LIBERTY

JSC LIBERTY BANK

PILLAR 3 REPORT 2018

a bank for everyone, everywhere.

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 12. For methods of regulatory consolidation, see Appendix Table 13.

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 (https://libertybank.ge/en/chven-shesakheb/investorebistvis/pinansuri-inpormatsia/regulatory-financial-reporting-to-the-national-bank-of-georgia) and on the NBG website (https://www.nbg.gov.ge/index.php?m=673&lng=eng).

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, 1.2
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 10
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
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 GEL 1,848 million (per NBG) as of 31 December 2018. The Bank operates only in Georgia and has the largest retail network comprised of more than 450 branches and service outlets.

Ratings of JSC Liberty Bank

Fitch Ratings		Rating	Outlook	Date
Foreign Currency Issuer Default	Long-term	B+	Stable	16-Apr-19
	Short-term	B	-	
Support Rating		4	-	
Support Rating Floor		B	-	

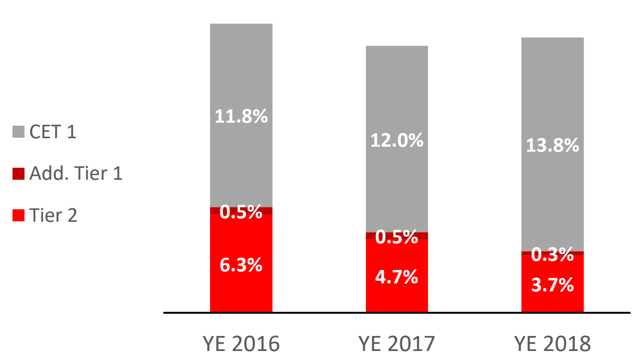
Standard & Poor's		Rating	Outlook	Date
Counterparty	Long-term	B	Positive	17-May-18
	Short-term	B		

Moody's		Rating	Outlook	Date
Local-currency	Long-term	B1	Positive	24-May-18
Foreign-currency		B1		

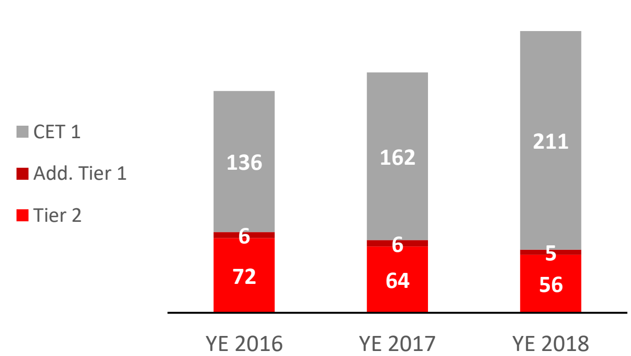
During 2018, the Bank continued to strengthen its capital base. Common Equity Tier 1 Capital ("CET1") reached GEL 211 million, up 30% y-o-y, reflecting strong internal capital generation after dividends paid on the Bank's preferred shares.

Risk-weighted exposures ("RWE") grew to GEL 1,532 million, driven by growth in total assets, decline in gold mitigation and increase of GEL 37 million in operational risks.

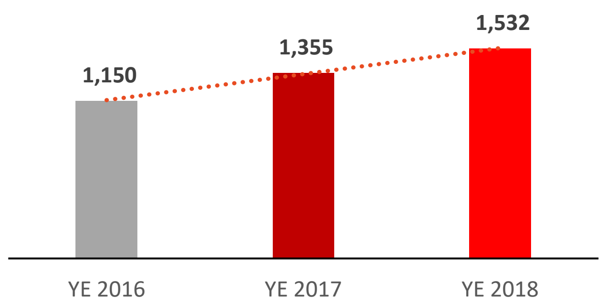
Regulatory Capital Ratios



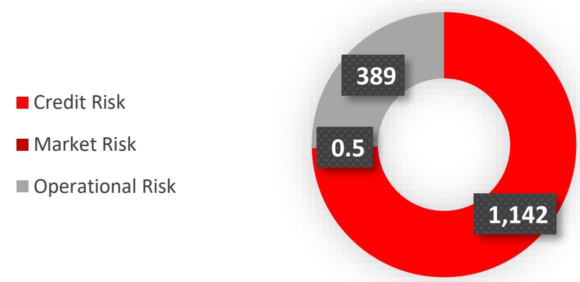
Regulatory Capital, GEL mln



RWE, GEL mln

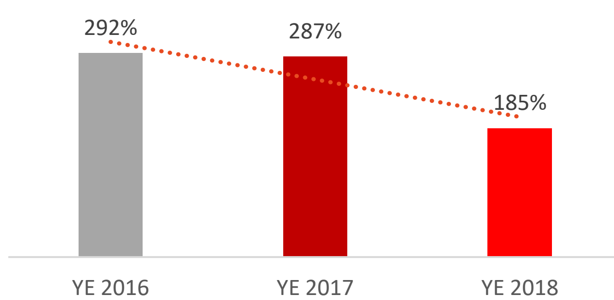


Distribution of RWE by risk type YE 2018, GEL mln

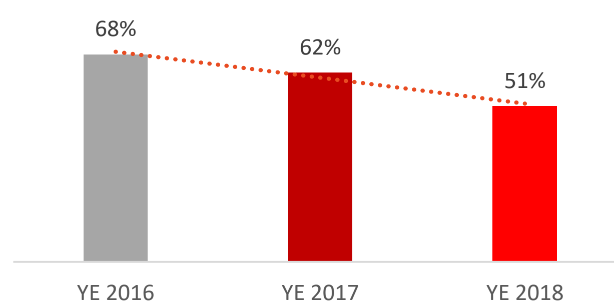


In 2018, the bank started to use its liquid assets more effectively and use its liquid funds to finance corporate loan portfolio, as a result, liquidity position decreased noticeably during the year. As of YE 2018, total Liquidity Coverage Ratio (per NBG) and Liquidity Ratio (per NBG) stood at 185% and 51%, respectively.

Liquidity Coverage Ratio



Liquidity Ratio



The Bank reported net income of GEL 52.0 million in 2018, down 0.72% y-o-y. As of 31 December 2018, the Bank's total assets stood at GEL 1,847.5 million, up 2.1% y-o-y, and total shareholders' equity amounted to GEL 277.5 million, up 22.7% y-o-y.

2.2 Key Indicators and Financial Statements of the Bank

Table 2.2.1 Key Metrics

Regulatory capital (amounts, GEL)	31/12/2018	31/12/2017	31/12/2016
Common Equity Tier 1 (CET1)	210,609,648	162,443,898	136,024,892
Tier 1	215,175,032	168,582,962	142,163,956
Total regulatory Capital	271,168,740	232,494,384	214,438,710
Risk-weighted assets (RWA)	1,531,726,198	1,355,390,670	1,149,962,271

Capital ratios as a percentage of RWA	31/12/2018	31/12/2017	31/12/2016
Common equity Tier 1 ratio	13.75%	11.99%	11.83%
Tier 1 ratio	14.05%	12.44%	12.36%
Total regulatory capital ratio	17.70%	17.15%	18.65%

Income	31/12/2018	31/12/2017	31/12/2016
Total Interest Income/Average Annual Assets	15.91%	15.44%	14.93%
Total Interest Expense/Average Annual Assets	6.29%	6.61%	7.47%
Earnings from Operations/Average Annual Assets	5.21%	5.20%	3.94%
Return on Average Assets (ROAA)	2.82%	3.09%	2.23%
Return on Average Equity (ROAE)	20.63%	25.76%	21.22%

Asset Quality	31/12/2018	31/12/2017	31/12/2016
Non-Performed Loans/Total Loans	8.61%	10.12%	10.15%
LLR/Total Loans	9.56%	11.11%	10.93%
FX Loans/Total Loans	21.92%	1.54%	3.67%
FX Assets/Total Assets	27.05%	20.00%	26.05%
Loan Growth-YTD	9.10%	29.78%	3.19%

