of the bank**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	Financial assets of the bank	-	-	-	-	-	-
3.2	Non-financial assets of the bank	-	-	-	-	-	-
4	**Guaratees received as security for receivables of the bank**	**-**	**-**	**-**	**-**	**731,469**	**731,469**
4.1	Surety, joint liability	-	-	-	-	-	-
4.2	Guarantees	-	-	-	-	731,469	731,469
5	**Assets pledged as security for receivables of the bank**	**980,424,441**	**437,539,386**	**1,417,963,827**	**1,005,798,488**	**539,851,551**	**1,545,650,039**
5.1	Cash	30,412,869	1,973,649	32,386,518	31,409,566	5,118,329	36,527,895
5.2	Precious metals and stones	-	70,509,305	70,509,305	-	69,519,889	69,519,889
5.3	Real Estate:	119,670	149,376,565	149,496,235	735,143	166,880,364	167,615,507
5.3.1	*Residential Property*	119,670	135,950,237	136,069,907	446,767	139,097,873	139,544,640
5.3.2	*Commercial Property*	-	5,161,594	5,161,594	288,376	16,919,169	17,207,545
5.3.3	*Complex Real Estate*	-	574,177	574,177	-	729,540	729,540
5.3.4	*Land Parcel*	-	3,462,886	3,462,886	-	6,092,889	6,092,889
5.3.5	*Other*	-	4,227,671	4,227,671	-	4,040,893	4,040,893
5.4	Movable Property		103,663,968	103,663,968	185,500	82,275,227	82,460,727
5.5	Shares Pledged	-	-	-	-		-
5.6	Securities	-	-	-	-		-
5.7	Other	949,891,902	112,015,899	1,061,907,801	973,468,279	216,057,742	1,189,526,021
6	**Derivatives**	**69,663,372**	**54,366,199**	**124,029,571**	**65,555,604**	**55,648,826**	**121,204,430**
6.1	Receivables through FX contracts (except options)	-	51,715,034	51,715,034	-	52,853,891	52,853,891
6.2	Payables through FX contracts (except options)	69,663,372	2,651,165	72,314,537	65,555,604	2,794,935	68,350,539
6.3	Principal of interest rate contracts (except options)	-	-	-	-	-	-
6.4	Options sold	-	-	-	-	-	-
6.5	Options purchased	-	-	-	-	-	-
6.6	Nominal value of potential receivables through other derivatives	-	-	-	-	-	-
6.7	Nominal value of potential payables through other derivatives	-	-	-	-	-	-
7	**Receivables not recognized on-balance**	**27,238,493**	**742,986**	**27,981,479**	**32,743,821**	**11,500,994**	**44,244,815**
7.1	Principal of receivables derecognized during last 3 month	912,390	-	912,390	3,797,285	58,539	3,855,824
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	-	-	-	-	-	-
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	27,238,493	742,986	27,981,479	32,743,821	11,500,994	44,244,815
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	-	-	-	-	-	-
8	**Non-cancelable operating lease**	**10,737,524**	**25,957,001**	**36,694,525**	**11,305,714**	**35,664,638**	**46,970,352**
8.1	Through indefinit term agreement	-	-	-	-	-	-
8.2	Within one year	2,441,634	5,021,480	7,463,114	2,317,608	6,128,657	8,446,265
8.3	From 1 to 2 years	2,224,931	4,962,508	7,187,439	2,070,620	5,689,935	7,760,555
8.4	From 2 to 3 years	1,221,696	4,304,452	5,526,148	2,013,293	5,583,215	7,596,509
8.5	From 3 to 4 years	1,099,787	3,510,744	4,610,531	1,086,549	5,003,026	6,089,575
8.6	From 4 to 5 years	1,028,574	2,680,485	3,709,059	963,390	4,025,477	4,988,867
8.7	More than 5 years	2,720,902	5,477,332	8,198,233	2,854,253	9,234,328	12,088,581
9	**Capital expenditure commitment**	**69,041**	**2,189,165**	**2,258,206**	**134,798**	**103,809**	**238,607**

Table 5: Risk Weighted Assets

N	in Lari	4Q 2017	3Q 2017
1	**Risk Weighted Assets for Credit Risk**	**999,717,347**	**916,337,532**
1.1	Balance sheet items	980,144,479	891,423,424
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-
1.2	Off-balance sheet items	10,374,059	7,387,821
1.3	Currency induced credit risk*		8,328,733
1.4	Counterparty credit risk	9,198,809	9,197,554
2	**Risk Weighted Assets for Market Risk**	**4,301,150**	**1,697,143**
3	**Risk Weighted Assets for Operational Risk**	**351,372,173**	**230,563,834**
4	**Total Risk Weighted Assets**	**1,355,390,670**	**1,148,598,509**