Liquidity	31/12/2018	31/12/2017	31/12/2016
Liquid Assets/Total Assets	35.78%	40.06%	46.37%
FX Liabilities/Total Liabilities	29.57%	25.95%	32.82%
Current & Demand Deposits/Total Assets	45.63%	36.11%	36.80%

Liquidity Coverage Ratio*	31/12/2018	31/12/2017	31/12/2016
Total HQLA	681,357,537	733,359,924	769,455,943
Net Cash outflow	352,678,528	255,294,208	263,039,757
LCR ratio (%)	193.20%	287.26%	292.52%

** LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. See the table 11 in appendix; 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. The LCR for Dec 31, 2018 is calculated as average of respective quarter.*

*Table 2.2.2 Balance Sheet**

	31/12/2018	31/12/2017	31/12/2016
Assets			
Cash	212,685,636	159,390,048	145,407,565
Due from NBG	162,539,717	121,631,457	257,410,188
Due from Banks	102,386,837	230,837,972	146,127,456
Dealing Securities	-	-	-
Investment Securities	192,727,243	218,146,845	243,041,197
Loans	1,041,614,343	954,773,517	735,679,740
Less: Loan Loss Reserves	(99,568,321)	(106,061,539)	(80,378,945)
Net Loans	942,046,022	848,711,978	655,300,795
Accrued Interest and Dividends Receivable	15,458,030	13,580,610	11,639,113
Other Real Estate Owned & Repossessed Assets	63,136	97,643	492,105
Equity Investments	260,644	257,257	293,273
Fixed Assets and Intangible Assets	163,515,721	160,905,358	149,388,980
Other Assets	55,835,328	56,112,736	39,674,174
Total Assets	**1,847,518,314**	**1,809,671,904**	**1,648,774,846**
Liabilities			
Due to Banks	7,856,370	4,589,398	3,080,802
Current (Accounts) Deposits	598,098,931	473,130,499	468,784,023
Demand Deposits	244,896,235	180,430,122	138,039,775
Time Deposits	635,845,922	671,644,737	668,724,684
Own Debt Securities	-	2,646,118	2,018,715
Borrowings	-	-	17,000,000
Accrued Interest and Dividends Payable	5,672,962	6,359,116	8,838,166
Other Liabilities	29,629,166	142,022,030	63,555,067
Subordinated Debentures	48,008,568	102,616,253	92,482,782
Total Liabilities	**1,570,008,154**	**1,583,438,273**	**1,462,524,014**
Equity Capital			
Common Stock	54,628,743	54,404,798	54,233,137
Preferred Stock	61,391	61,391	61,391
Less: Repurchased Shares	(10,154,020)	(10,454,283)	(10,454,283)
Share Premium	39,651,986	39,952,249	39,952,249
General Reserves	1,694,028	1,694,028	1,694,028
Retained Earnings	163,127,939	111,565,946	80,527,085
Asset Revaluation Reserves	28,500,093	29,009,502	20,237,225
Total Equity Capital	**277,510,160**	**226,233,631**	**186,250,832**
Total Liabilities and Equity Capital	**1,847,518,314**	**1,809,671,904**	**1,648,774,846**

**See table 1 in appendix for detailed information about off-balance sheet items.*

Table 2.2.3 Income Statement

In GEL	31/12/2018	31/12/2017	31/12/2016
Interest Income from Bank's "Nostro" and Deposit Accounts	15,242,283	5,501,932	4,379,598
Interest Income from Loans	244,671,111	215,794,913	196,769,717
from the Interbank Loans	439,024	149,605	991,032
from the Retail or Service Sector Loans	1,158,770	57,092	193,976
from the Energy Sector Loans	-	-	-
from the Agriculture and Forestry Sector Loans	15,217	16,376	17,561
from the Construction Sector Loans	1,017	-	-
from the Mining and Mineral Processing Sector Loans	-	-	-
from the Transportation or Communications Sector Loans	-	-	-
from Individuals Loans	237,673,327	215,016,665	194,964,976
from Other Sectors Loans	5,383,756	555,175	602,172
Fees/penalties income from loans to customers	13,097,408	21,448,494	17,398,540
Interest and Discount Income from Securities	19,866,470	18,877,400	17,677,190
Other Interest Income	101,697	25,638	42,157
Total Interest Income	**292,978,969**	**261,648,377**	**236,267,202**
Interest Paid on Demand Deposits	39,813,822	32,801,595	40,883,041
Interest Paid on Time Deposits	68,216,258	65,370,215	65,294,421
Interest Paid on Banks Deposits	11,226	93,149	127,877
Interest Paid on Own Debt Securities	7,784,629	13,570,535	10,809,334
Interest Paid on Other Borrowings	-	232,920	1,027,027
Other Interest Expenses	305	315	466
Total Interest Expense	**115,826,240**	**112,068,729**	**118,142,166**
Net Interest Income	**177,152,729**	**149,579,648**	**118,125,036**
Net Fee and Commission Income	37,046,926	66,395,673	60,303,836
Fee and Commission Income	47,130,548	76,108,055	69,249,921
Fee and Commission Expense	10,083,622	9,712,382	8,946,085
Dividend Income	-	-	-
Gain (Loss) from Dealing Securities	-	-	-
Gain (Loss) from Investment Securities	(608,118)	(84,890)	20,091
Gain (Loss) from Foreign Exchange Trading	5,667,815	(33,882)	6,294,422
Gain (Loss) from Foreign Exchange Translation	(695,175)	1,536,374	(7,900,011)
Gain (Loss) on Sales of Fixed Assets	183,487	(478,280)	1,499,797
Non-Interest Income from other Banking Operations	1,280	2,235	4,480
Other Non-Interest Income	4,190,379	2,968,613	2,217,603
Total Non-Interest Income	**45,786,594**	**70,305,843**	**62,440,218**
Non-Interest Expenses from other Banking Operations	2,753,934	166,809	53,009
Bank Development, Consultation and Marketing Expenses	6,060,863	9,384,462	10,447,999
Personnel Expenses	66,782,087	70,165,697	65,615,298
Operating Costs of Fixed Assets	1,613,130	1,346,985	1,345,079
Depreciation Expense	21,722,702	20,893,516	19,420,917
Other Non-Interest Expenses	29,140,466	28,825,664	27,675,846
Total Non-Interest Expenses	**128,073,182**	**130,783,133**	**124,558,148**
Net Non-Interest Income	**(82,286,588)**	**(60,477,290)**	**(62,117,930)**
Net Income before Provisions	94,866,141	89,102,358	56,007,106
Loan Loss Reserve	37,712,183	26,623,163	15,642,232
Provision for Possible Losses on Investments and Securities	1	-	1,569,877
Provision for Possible Losses on Other Assets	(282,637)	715,184	501,867
Total Provisions for Possible Losses	**37,429,547**	**27,338,347**	**17,713,976**
Net Income before Taxes and Extraordinary Items	57,436,594	61,764,011	38,293,130
Taxation	5,435,166	9,385,303	3,000,000
Net Income after Taxation	52,001,428	52,378,708	35,293,130
Extraordinary Items	-	-	-
Net Income	**52,001,428**	**52,378,708**	**35,293,130**

2.3 Business Strategy

In the end of 2017, new management team came in the bank, bringing innovative changes both in the management and business models.

Changes have been applied to the business model of the bank. A united hierarchical structure has been implemented on a regional level and the pace of administrative decisions on the spot has been enhanced. The delegation of decisions regarding the risk positions under predefined limits only takes place if predetermined parameters are satisfied. The Bank is in process of switching front line's focus on sales while the operation approval is being moved to the back office. The front line was also enhanced with motivational system integrated with the HR program, enabling the employees to evaluate their performance on a daily basis. The renewed united scoring model determines consistency within the bank operations.

The Management Board's objective is to maximise the shareholder value by further developing the Bank into one of the leading commercial banks in Georgia, focusing on the mass retail market and business segments. The Bank has a multi-faceted distribution network, which includes full-service branches, service centres, smaller-scale sales outlets, as well as outlets located at various third party businesses.

2019 plans

- During 2019, the bank plans to maintain stability on the market as the third largest bank and aims to expand, increase the portfolio and decrease the cost of fund. It should be noted that the bank has the first highest market share in total local currency individual current deposits (48.5% comparing to 17.8% for second highest) and second highest market share in total local currency individual time deposits (26.1% comparing to 23.7% for third highest).

Universal Banking

- The Bank started focusing on gradual transformation into relationship-driven universal banking institution via entering into corporate lending market and SME finance for general business finance market development, as well as maintaining mass retail market (see Table 2.3.1).
    - Reduced cost of funds, allowing the Bank to tap highly competitive corporate banking and capitalise on cross-selling to new payroll clientele and increase income from foreign currency dealing.
    - Offering innovative products.

Digital Banking

- The bank upgraded internet banking services for the clients, thus improving customer engagement and experience, enhancing operational efficiency and compliance.
    - Higher quality service for corporate clients by creating more comfortable and smooth environment for them and increasing their enrolment.

Customer Service

- The bank brought major innovations in customer service by empowering its employees, allowing consumers to Self-Service, staying consistent across all touch points, segmenting the client bases and creating personalized customer experiences.
    - New branches with divided concentrations for less queues and waits:
        - LIBERTY – universal banking.
        - LIBERTY – universal banking together with social services.
        - 365 – smaller branches with limited operations and services.
    - New and innovative Automated Teller Machines (ATMs), which will be providing additional financial features, like cash in and services for better financial management, creating more effective working conditions.

Social Responsibility

- The bank actively started environmentally beneficial social projects.
    - “Green Boxes” for used paper.
    - Free education for socially vulnerable people.
    - Solidarity fund for cancer patients under 22.
    - Free computer education for 60+.
    - Social services agency for children and elderly people – utility payments for their shelters.

Table 2.3.1 The Bank’s main strategic indicators (IFRS based)

Profitability	31-Dec-18	31-Dec-17
ROAA, (annualised), %	3.36%	3.20%
ROAE, (annualised), %	26.32%	26.34%
Interest Income/Average Interest Earning Assets (annualised), %	21.78%	24.50%
Cost of Funds (annualised),%	9.50%	9.91%

Asset Quality	31-Dec-18	31-Dec-17
NPLs/Gross Loans,%	8.32%	11.20%
Cost of Risk	3.72%	4.82%

amounts are in GEL	31-Dec-18	31-Dec-17
Gross Loans	1,061,646,716	866,551,493
Private companies	191,479,244	3,828,994

3 OWNERSHIP AND GROUP STRUCTURE

3.1 Ownership Structure

As of 31 December 2018 and 2017, the following shareholders owned more than 1% of the outstanding ordinary shares. Other shareholders individually owned less than 1% of the outstanding ordinary shares.

Ownership Structure

Shareholder	31-Dec-18		31-Dec-17	
	Ownership Interest, %	Voting Rights, %	Ownership Interest, %	Voting Rights, %
Georgian Financial Group B.V.	61.18%	75.00%	60.46%	74.64%
JSC Heritage Securities (NOMINEE Holder)	14.69%	18.01%	7.35%	9.08%
Liberty Bank (Treasury Shares)	18.43%	0.00%	19.00%	0.00%
BNY Limited (Nominees)	0.00%	0.00%	6.96%	8.59%
Galt & Taggart Securities	3.47%	4.25%	3.44%	4.25%
JSC "Georgian Central Securities Depository" (Nominal owner)	0.98%	1.20%	1.43%	1.76%
Other Minority Shareholders (less than 1%)	1.26%	1.54%	1.37%	1.69%
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 24.1% as of 31 December 2018 (31 December 2017: 24.0%).

On October 13, 2017, Georgian Financial Group B.V. ("GFG"), former European Financial Group, a company established and organised under the laws of the Kingdom of Netherlands, purchased 74.64% of equity interest in the Bank.

As of, December 31, 2018 the ultimate beneficiary owners of the bank holding 5% or more of shares were:

Beneficiary Owners	
Irakli Otar Rukhadze	25.01%
Benjamin Alberts Marson	25.00%
Igor Alexeev	25.00%

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 2018, total net investments in these entities amounted to GEL 0.3 million per NBG and GEL 0.1 million per IFRS (31 December 2017: GEL 0.3 million) and are considered as immaterial.

Bank Ownership Interest

Name	*Country of Incorporation*	*31-Dec-18*	*31-Dec-17*	*Date of Incorporation*	*Activities*
Bus Stop LLC(1)	Georgia	100.00%	100.00%	27-Aug-09	Outdoor advertising
LBF Luxembourg S.A.(2)	Luxembourg	0.00%	100.00%	20-Jul-15	Financial intermediary services
JSC Smartex	Georgia	21.47%	21.47%	5-Jan-09	Early-stage VC investments

(1) Currently dormant.
(2) LBF Luxembourg S.A. was terminated in December 2018 per IFRS, while per NBG it was terminated in January 2019.

4 CORPORATE GOVERNANCE

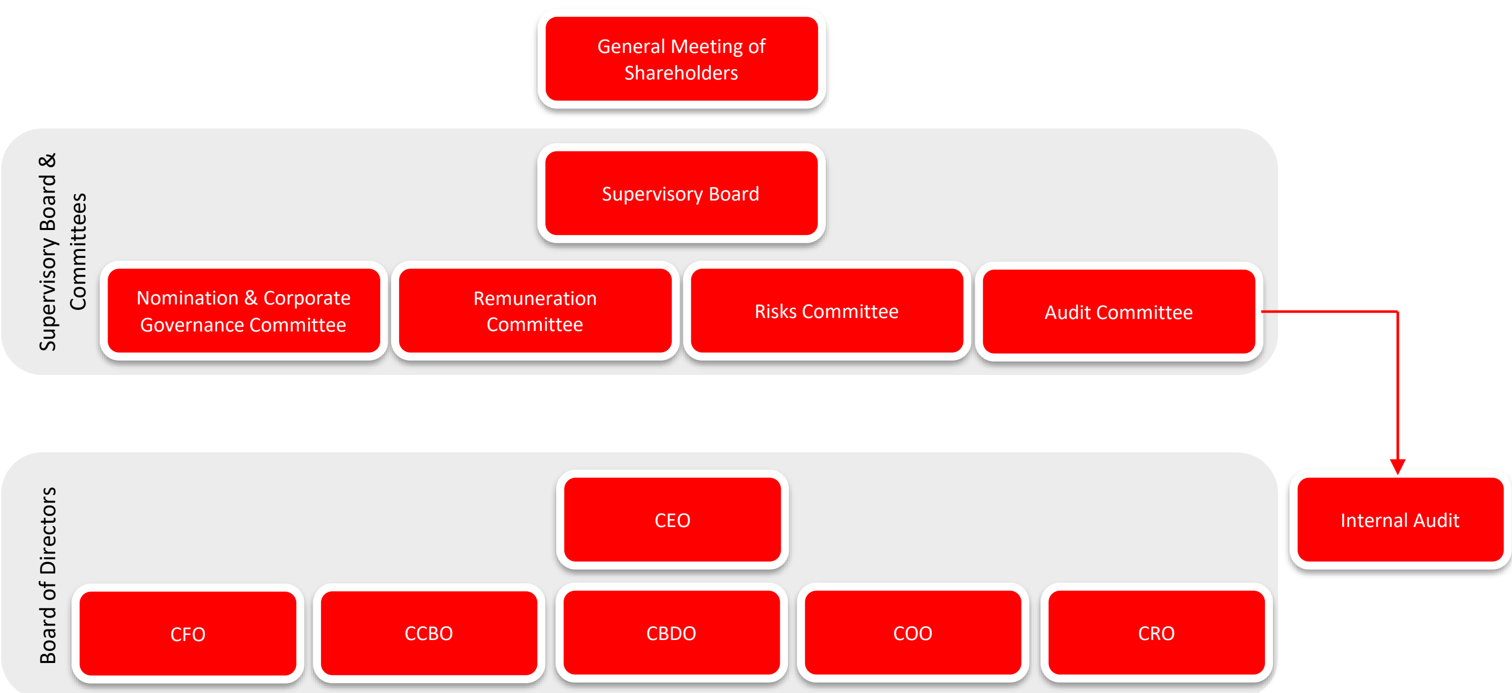
4.1 Corporate Governance Framework

This framework provides an overview of the corporate governance structures, principles, policies and practices of Liberty Bank, which together enable the Bank to meet governance expectations of the National Bank of Georgia and Georgian Stock Exchange.