** CICR is excluded from RWA due to changes in NBG's methodology of calculating Risk Weighted Risk Exposures, in particular excluding Currency induced credit risk (CICR) from RWRA, which will be reflected in Pillar 2 capital buffer requirements. For the further details see the link of NBG's official press-release: https://www.nbg.gov.ge/index.php?m=340&newsid=3248&lng=eng*

Table 6: Information about supervisory board, directorate, beneficiary owners and shareholders

	Members of Supervisory Board
1	Irakli Otar Rukhadze
2	George Kalandarishvili
3	David Shonia

	Members of Board of Directors
1	George Kalandarishvili
2	Zurab Tsulaia
3	Aleksander Liparteliani
4	Armen Matevosyan
5	David Verulashvili
6	David melikidze
7	Taras (Tato) Chantladze

	List of Shareholders owning 1% and more of issued capital, indicating Shares	
1	European Financial Group B.V.	74.638%
2	BNY LIMITED(NOMINEES)	8.587%
3	JSC "Heritage Securities" (Nominal owner)	9.080%
4	JSC "GALT & TAGGART" (Nominal owner)	4.245%
5	JSC "Georgian Central Securities Depository" (Nominal owner)	1.764%
6	Other shareholders	1.686%

	List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares	
1	Irakli Otar Rukhadze	24.884%
2	Benjamin Albert Marson	24.877%
3	Igor Alexeev	24.877%
4	BNY Limited (Nominees)	8.587%

Table 7: Linkages between financial statement assets and balance sheet items subject to credit risk weighting

	Account name of standardazed supervisory balance sheet item	Carrying values as reported in published stand-alone financial statements per local accounting rules	Carrying values of items: Not subject to capital requirements or subject to deduction from capital	Carrying values of items: Subject to credit risk weighting
1	Cash	159,390,048	-	159,390,048
2	Due from NBG	121,631,457	-	121,631,457
3	Due from Banks	230,837,972	-	230,837,972
4	Dealing Securities	-	-	-
5	Investment Securities	218,146,845	-	218,146,845
6.1	Loans	*954,773,517*	-	954,773,517
6.2	*Less: Loan Loss Reserves*	*(106,061,539)*	-	(106,061,539)
6	Net Loans	848,711,978	-	848,711,978
7	Accrued Interest and Dividends Receivable	13,580,610	-	13,580,610
8	Other Real Estate Owned & Repossessed Assets	97,643	-	97,643
9	Equity Investments	257,257	257,057	200
10	Fixed Assets and Intangible Assets	160,905,358	26,348,780	134,556,578
11	Other Assets	56,112,736	-	56,112,736
	Total exposures subject to credit risk weighting before adjustments	**1,809,671,904**	**26,605,837**	**1,783,066,067**

Table 8: Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes

in Lari

1	**Total carrying value of balance sheet items subject to credit risk weighting before adjustments**	**1,783,066,067**
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	33,151,327
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	71,011,422
3	**Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes**	**1,887,228,816**
4	Effect of provisioning rules used for capital adequacy purposes	16,748,751
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(22,243,463)
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	(61,812,613)
6	Effect of other adjustments	-
7	**Total exposures subject to credit risk weighting**	**1,819,921,492**