To serve the interests of shareholders and other stakeholders, Liberty Bank's corporate governance system is subject to ongoing review, assessment and improvement. The Supervisory Board proactively adopts governance policies and practices designed to align the interests of the Supervisory Board and Management Board with those of shareholders and other stakeholders and to promote the highest standards of ethical behaviour and risk management at every level of the organization.

Common shares of Liberty Bank are listed on the Georgia Stock Exchange.

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 fundamental relationships among Supervisory Board, its committees, management, shareholders and other stakeholders are established by the Bank's governance structure illustrated below, through which its ethical values and strategic and corporate objectives are set, and plans for achieving those objectives and monitoring performance are determined. The organizational chart below shows the governance structure of the Bank as of 31 December 2018:



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

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 who do not attend AGM may vote by proxy, which can be done by mail.

General meeting of shareholders is presided over by the chairman of the Supervisory Board, or in his/her absence, by the deputy chairman or any other member of the Supervisory Board. In the absence of members of the Supervisory Board, the meeting is presided over by the Chief Executive Officer.

All shareholders registered with the share registrar as of the record date of the AGM and/or EGM shall have the right to attend and vote (if applicable) at the meeting. Shareholders may be represented on the shareholders meeting by a proxy.

A shareholder holding more than 75% of the Bank's voting shares may pass a resolution without convening a general meeting. Such decision will be equivalent to the minutes of the general meeting of shareholders and is considered a resolution of the general meeting of shareholders. In such cases the remaining shareholders are notified of the resolution. If more than one shareholder owns more than 75% of shares of the Bank, convening of the general meeting of shareholders is mandatory.

4.2.2 Roles of the AGM

Under Georgian Law and the Charter of the bank, the shareholders are authorized to pass resolutions on the following issues at an AGM:

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/derease of authorized charter capital of the Bank.
Approval Authorities	•Approval/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.
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% of the equity value of the Bank.

4.2.3 Shareholder Meetings Held and Resolutions Adopted in 2018

Considering that Georgian Financial Group B.V. holds more than 75%, GFG adopted following resolutions in 2018:

May 31, 2018

- Appointment of EY as the independent auditor of the Bank in respect of the years 2018-2019.
- Approval of 2017 audited consolidated IFRS financial statements of the Bank.
- Approval of the pay-out of 17% dividend in regards of the convertible preferred shares of the Bank for the year of 2017.

Jun 18, 2018

- Approval of resignation letter from Giorgi Kalandarishvili from the membership of the Supervisory Board.
- Election of Irakli Managadze as the independent member of the Supervisory Board of the Bank.

Nov 8, 2018

- Election of Mamuka Tsereteli as the independent member of the Supervisory Board of the Bank.

Dec 11, 2018

- Approval of the Bank's participation in the project initiated, organized and facilitated by the government of Georgia.

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 Responsibilities include to:

- Promote the highest standards of corporate governance in the Bank.
- Promote the success of the Bank for shareholders' benefit as a whole and create and deliver sustainable value.
- Ensure that management promotes the long-term growth of the Bank and maintains an effective system of internal control.

4.3.1 Composition of the Supervisory Board

Under the Articles of Association, the Supervisory Board consists of three to seven members elected by General Meeting of Shareholders. As of December 31, 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 do 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.

31-Dec-18	Supervisory Board Members
Chairman	Irakli Otar Rukhadze
Board member	David Shonia
Board member	Irakli Managadze
Board member	Mamuka Tsereteli

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 the degree of Master of Business Administration. He is also 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 controlling 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.

Irakli Managadze

Skills and experience:

Irakli Managadze was elected as an independent member of the Supervisory Board of Liberty Bank on 22nd of June 2018 (From January 2019 Irakli Managadze is no longer member of the Supervisory Board). Subsequently, on 14th of September 2018 he was also elected as the member and the chairman of the Bank's Audit Committee. Irakli served as the president and chairman of the board at the National Bank of Georgia during 1998-2005. These years were particularly important, as the country, having recently declared independence from the former Soviet Union and gone through civil war activities, was proactively starting to establish itself as a new and safe emerging financial market and Irakli's endeavours in his capacity as the president of NBG was outstanding. Under his personal leadership the NBG was formed as an effective fiscal and monetary policy maker and guarantor of general internal economic stability and growth. After years of working as the president and having shifted the NBG to even higher level of credibility, established solid relations and cooperation with international financial organizations, multinational banks and investment funds, Irakli departed from NBG in 2005 and continued his professional career in worldwide reputable international financial institutions. Until 2015 he worked for the European Bank for Reconstruction and Development, Financial Institutions Group as a senior policy adviser. Currently he also works as a senior advisor and consultant for J. Stern & Co. LLP and the World Bank Group respectively. He has been granted with several valuable awards, including an award for exceptional contribution to the development of the Georgian banking system.

Education:

Irakli Managadze has graduated from Tbilisi State University and holds the Specialist degree in Economic and Social Geography and Ph.D. in Economics from V. Melkadze Scientific and Research Institute of Social-Economic and Regional Problems.

Mamuka Tsereteli

Skills and experience:

Dr. Mamuka Tsereteli was elected as an independent member of the Supervisory Board of Liberty Bank in December 2018. Dr. Tsereteli is the president of America-Georgia Business Council, founder and principal of Georgian House of Greater Washington LLC, and Senior Research fellow at Central Asia-Caucasus Institute at American Foreign Policy Council. He also serves as a member of the part time faculty at American University's School of International Service in Washington, DC and John Hopkins SAIS.

Until May 11, 2013 he served as Director for the Center for Black Sea-Caspian Studies at School of International Service (SIS) at American University. Previously he served as an assistant professor (2007-2011), and a member of the adjunct faculty (2002-2007) at American University. Dr. Tsereteli also served as a member of the part time faculty at Elliott School of International Affairs at George Washington University in 2006-2007, where he taught classes on Energy and National Security.

Dr. Tsereteli served as an Executive Director of America-Georgia Business Council (AGBC) for 12 years. He currently serves as the president of the organization. The Council is the major instrument for promotion of the US business interests in Georgia, as well as US-Georgian trade and economic partnerships. Dr. Tsereteli developed the themes and concepts for each of the twenty annual conferences of the AGBC and they became the most popular forum for public-private dialog on the issues of the US-Georgian economic partnership. In addition to the annual conferences, Dr. Tsereteli organized and hosted multiple brainstorming and strategic planning sessions for the political and economic development in Georgia, attended by member companies, International Financial Institutions (IMF, World Bank, IFC, EBRD), US export promotional agencies (Ex-Im Bank, OPIC, TDA), the donor agencies (USIAD, MCC), US and Georgian Government representatives, private companies and experts of the region. In 2007-2008 he led the project of America-Georgia Business Council for development of Tourism Strategy and Investment Plan for Georgia, funded by the US Trade and Development Agency.

Education:

Dr. Tsereteli has graduated from Tbilisi State University and holds the degree of Master of Arts in economic geography. He also holds degree Master of Science in management from University of Maryland College and Ph.D. in economics, from Institute of Economy and Forecast, Academy of Science of Russian Federation.

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, its Nominations and Corporate Governance Committee 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 intends, as per new regulation, effective from 1st of June 2018, to have adequate amount of independent members of the Supervisory 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.

The independence of the Supervisory Board member is assessed prior to appointment in accordance with the requirements of the Corporate Governance Code of Commercial Banks.

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:

Strategy and Management	• Responsibility for the overall management of the Bank; • Approval of: The Bank's commercial and investment strategies, annual operating and cap ex budgets, decisions regarding important changes throughout the bank; • Controlling the Bank's activities;
Financial Reporting and Control	• Ensuring the Bank is operating at maximum effectiveness; • Exercise of voting rights connected to shares in any material subsidiaries of the Bank and adoption of their budget; • Inspection of the financial documentation, books and assets of the Bank; • Factoring of the booked debts or similar arrangements with an annual value > US$ 500,000;
Risks Framework and Appetite	• Identifying and controlling all major risks faced by the Bank; • Determining and establishing the risk management framework and the Risk Appetite Statement; • Identifying concrete steps in case the risk profile of the Bank exceeds Risk Appetite;
Internal Controls	• Adoption, termination or amendment of the Supervisory Board regulations or similar rules relating to the internal organization of the Supervisory Board; • Establishment of the Supervisory Board committee(s);
Contracts	• Approval of cap ex projects, significant transactions loans > US$ 2.5 mln and related party transactions; • Disposal of any asset or a material part of the Bank's businesses with significant values; • Entry into or termination of a long-term cooperation of > US$ 1,000,000 annually; • Application for the Bank's moratorium on debt payments;
Communication	• Approval of: Resolutions and corresponding documentation to be put forward to shareholders at a general meeting, 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;
Appointments and Remuneration	• Changes in the structure, size and composition of the Management Board; • Appointment and removal of the Management Board members, trade representatives, Audit Committee members and key executives of any material subsidiary of the bank; • Determining the remuneration policy for the Management Board; • Selection, retaining and dismissal of independent share registrar of the Bank;
Corporate Governance	• Supervising the activities of the management board; • Providing instructions to the Management Board on the general lines of different policies of the Bank; • Review of the Bank's overall corporate governance arrangements, annual reports and the proposals of the Management Board on distribution of profits; • Convening an extraordinary general meeting of shareholders; • Incorporation of a new subsidiary or undertaking or an acquisition of any other interest in a company or other business undertaking;
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/joint venture arrangement with any person/entity; • Making any political contribution/donation; • Sale/recapitalization of any equity of the Bank and the approval of any transfer of or encumbrance over any of the shares;

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 forty times during 2018 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 2018 are provided in table below.

Supervisory Board Meetings

Members	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Attendance, %
Irakli Otar Rukhadze	40	40	100%
Giorgi Kalandarishvili	16	16	100%
David Shonia	40	40	100%
Irakli Managadze	24	24	100%
Mamuka Tsereteli	1	1	100%

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. As per requirements of the Corporate Governance Code for Commercial Banks, Liberty Bank intends to approve respective Supervisory Board evaluation policy and contract consultants to conduct external evaluation of the Supervisory Board performance.

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.

31-Dec-18	Management Board Members
Chief Executive Officer	Giorgi Kalandarishvili
Corporate Banking Director	David Verulashvili
Chief Risk Officer	Mamuka Kvaratskhelia
Chief Operations Officer	Levan Tkhelidze
Chief Financial Officer	Levan Lekishvili

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 CEO 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.

Levan Lekishvili

Levan Lekishvili joined Liberty Bank in June 2018 as a Deputy CEO, Chief Financial Officer. Prior to joining Liberty Bank in 2013-2018 Levan held the position of Managing Partner of Shine-Est (Belarus). In 2009-2015 Levan was the CEO of Standard Group (Lithuania). Prior to Standard Group he served as a Financial Director of Forward Capital from 2008 to 2009 in Belarus. In 2005-2008 Levan was a CFO of Standard Bank Georgia. In 2003 Levan has joined football club Dinamo as the Chief Financial Officer and held this position up until 2005. Prior to Dinamo he held various positions at Saqkurortbank and EA Bank. Levan holds MBA degree from European School of Management Tbilisi and Bachelor's degree in Economics from Tbilisi State University.

Mamuka Kvaratskhelia

Mamuka Kvaratskhelia joined Liberty Bank in December 2017. In April 2018 Mamuka was appointed as a Deputy CEO, Chief Risk Officer. In 2013 – 2017 Mamuka Kvaratskhelia held various positions at Agricultural Projects Management Agency (APMA), starting with Grant Manager position, Head of Project Development and Support, Deputy Director and Director position. Before APMA, in 2010 – 2013 Mamuka Kvaratskhelia worked with Standard Group Ltd as Head of Projects and in 2004 – 2008 held the Head of Credit department position. Prior to Standard Bank, Mamuka worked at Tbiluniversalbank on different positions. Mamuka holds Bachelor's degree in Economics from Tbilisi State University.

Levan Tkhelidze

Levan Tkhelidze joined Liberty Bank in 2017 and was appointed as a Deputy CEO, Chief Operations Officer in 2018. Prior to joining Liberty Bank, Levan worked as a Chairman of Supervisory Board of JSC MFO Alfa Express from 2014 to 2017. Prior to JSC MFO Alfa Express, Levan served in 2010 – 2014 as a Co-founder and Co-Manager of Belfashion in Minsk, Belarus and also, as an Expert in Foreign Economic Activities Ch.I.U.P Forward Capital in 2009-2010. Prior to joining JSC Standard Bank as a Deputy General Director in 2005 to 2008, Levan held various positions at JSC TBC Bank, including as Deputy Head of International Operations, Deputy Head of Treasury, Deputy Director of Central Branch. Levan holds Bachelor's degree in International Economic Relations from Tbilisi Educational Economic Institute and completed MBA program at European School of Management Tbilisi.

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.

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 employees (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 75 times in 2018 and resolved various issues concerning the development of new products, employees' 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 Supervisory Board Committees

As per requirements of the Corporate Governance Code of Georgia, systemic commercial banks shall have the following Supervisory Board committees:

1. Audit Committee;
2. Risks Committee;
3. Nominations and Corporate Governance Committee;
4. Remuneration Committee.

The Bank has reorganised its Audit Committee and established Nominations and Corporate Governance Committee and intends to create Risks Committee and Remuneration Committee in 2019.

4.5.1 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.

The Committee is an independent structural unit and it reports to the Supervisory Board. The Committee consists of the following members:

- Mamuka Tsereteli (Chairman);
- Irakli Otar Rukhadze (Member);
- David Shonia (Member).

The majority of Audit Committee members shall be an independent members of the Supervisory Board. Considering that the Supervisory Board is not fully staffed, currently there is only one independent member, however, the Bank intends in 2019 to elect new members of the Supervisory Board to be in full compliance with the requirements of the Corporate Governance Code of Georgia for Commercial Banks.

The Audit Committee shall be held at least quarterly and in certain cases such meetings may be called by the Supervisory Board at any time;

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.

Audit Committee formally met three times in 2018 and discussed reports from internal audit department of the bank as well as certain appointments in the internal audit department.

4.5.2 Nominations and Corporate Governance Committee

The Supervisory Board of the Bank established Nominations and Corporate Governance Committee in December 2018 to monitor the composition, appointments, succession and effectiveness of the Supervisory Board and the Management Board and oversee the corporate governance of the Bank.

The Committee is an independent structural unit, it reports to the Supervisory Board of the Bank and shall consist of at least 3 (three) members, which shall be members of the Supervisory Board. Currently Nominations and Corporate Governance Committee consists of the following members:

- David Shonia (Chairman);
- Irakli Otar Rukhadze (Member);
- Mamuka Tsereteli (Member).

Meetings of the Nominations and Corporate Governance Committee shall be held at least twice per year and in certain cases such meetings may be called by the Supervisory Board at any time.

Major roles and responsibilities of the Nominations and Corporate Governance Committee are as follows:

- ***Nominations***. To regularly review the structure, size and composition of the Supervisory Board and the Management Board and its committees in consultation with the committee chairmen, taking into account the results of the Supervisory Board and/or Management Board performance evaluation process;
- The Committee shall give full consideration to succession planning for members of the Supervisory Board and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Bank and the skills and expertise needed in the future;
- The Committee shall set the criteria for the objective performance review of each member of the Supervisory Board and the Management Board; ensure that performance evaluation is conducted and recommendations arising from these evaluations are reported to the Supervisory Board.