Table 9: Regulatory capital

N		in Lari
1	**Common Equity Tier 1 capital before regulatory adjustments**	**220,094,567**
2	Common shares that comply with the criteria for Common Equity Tier 1	43,950,515
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	33,874,576
4	Accumulated other comprehensive income	29,009,502
5	Other disclosed reserves	1,694,028
6	Retained earnings (loss)	111,565,946
7	**Regulatory Adjustments of Common Equity Tier 1 capital**	**57,650,669**
8	Revaluation reserves on assets	29,009,502
9	Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	2,035,330
10	Intangible assets	26,348,780
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	-
12	Investments in own shares	-
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	-
14	Cash flow hedge reserve	-
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	-
16	Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	-
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	257,057
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	-
19	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	-
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	-
23	**Common Equity Tier 1**	**162,443,898**
24	**Additional tier 1 capital before regulatory adjustments**	**6,139,064**
25	Instruments that comply with the criteria for Additional tier 1 capital	61,391
26	Including:instruments classified as equity under the relevant accounting standards	61,391
27	Including: instruments classified as liabilities under the relevant accounting standards	-
28	Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	6,077,673
29	**Regulatory Adjustments of Additional Tier 1 capital**	**-**
30	Investments in own Additional Tier 1 instruments	-
31	Reciprocal cross-holdings in Additional Tier 1 instruments	-
32	Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
33	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
34	Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	-
35	**Additional Tier 1 Capital**	**6,139,064**
36	**Tier 2 capital before regulatory adjustments**	**63,911,423**
37	Instruments that comply with the criteria for Tier 2 capital	51,414,956
38	Stock surplus (share premium) that meet the criteria for Tier 2 capital	-
39	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	12,496,467
40	**Regulatory Adjustments of Tier 2 Capital**	**-**
41	Investments in own shares that meet the criteria for Tier 2 capital	-
42	Reciprocal cross-holdings in Tier 2 capital	-
43	Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	-
44	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	-
45	**Tier 2 Capital**	**63,911,423**

Table 10: Reconciliation of balance sheet to regulatory capital

in Lari N	On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per local accounting rules	linkage to capital table
1	Cash	159,390,048	
2	Due from NBG	121,631,457	
3	Due from Banks	230,837,972	
4	Dealing Securities	-	
5	Investment Securities	218,146,845	
6.1	*Loans*	*954,773,517*	
6.2	*Less: Loan Loss Reserves*	*(106,061,539)*	
6.2.1	*Of which general loan loss reserve*	*12,496,467*	*table 9 (Capital), N39*
6	**Net Loans**	**848,711,978**	
7	Accrued Interest and Dividends Receivable	13,580,610	
8	Other Real Estate Owned & Repossessed Assets	97,643	
9	Equity Investments	257,257	
9.1	*Of which holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities, deductible from Common Equity Tier 1 Capital*	*257,057*	*table 9 (Capital), N17*
9.2	*Of which significant investments subject to limited recognition*	-	
9.3	*Of which below 10% equity holdings subject to limited recognition*	-	
10	Fixed Assets and Intangible Assets	160,905,358	
10.1	*Of which intangible assets*	*26,348,780*	*table 9 (Capital), N10*
11	Other Assets	56,112,736	
12	**Total assets**	**1,809,671,904**	
13	Due to Banks	4,589,398	
14	Current (Accounts) Deposits	473,130,499	
15	Demand Deposits	180,430,122	
16	Time Deposits	671,644,737	
17	Own Debt Securities	2,646,118	
18	Borrowings	-	
19	Accrued Interest and Dividends Payable	6,359,116	
20	Other Liabilities	142,022,030	
20.1	*Of which general reserve for off-balance items*	*(16,450)*	
21	Subordinated Debentures	102,616,253	
21.1	*Of which tier II capital qualifying instruments*	*51,414,956*	*table 9 (Capital), N37*
22	**Total liabilities**	**1,583,421,823**	
23	Common Stock	54,404,798	
23.1	*Of which common equity tier 1 capital qualifying instruments*	*54,404,798*	*table 9 (Capital), N2*
24	Preferred Stock	61,391	
24.1	*Of which tier 1 capital qualifying instruments*	*61,391*	*table 9 (Capital), N26*
25	Less: Repurchased Shares	(10,454,283)	
25.1	*Of which repurchased shares subtracted from common equity tier 1 capital*	*(10,454,283)*	*table 9 (Capital), N2*
26	Share Premium	39,952,249	
26.1	*Of which common equity tier 1 capital qualifying instruments*	*33,874,576*	*table 9 (Capital), N3*
26.2	*Of which tier 1 capital qualifying instruments*	*6,077,673*	*table 9 (Capital), N28*
27	General Reserves	1,694,028	
27.1	*Of which common equity tier 1 capital qualifying instruments*	*1,694,028*	*table 9 (Capital), N5*
28	Retained Earnings	111,565,946	
28.1	*Of which common equity tier 1 capital qualifying instruments*	*111,565,946*	*table 9 (Capital), N6*
28.2	*Of which accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss, deductible from common equity tier 1 capital*	*2,035,330*	*table 9 (Capital), N9*
29	Asset Revaluation Reserves	29,009,502	
29.1	*Of which common equity tier 1 capital qualifying instruments*	*29,009,502*	*table 9 (Capital), N4*
29.2	*Of which deductible from common equity tier 1 capital*	*29,009,502*	*table 9 (Capital), N8*
30	**Total Equity Capital**	**483,512,094**	