- ***Corporate Governance***. The Committee reviews and approves changes to the corporate governance guidelines of the Bank, monitors the Bank's compliance with such guidelines and recommends to the Supervisory Board such changes or additional action as it deems necessary;
- Monitors developing trends, initiatives or proposals in relation to legal developments, governance issues and best corporate governance practice in order to determine the extent to which these initiatives impact the Bank and provide relevant periodic updates;
- Periodically reviews the Supervisory Board related policies and policies related to business conduct and ethics and recommends to the Supervisory Board such changes as it considers appropriate;

- Discusses and reviews the appeals in relation to internal inspection and/or investigation activities conducted by Compliance or other structural unit having similar duties and authorities utilizing the authorization in identification and/or prevention of breach of the Bank’s Code of Conduct and Business Ethics as well as the disciplinary measures or other types of sanctions applied to such breach;
- Periodically reports to the Supervisory Board on the activities done within its competence and evaluates the fulfilment of rights and obligations conferred upon the Committee with that regard.

Formally Nominations and Corporate Governance Committee has not met in 2018.

4.6 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.

4.6.1 Code of Conduct and Business Ethics

In December 2018, the Supervisory Board of the Bank approved Code of Conduct and Business Ethics (the "Code") of Liberty Bank. The Code outlines general principles of the business ethics and values of Liberty Bank. It is Liberty Bank's policy to act honestly and fairly at all times and comply with all applicable laws and regulations in all that it does and each employee is expected to do the same.

Relationship with colleagues	•Responsible for understanding and complying with the code and reporting suspected and/or actual violations;
Safety policies	•All employees shall maintain office safety; •Violence-free and drug-free workplace; •Unauthorised photography and recordings are prohibited; •Staying alert and reporting violations to the compliance or the information security officer;
Relationship with customers	•Being transparent and acting with integrity; •Earning and keeping customers' trust by responding quickly, providing thoughtful solutions and keeping confidential information safe from theft;
Fair sales and marketing	•Acting with integrity and dealing fairly with customers, suppliers, comtetitors, the public and each other;
Confidentiality	•Keeping confidential information secret from anyone outside the Bank (unless there is a legitimate business purpose for doing so);

4.6.2 Whistleblowing Policy

In December 2018 the Supervisory Board of Liberty Bank approved the Whistleblowing Policy which sets the procedures for the disclosing person to report any concerns and/or suspicions regarding the possible violations of laws, rules or regulations or suspected wrongdoing of internal Liberty Bank policies and standards or procedures. Whistleblowing Policy does not intend and shall not be deemed to prohibit or restrict a disclosing person in any way from communicating directly with, cooperating with, responding to any inquiry from, investigatory or other agency, authority or body, foreign regulatory, or any regulatory authority regarding any possible violation or suspected wrongdoing.

4.6.3 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:

Principles of the Bank	• Employees are loyal towards their work and take efforts to achieve maximum results;
Performance	• All employees should strive to increase their professionalism, be responsible, fulfill their objectives, meet the qualification requirements, reasonably plan and spend the Bank's resources, define optimal level and control of delegation;
Flexibility and initiative	• The bank encourages its employees to develop own capabilities, achieve set goals, ensure creative approach and initiatives, improve working processes and increase the customers' satisfaction, strive to maintain competitive advantage of the Bank;
Teamwork and partnership	• The Bank's top priorities are healthy working atmosphere at the Bank, mutual respect among the employees and faithful attitude towards the work;
Transparency and trust	• The Bank uses all sources of information: business meetings, group discussions, internet, intranet, press conferences to disseminate unbiased information;
Obligatory rules of conduct of an employee	• The employee should always protect the Bank's interests and image in front of the customers and partners, must be honest and objective towards his/her clients, colleagues and subordinates, should respect and protect their interests and avoid conflict;
Gambling activities	• Employees are prohibited to participate in or organise gambling activities and betting as defined under the Laws of Georgia;

4.6.4 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.

4.6.5 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 utilized 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.

In addition to abovementioned policies and manuals, Liberty Bank intends to approve Anti-bribery and Anti-Corruption Policy, Environmental Sustainability Policy and Remunerations Policy as required under the Corporate Governance Code of Georgia for Commercial Banks.

5 REMUNERATION

5.1 General Remuneration Framework

The Bank is one of the leading employers in Georgia with over 4,491 employees. The Bank believes that its long-term success depends on the talent of its employees, therefore the main objective of the 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.

The Bank is positioning as a socially responsible and fair player on the labour 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. The bank also supports enriching employees' knowledge by fully financing their studies (covering all related costs) both inside and outside the country.

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") fulfilment. KBOs-24 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.

The table below demonstrates the remuneration policy for different employees:

Front Office Employees	• Fixed monthly salary and monthly variable bonuses; • Transparent and fully understandable performance plan with specific targets is defined for each Front Office position and is subject to change on a monthly basis; • 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;
Back Office Employees	• Fixed monthly salary; 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;
Management Board	• The Supervisory Board, as a plenary body, is responsible for structuring the remuneration system for the members of the Management Board as well as for determining their individual compensation; • The remuneration system for the members of the Management Board is regularly reviewed by the Supervisory 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; • Incentive programs and cash awards of the members of the Management Board are subject to approval of the Supervisory Board. (KBOs of the CEO and CFO for 2018 are presented in Tables below);
Supervisory Board	• Remuneration of the Supervisory Board members is set by the Annual General Meeting and is closely related to the achievement of respective KBOs and the Bank's general performance by the end of the given calendar year; • KBOs of the Chairman of the Supervisory Board for 2018 are presented in Tables below;

KBOs of the CEO

	Importance
Financial Performance, combined	65%
Revenue to exceed GEL 220 million	
Cost/Income Ratio not to exceed 62%	
Net ECL not to exceed the lower of GEL 38 million and Cost of Risk of 4.5%	
ROAE to exceed 20%	
Implement strategies which will be in compliance with the regulatory prudential ratios	20%
IFRS 9 - Full adoption and transition to IFRS 9	15%

KBOs of the CFO

	Importance
Qualification and adjustment-free & timely issuance of the 2018 financial statements	15%
Timely and accurate NBG/regulatory reporting	10%
Tax compliance, no more than GEL 200K adjustment or fines	15%
To be in compliance with NBG prudential ratios and RAS requirements	15%
Interest expense - maintain blended cost of funds below 10.5% throughout the year	10%
Opex & Capex, combined	15%
Cost/Income ratio not to exceed 62%	
Capex & intangibles spend not to exceed GEL 30 million	
IFRS 9 - Full adoption and transition to IFRS 9	10%
IT-related KBOs, combined	10%
Implementation of LMS	
Upgrade core system (RS)	

KBOs of the Supervisory Board Chairman

	Importance
ROAE to exceed 20%	60%
Implement strategies which will be in compliance with the regulatory prudential ratios	40%

5.2 Employees having a Material Impact on the Bank's Risk Profile

Employees in key managerial positions are material risk takers as they are responsible for the business activities under their supervision. Employees whose professional activities have a material impact on the Bank's risk profile are following:

- Members of the Supervisory Board and Management Board;
- Employees with significant influence on day-to-day management of the business - Heads of the following departments:
    - HR
    - Internal Audit
    - Legal
    - Treasury and Settlements
    - Finance
    - Procurement
    - IT
    - Credit Risks
    - Operational Risks.

For more details on remuneration awarded to the Management and Supervisory Boards, as well as employees having a material impact on the Bank's risk profile, see Appendix Tables 15-16.

5.3 Remuneration Committee

From 2019, the bank intends to establish the Remuneration Committee. The remuneration policy and systems will be developed and managed by the Supervisory and Management Boards with the support of the HR department. The remuneration committee's judgement will meet the appropriate regulatory requirements and exercise best practices fairly and responsibly. The committee will periodically review and adjust the fees and make sure the remuneration is aligned accordingly with the employees' performance, taking into consideration the views of shareholders and other stakeholders. The committee will also take responsibility in determining the KPIs for management body and other material risk takers every year, which will include both corporate and individual performance measures.