Table 11: Credit Risk Weighted Exposures (on-balance items and off-balance items after credit conversion factor)

Risk weights / Exposure classes	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
1 Claims or contingent claims on central governments or central banks	276,548,539	-	-	-	-	-	-	-	-	-	75,497,427	-	-	-	-	-	75,497,427
2 Claims or contingent claims on regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Claims or contingent claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Claims or contingent claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 Claims or contingent claims on international organizations/institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Claims or contingent claims on commercial banks	-	-	225,070,279	-	-	-	4,999,698	-	-	-	826,301	-	-	-	-	-	48,340,206
7 Claims or contingent claims on corporates	-	-	-	-	-	-	2,308,432	-	-	-	57,038,485	10,890,560	-	-	-	-	69,083,261
8 Retail claims or contingent retail claims	-	-	-	-	-	-	-	-	759,107,659	17,305	-	-	-	-	-	-	569,343,723
9 Claims or contingent claims secured by mortgages on residential property	-	-	-	-	8,773,725	-	-	-	-	-	-	-	-	-	-	-	3,070,804
10 Past due items	-	-	-	-	-	-	276,891	-	-	-	2,121,084	-	572,303	-	-	-	3,117,983
11 Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-	-	-	2,567,672	-	86,145,293	-	1,789,237	-	136,258,703
12 Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Other items	158,952,059	-	1,843,982	-	-	-	-	-	-	-	135,375,754	-	-	-	-	-	135,744,550
Total	435,500,598	-	226,914,261	-	8,773,725	-	7,585,021	-	759,107,659	17,305	273,426,723	10,890,560	86,717,596	-	1,789,237	-	1,040,456,658

Table 12: Credit Risk Mitigation

in Lari	Funded Credit Protection		Total Credit Risk Mitigation - On-balance sheet	Total Credit Risk Mitigation - Off-balance sheet	Total Credit Risk Mitigation
	Cash on deposit with, or cash assimilated instruments	Standard gold bullion or equivalent			
1 Claims or contingent claims on central governments or central banks	-	-	-	-	-
2 Claims or contingent claims on regional governments or local authorities	-	-	-	-	-
3 Claims or contingent claims on public sector entities	-	-	-	-	-
4 Claims or contingent claims on multilateral development banks	-	-	-	-	-
5 Claims or contingent claims on international organizations/institutions	-	-	-	-	-
6 Claims or contingent claims on commercial banks	-	-	-	-	-
7 Claims or contingent claims on corporates	4,606,605	121,341	4,220,085	507,861	4,727,946
8 Retail claims or contingent retail claims	2,753,857	14,212,590	16,944,828	21,619	16,966,447
9 Claims or contingent claims secured by mortgages on residential property	-	-	-	-	-
10 Past due items	93,547	417,298	510,844	-	510,844
11 Items belonging to regulatory high-risk categories	-	27,732,882	27,732,882	-	27,732,882
12 Short-term claims on commercial banks and corporates	-	-	-	-	-
13 Claims in the form of collective investment undertakings	-	-	-	-	-
14 Other items	-	-	-	-	-
Total	7,454,009	42,484,111	49,408,640	529,479	49,938,119

Table 13: Standardized approach - Effect of credit risk mitigation

	Asset Classes	On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density
			Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
1	Claims or contingent claims on central governments or central banks	352,045,966	-	-	75,497,427	75,497,427	21.45%
2	Claims or contingent claims on regional governments or local authorities	-	-	-	-	-	nmf
3	Claims or contingent claims on public sector entities	-	-	-	-	-	nmf
4	Claims or contingent claims on multilateral development banks	-	-	-	-	-	nmf
5	Claims or contingent claims on international organizations/institutions	-	-	-	-	-	nmf
6	Claims or contingent claims on commercial banks	230,896,278	-	-	48,340,206	48,340,206	20.94%
7	Claims or contingent claims on corporates	59,346,917	33,134,023	10,890,560	69,083,261	64,355,315	91.63%
8	Retail claims or contingent retail claims	759,107,659	17,305	17,305	569,343,723	552,377,276	72.76%
9	Claims or contingent claims secured by mortgages on residential property	8,773,725	-	-	3,070,804	3,070,804	35.00%
10	Past due items	2,970,277	-	-	3,117,983	2,607,139	87.77%
11	Items belonging to regulatory high-risk categories	90,502,202	-	-	136,258,703	108,525,822	119.92%
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	nmf
13	Claims in the form of collective investment undertakings (‘CIU’)	-	-	-	-	-	nmf
14	Other items	322,777,632	-	-	135,744,550	135,744,550	42.06%
	Total	**1,826,420,655**	**33,151,327**	**10,907,865**	**1,040,456,658**	**990,518,538**	**53.91%**