6 RISK MANAGEMENT

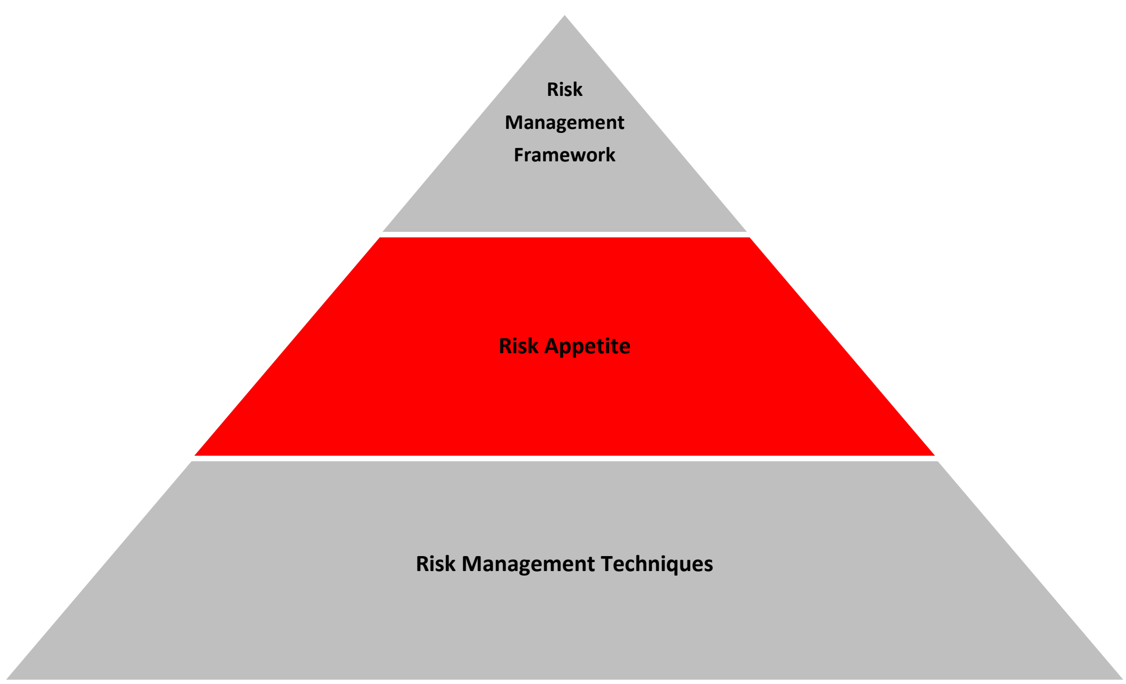
Risk is inherent in the Bank's activities but managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable 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.

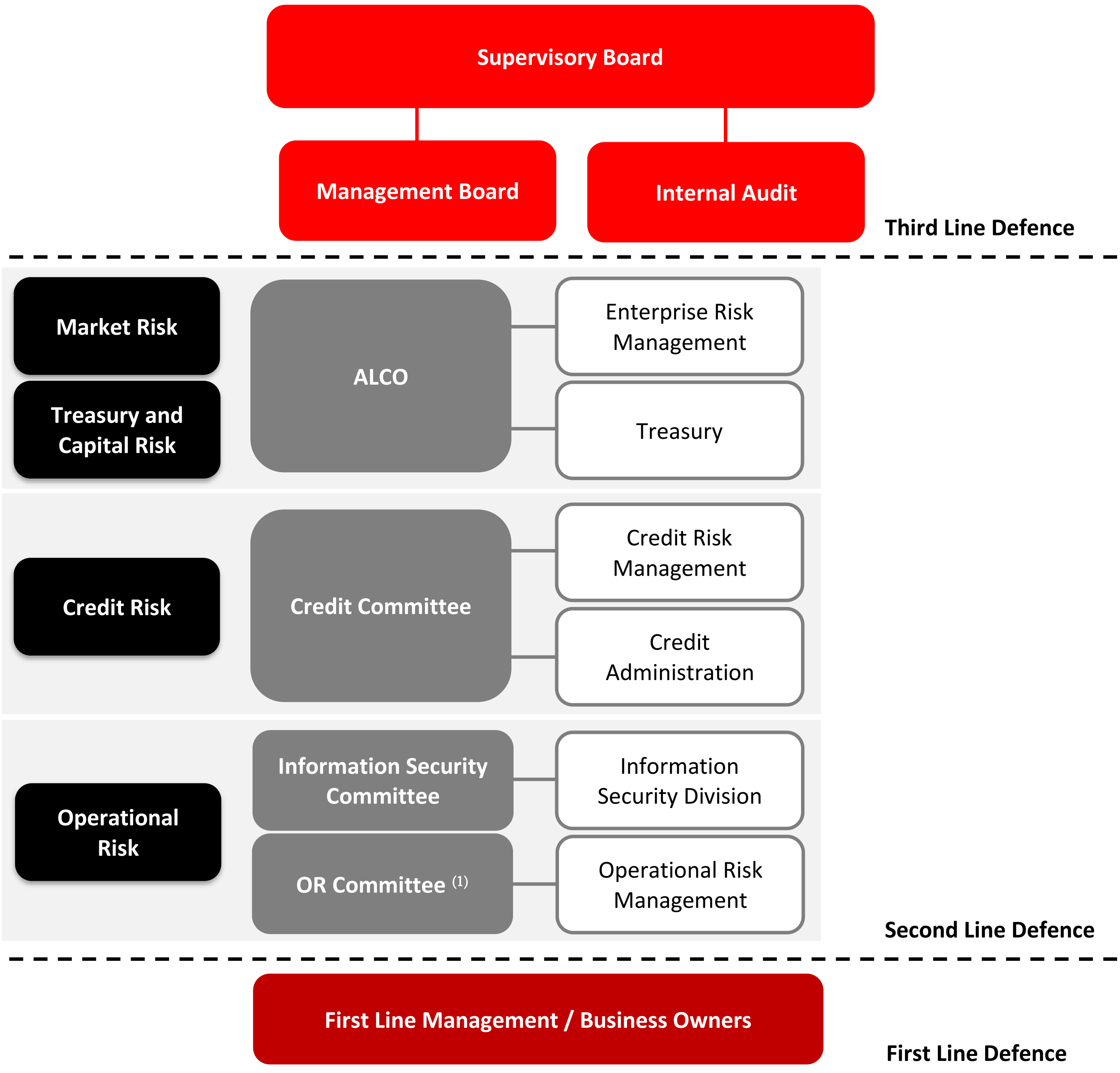
The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The key risks of the Bank are managed by the following committees and units with the active involvement of Management Board:

- 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 Committee.

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 defence, the first one being ensured by the businesses. The following departments/divisions are responsible for day-to-day management of credit, liquidity, market, operational and other financial and non-financial risks:

- Enterprise Risk Management ("ERM");
- Treasury and Settlements;
- Credit Risk Management;
- Credit Administration;
- Operational Risk Management ("ORM");
- Information Security;
- Security;
- AML;
- Compliance.

Table below shows three lines of defence in the management of risk.



(1) Operational Risk Committee was created in 2019

6.1.1 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 employees 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.