Table 14: Liquidity Coverage Ratio

		Total unweighted value (daily average**)			Total weighted values according to NBG's methodology* (daily average**)			Total weighted values according to Basel methodology (daily average**)		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
High-quality liquid assets										
1	Total HQLA				406,420,861	326,939,063	733,359,924	391,351,690	112,987,425	504,339,115
Cash outflows										
2	Retail deposits	674,216,053	266,428,134	940,644,186	94,041,851	88,623,957	182,665,808	19,134,655	13,428,825	32,563,480
3	Unsecured wholesale funding	274,846,355	131,332,564	406,178,919	103,805,044	24,357,337	128,162,381	81,126,464	18,159,373	99,285,837
4	Secured wholesale funding	-	-	-	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	69,663,372	-	69,663,372	-	-	-	-	-	-
6	Other contractual funding obligations	32,041,457	270,077	32,311,534	6,413,505	193,994	6,607,499	1,607,286	74,745	1,682,031
7	Other contingent funding obligations	37,855,849	3,787,641	41,643,490	12,391,509	2,060,782	14,452,291	12,352,382	2,057,140	14,409,521
8	**TOTAL CASH OUTFLOWS**	**1,088,623,086**	**401,818,416**	**1,490,441,502**	**216,651,908**	**115,236,071**	**331,887,979**	**114,220,787**	**33,720,082**	**147,940,869**
Cash inflows										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	991,812,983	243,316,603	1,235,129,585	74,480,478	2,113,293	76,593,771	89,549,649	217,189,059	306,738,708
11	Other cash inflows	29,918,125	57,083,722	87,001,847	-	-	-	-	-	-
12	**TOTAL CASH INFLOWS**	**1,021,731,107**	**300,400,325**	**1,322,131,432**	**74,480,478**	**2,113,293**	**76,593,771**	**89,549,649**	**217,189,059**	**306,738,708**
					Total value according to NBG's methodology* (with limits)			**Total value according to Basel methodology (with limits)**		
13	Total HQLA				406,420,861	326,939,063	733,359,924	391,351,690	112,987,425	504,339,115
14	Net cash outflow				142,171,430	113,122,778	255,294,208	28,555,197	8,430,021	36,985,217
15	**Liquidity coverage ratio (%)**				**285.87%**	**289.01%**	**287.26%**	**1370.51%**	**1340.30%**	**1363.62%**

** Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.*

*** Instead of daily average, values are given for the last day of reporting period*

Table 15: Counterparty credit risk

		Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
1	**FX contracts**	**71,011,422**		**9,198,809**	**-**	**-**	**-**	**-**	**-**	**9,198,809**	**-**	**-**	**9,198,809**
1.1	Maturity less than 1 year	1,348,050	2.0%	26,961	-	-	-	-	-	26,961	-	-	26,961
1.2	Maturity from 1 year up to 2 years	-	5.0%	-	-	-	-	-	-	-	-	-	-
1.3	Maturity from 2 years up to 3 years	6,225,788	8.0%	498,063	-	-	-	-	-	498,063	-	-	498,063
1.4	Maturity from 3 years up to 4 years	6,915,898	11.0%	760,749	-	-	-	-	-	760,749	-	-	760,749
1.5	Maturity from 4 years up to 5 years	56,521,686	14.0%	7,913,036	-	-	-	-	-	7,913,036	-	-	7,913,036
1.6	Maturity over 5 years	-		-	-	-	-	-	-	-	-	-	-
2	**Interest rate contracts**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Maturity less than 1 year	-	0.5%	-	-	-	-	-	-	-	-	-	-
2.2	Maturity from 1 year up to 2 years	-	1.0%	-	-	-	-	-	-	-	-	-	-
2.3	Maturity from 2 years up to 3 years	-	2.0%	-	-	-	-	-	-	-	-	-	-
2.4	Maturity from 3 years up to 4 years	-	3.0%	-	-	-	-	-	-	-	-	-	-
2.5	Maturity from 4 years up to 5 years	-	4.0%	-	-	-	-	-	-	-	-	-	-
2.6	Maturity over 5 years	-		-	-	-	-	-	-	-	-	-	-
	Total	**71,011,422**		**9,198,809**	**-**	**-**	**-**	**-**	**-**	**9,198,809**	**-**	**-**	**9,198,809**

Table 16: Differences between accounting and regulatory scopes of consolidation

	Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format													
						1	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12
						Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repossessed Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets	TOTAL ASSETS
1	Cash and cash equivalents	464,402	464,291,355	466,805,592	(1)	159,390,048	59,636,213	230,837,972	-	-	-	-	-	16,046	-	-	-	16,925,313	**466,805,592**
2	Amounts due from credit institutions	73,430	73,429,584	73,429,584		-	61,995,244	-	-	-	-	-	-	21,417	-	-	-	11,412,923	**73,429,584**
3	Loans to customers	757,065	757,065,105	857,427,404	(2)	-	-	-	-	-	954,773,517	(106,061,539)	848,711,978	8,715,426	-	-	-	-	**857,427,404**
4	Investment securities:																		
5	- Loans and receivables	152,425	152,425,506	152,425,506		-	-	-	-	150,504,129	-	-	-	1,921,377	-	-	-	-	**152,425,506**
6	- Held to maturity	70,375	70,374,720	70,374,720		-	-	-	-	67,642,715	-	-	-	2,732,004	-	-	-	-	**70,374,720**
7	Property and equipment	132,582	132,773,427	132,773,427		-	-	-	-	-	-	-	-	-	-	-	132,773,427	-	**132,773,427**
8	Intangible assets	26,349	26,348,780	26,348,780		-	-	-	-	-	-	-	-	-	-	-	26,348,780	-	**26,348,780**
9	Prepayments	6,814	6,814,375	6,958,339		-	-	-	-	-	-	-	-	-	-	-	-	6,958,339	**6,958,339**
10	Deferred income tax assets	66	65,860	560,538		-	-	-	-	-	-	-	-	-	-	-	-	560,538	**560,538**
11	Other assets	19,969	19,406,958	22,568,014	(3)	-	-	-	-	-	-	-	-	174,339	97,643	257,257	1,783,151	20,255,624	**22,568,014**
12	**Total assets**	**1,703,477**	**1,702,995,669**	**1,809,671,903**		**159,390,048**	**121,631,457**	**230,837,972**	-	**218,146,845**	**954,773,517**	**(106,061,539)**	**848,711,978**	**13,580,609**	**97,643**	**257,257**	**160,905,358**	**56,112,737**	**1,809,671,903**

(1) The difference is caused by netting of certain cash and cash equivalent items with liabilities per IFRS.
(2) The difference in the amount of ₾ 100.4 million is the sum of the following: a) Recognition of deferred income (non-deduction) in the amount of ₾ 106.6 million per NBG in the total loans and respectively in other liabilities. This amount is netted out per IFRS standards; b) Deduction of deferred income from fees in the amount of ₾ 16.0 million per IFRS; c) Recognition of certain overdraft loans per IFRS in the amount of minus ₾ 11.3 million; d) Difference in the provisioning methodology and respective loan loss allowance in the amount of minus ₾ 9.5 million; e) Other difference in the amount of minus ₾ 1.4 million.
(3) The difference is caused by netting of certain items per IFRS and differences in provisioning methodology per IFRS and the NBG.

	Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format									
						13	14	15	16	17	18	19	20	21	22
						Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities
13	Amounts due to credit institutions	6,497	6,497,312	6,497,312		4,589,398	-	-	-	-	-	-	1,907,914	-	**6,497,312**
14	Amounts due to customers	1,346,288	1,346,364,066	1,337,733,892	(1)	-	473,130,499	180,430,122	671,644,737	-	-	5,612,910	6,915,624	-	**1,337,733,892**
15	Current income tax liabilities	2,375	2,375,224	6,398,491	(2)	-	-	-	-	-	-	-	6,398,491	-	**6,398,491**
16	Deferred income tax liabilities	-	-	4,257,674	(2)	-	-	-	-	-	-	-	4,257,674	-	**4,257,674**
17	Other liabilities	25,231	25,216,630	122,797,482	(3)	-	-	-	-	-	-	255,155	122,542,327	-	**122,797,482**
18	Subordinated debt	105,753	105,753,422	105,753,422		-	-	-	-	2,646,118	-	491,051	-	102,616,253	**105,753,422**
19	**Total liabilities**	**1,486,144**	**1,486,206,654**	**1,583,438,273**		**4,589,398**	**473,130,499**	**180,430,122**	**671,644,737**	**2,646,118**	-	**6,359,116**	**142,022,030**	**102,616,253**	**1,583,438,273**

(1) The total difference of ₾ 8.6 million is attributed to the recognition of certain overdraft loans per IFRS in the amount of ₾ 11.3 million and netting of certain items per IFRS in the amount of minus ₾ 2.7 million.
(2) The difference in current income and deferred income tax liabilities are caused by different tax recogniton methodologies used in IFRS and the NBG reporting.
(3) The difference in the amount of ₾ 97.6 million is the sum of the following: a) Recognition of deferred income (non-deduction) in the amount of ₾ 106.6 million per NBG in the total loans and respectively in other liabilities. This amount is netted out per IFRS standards; b) Bonus accrual per IFRS in the amount of minus ₾ 9.4 million (the bonuses are not accrued per NBG); c) Other difference in the amount of ₾ 0.4 million.

	Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements (thousands of Georgian Lari)	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format							
						23	24	25	26	27	28	29	30
						Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital
20	Share capital	54,405	54,404,798	54,404,798		54,404,798	-	-	-	-	-	-	**54,404,798**
21	Additional paid-in capital	34,300	35,592,857	35,592,857		-	-	-	33,874,576	-	1,718,281	-	**35,592,857**
22	Treasury shares	(10,454)	(10,454,283)	(10,454,283)		-	-	(10,454,283)	-	-	-	-	**(10,454,283)**
23	Convertible preferred shares	6,139	6,139,064	6,139,064		-	61,391	-	6,077,673	-	-	-	**6,139,064**
24	Retained earnings	116,529	114,693,053	124,151,902	(1)	-	-	-	-	1,694,028	109,847,665	12,610,209	**124,151,902**
25	Other reserves	16,414	16,413,528	16,399,293		-	-	-	-	-	-	16,399,293	**16,399,293**
26	**Total equity**	**217,333**	**216,789,016**	**226,233,631**		**54,404,798**	**61,391**	**(10,454,283)**	**39,952,249**	**1,694,028**	**111,565,946**	**29,009,502**	**226,233,631**

(1) The difference in retained earnings is due to the aggregate historically accumulated differences in IFRS and the NBG reporting standards.

Table 17: Consolidation by entities

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation: Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	Description
1	LBF Luxemburg S.A.	Full Consolidation				x	Financial intermediary services
2	„Smartex" LTD	Equity Method				x	Early-stage VC investments
3	„Busstop" LTD	Full Consolidation				x	Currently dormant

Table 18: Information about historical operational losses

		2017	2016	2015
1	Total amount of losses	1,782,481	1,678,440	2,122,689
2	Total amount of losses, exceeding GEL 10,000	805,169	885,598	1,391,788
3	Number of events with losses exceeding GEL 10,000	22	24	24
4	Total amount of 5 biggest losses	404,494	507,190	675,682

Table 19: Operational risks - basic indicator approach

		2017	2016	2015	Average of sums of net interest and net non-interest income during last three years	Risk Weighted asset (RWA)
1	Net interest income	149,579,648	118,125,036	112,998,554		
2	Total Non-Interest Income	70,305,843	62,440,218	49,745,353		
3	less: income (loss) from selling property	(478,280)	1,499,797	(22,342)		
4	Total income (1+2-3)	220,363,771	179,065,457	162,766,249	187,398,492	351,372,173

Table 20: Remuneration awarded during the reporting period

			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	**Number of employees**	**7**	**2**	**38**
2		**Total fixed remuneration (3+5+7)**	**3,288,492**	**2,434,015**	**2,939,759**
3		Of which cash-based	3,288,492	2,434,015	2,939,759
4		Of which: deferred	-	-	-
5		Of which: shares or other share-linked instruments	-	-	-
6		Of which deferred	-	-	-
7		Of which other forms	-	-	-
8		Of which deferred	-	-	-
9	Variable remuneration	**Number of employees**	**7**	**2**	**31**
10		**Total variable remuneration (11+13+15)**	**6,135,487**	**81,308**	**1,619,856**
11		Of which cash-based	6,085,500	-	1,619,856
12		Of which: deferred	-	-	-
13		Of which shares or other share-linked instruments	-	-	-
14		Of which deferred	-	-	-
15		Of which other forms	49,987	81,308	-
16		Of which deferred	-	-	-
17		Total remuneration	9,423,979	2,515,323	4,559,615

Table 21: Remuneration awarded during the reporting period

		Board of Directors	Supervisory Board	Other material risk takers
Guaranteed bonuses	**Number of employees**	**6**	**-**	**-**
	Total amount	**1,600,000**	**-**	**-**
Sign-on awards	**Number of employees**	**-**	**-**	**6**
	Total amount:	**-**	**-**	**178,144**
	Of which cash-based	-	-	178,144
	Of which shares	-	-	-
	Of which share-linked instruments	-	-	-
	Of which other instruments	-	-	-
Severance payments	**Number of employees**	**1**	**1**	**-**
	Total amount:	**100,000**	**810,000**	**-**
	Of which cash-based	100,000	810,000	-
	Of which shares	-	-	-
	Of which share-linked instruments	-	-	-
	Of which other instruments	-	-	-

Table 22: Special payments

		Total amount of outstanding deferred remuneration	Of which Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of reduction during the year due to ex post explicit adjustments	Total amount of reduction during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	**Board of Directors**	**-**	**-**	**-**	**-**	**-**
2	Cash	-	-	-	-	-
3	Shares	-	-	-	-	-
4	Share-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	**Supervisory Board**	**-**	**-**	**-**	**-**	**-**
7	Cash	-	-	-	-	-
8	Shares	-	-	-	-	-
9	Share-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Other material risk takers**	**-**	**-**	**-**	**-**	**-**
12	Cash	-	-	-	-	-
13	Shares	-	-	-	-	-
14	Share-linked instruments	-	-	-	-	-
15	Other	-	-	-	-	-
16	**Total**	**-**	**-**	**-**	**-**	**-**

Table 23: Shares owned by senior management

		Amount of shares at the beginning of the reporting period			Changes during the reporting period							Amount of shares at the end of the reporting period		
					Awarded during the period			Reduction during the period		Other Changes				
		Unvested	Vested	Total	Of which: Unvested	Of which: Vested	Vesting	Unvested	Vested	Purchase	Sell	Unvested	Vested	Total
	Senior management													
1	**Total amount:**	**-**	**14,448,750**	**14,448,750**	**-**	**-**	**-**	**-**	**-**	**-**	**1,737,815**	**-**	**12,710,935**	**12,710,935**
1.1	Zurab Tsulaia	-	5,190,786	5,190,786	-	-	-	-	-	-	-	-	5,190,786	5,190,786
1.2	David Melikidze	-	3,652,859	3,652,859	-	-	-	-	-	-	-	-	3,652,859	3,652,859
1.3	David Verulashvili	-	3,867,290	3,867,290	-	-	-	-	-	-	-	-	3,867,290	3,867,290
1.4	Taras Chantladze	-	1,737,815	1,737,815	-	-	-	-	-	-	1,737,815	-	-	-
	Other material risk takers													
2	**Total amount:**	**-**	**11,325,952**	**11,325,952**	**-**	**-**	**-**	**-**	**-**	**-**	**2,029,652**	**-**	**9,296,300**	**9,296,300**
2.1	Varlam Ebanoidze	-	2,849,338	2,849,338	-	-	-	-	-	-	-	-	2,849,338	2,849,338
2.2	Nino Makashvili	-	2,317,977	2,317,977	-	-	-	-	-	-	1,160,000	-	1,157,977	1,157,977
2.3	Nana Gelashvili	-	2,317,970	2,317,970	-	-	-	-	-	-	-	-	2,317,970	2,317,970
2.4	Nikoloz Pirtskhalashvili	-	1,737,815	1,737,815	-	-	-	-	-	-	-	-	1,737,815	1,737,815
2.5	Manana Akobia	-	869,652	869,652	-	-	-	-	-	-	869,652	-	-	-
2.6	Giorgi Kaloiani	-	577,669	577,669	-	-	-	-	-	-	-	-	577,669	577,669
2.7	Ekaterine Khodeli	-	577,669	577,669	-	-	-	-	-	-	-	-	577,669	577,669
2.8	Besarion Jigauri	-	77,862	77,862	-	-	-	-	-	-	-	-	77,862	77,862