6.1.2 Assets and Liabilities Management Committee

Core functions of the ALCO are management of the capital, liquidity, interest and funding risks and loans/guarantees pricing. The Chairman of committee is CEO. ERM and Market Analysis division provides 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:

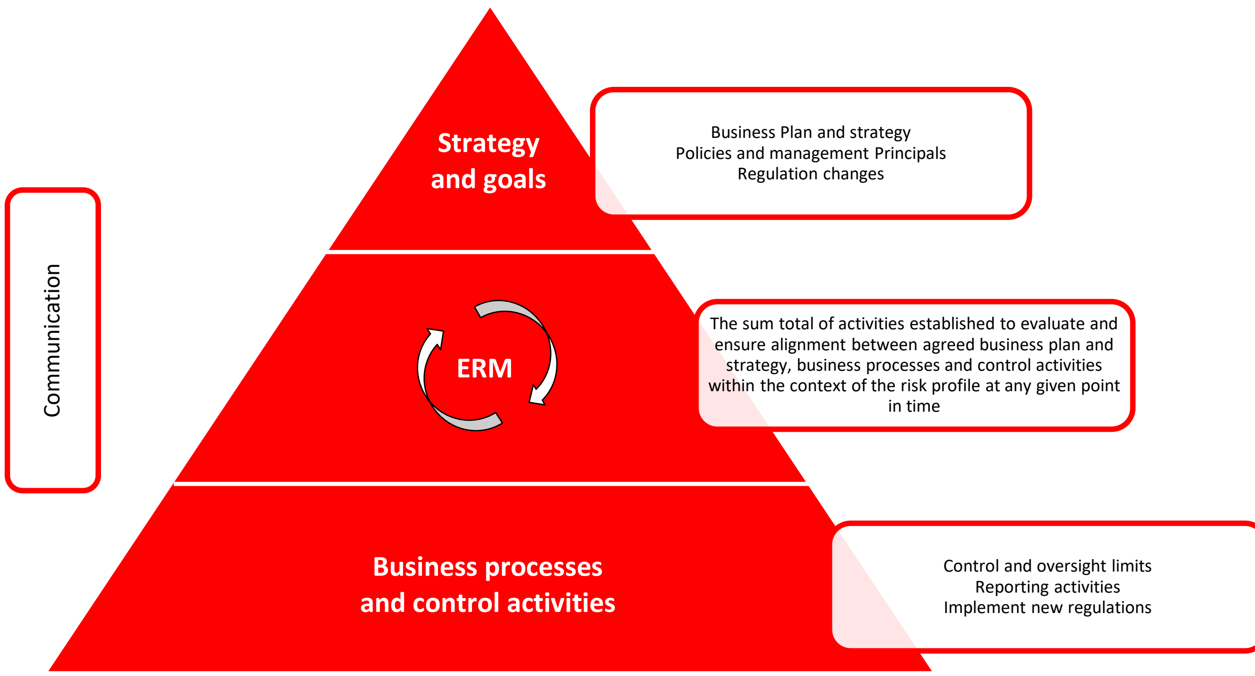
Capital Risk	•Manage capital adequacy according to NBG requirement and analyse the capital forecasts; •Manage economic capital and analyse main changes; •Monitor early warning indicators along with quarterly capital stress-tests;
Liquidity Risk	•Develop funding plan considering the Bank's investment capabilities to avoid excessive liquid funds; •Monitor early warning indicators along with monthly liquidity stress-tests and act according to its results; •Manage liquidity risk mitigation tools and maturity gap of assets and liabilities;
Market Risk	•Manage interest rates and interest rate gap; •Manage FX position;
Pricing	•Set minimum levels of interest rates for loans and guarantees; •Control disbursed loans effective interest rates compared to pricing;

In addition, ALCO sets limits for interbank counterparty exposures. 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.

6.1.3 Enterprise Risk Management

In 2018 ERM and Market Analysis division became part of Financial department. The objective of the ERM and Market Analysis division is to maintain risk at an acceptable level to ensure the best balance possible between threats and opportunities – in line with the risk appetite and business strategy of the Board and Executive Management. It is concerned with ensuring the achievement of goals as the enterprise develops and appropriate management of the organisation's assets, including avoidance of losses as a result of unwanted events. This will include matters occurring in all levels of the organisation. ERM and Market Analysis division's role in governance is illustrated in figure 6.1.3.1.

Table 6.1.3.1 The interrelationship between ERM and Market Analysis division and governance



ERM and Market Analysis division 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 and Market Analysis division 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 and additional input provider for ALCO;
- Managing and reporting the 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.

In 2017 the new management decided to make Risk Appetite statement as a separate document.

In Risk Appetite statement bank's attitude to following key risks are described:

- Credit Risk
- Treasury and Capital Risk
- Market Risk
- Operational Risk
- Other Prudential Risks

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.

The Management Board reviews and approves bank's risk appetite statement on an annual basis, or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that they are consistent with Bank's strategy, business and regulatory environment and stakeholders' requirements.

Reports relating to bank's risk appetite are presented regularly to the Management Board.

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 departments/divisions 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 department and ERM and Market Analysis division are responsible for monitoring risks and ensuring compliance with the Risk Appetite. ERM and Market Analysis division 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.

This 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 and Market Analysis division. 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. The Regulation covers the credit risk, market risk, operational risk and treasury and capital risk. As part of the ICAAP, the Bank calculates the economic capital that is required to cover all the material risks, except for the liquidity risk.

6.3.1 Credit Risk

The credit risk is the risk that the borrower or any counterparty 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.

The bank has different categories of credit risk:

- Default Risk – is the risk that counterparty will be unable to make the required payment on their debt obligations.
- Country Risk - is the risk stemming from the unexpected deterioration of the creditworthiness or default of Georgia due to social unrest, political instability, war or other unfavourable developments in the country.
- Concentration Risk – is the risk of loss arising from a large position in a single asset, or group of an assets. This risk arises when portfolio has less diversification in terms of sector and group of borrowers.

6.3.2 Market Risk

Market risk is the risk that affects the overall performance of the financial market. The main types of market risks include interest rate risk, foreign currency risk and their levels of volatility. Market risk arises mainly from 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.

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, or from 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 Treasury and Capital risk

Treasury and capital risk includes liquidity and capital risks.
Liquidity risk is the financial risk arising from the Bank's potential inability to meet all payment obligations when they come due or are only able to fulfil these obligations at a higher cost. The bank divide liquidity risk into two types:

Market liquidity - The market liquidity risk is the risk that bank does not have the ability to buy and sell an asset without changing the price materially and without incurring large transaction costs.

Funding liquidity - The funding liquidity risk arises when the bank is unable to pay its debt when they fall due and the bank cannot meet the demand of customers wishing to withdraw their deposits.

Capital risk is arising from inadequacy of capital to support risk exposure arising from normal business activities, inability to meet dividend targets, to increase cost of fund due to deterioration in investors' appetite or credit rating and to comply with regulatory capital requirements under normal operating environment.

6.3.5 Macroeconomic Risk

Macroeconomic situation can affect Banks profitability, portfolio quality and growth rate.
The main factors that directly influence Banking Sector in Georgia are:

- GDP growth rate
- Unemployment rate
- Exchange rate
- Inflation rate
- Real interest rate
- Business and consumer expectations
- Fiscal and current account imbalances
- Political cycles

In addition, Georgia's economy depends on the economy and political situation of neighbor countries. These can alter export, tourism, money transfers and foreign direct investments.

6.4 Stress Testing

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

6.4.1 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.

6.4.2 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.

6.5 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 an 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 and Market Analysis division 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.

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.

In 2017 the National Bank of Georgia made changes to the "Regulation on Capital Adequacy Requirements for Commercial Banks" that made pillar I requirements closer to Basel III standards. Above mentioned sets additional buffers that must be met with Common Equity Tier 1 Capital, namely: Conservation buffer, Countercyclical buffer and Systemic Risk buffer.

In 2017 the National Bank of Georgia formalized pillar II framework that set additional capital requirements 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.

Changes in Regulation – 2018
In February 2018 the National Bank of Georgia defined GRAPE buffer for commercial banks that increase requirement for capital adequacy ratio.

In September 2018 the National Bank of Georgia revoked gold mitigation, resulting in an increase of risk weighted risk exposure.

In December 2018 the National Bank of Georgia defined systematically important banks and required systematic risk buffer addition.

7.2 Regulatory Capital

The regulation requires banks to have set aside enough capital to cover unexpected losses and keep themselves solvent in a crisis. As a main principle, the amount of capital required depends on the risk attached to the assets of a particular bank.

The total regulatory capital comprises tier 1 and tier 2 capital. Tier 1 capital is subdivided into Common Equity Tier 1 (CET 1) capital and Additional tier 1 (AT 1) capital.

Tier 1 capital is considered to be the going concern capital. The going concern capital allows a bank to continue its activities and keeps it solvent. The highest quality of Tier 1 capital is common equity tier 1 (CET1) capital.

Tier 2 capital is considered to be gone concern capital. The gone concern capital allows an institution to repay depositors and senior creditors if a bank becomes insolvent.

Table below sets out the details of the Bank's capital base under the NBG Regulation.

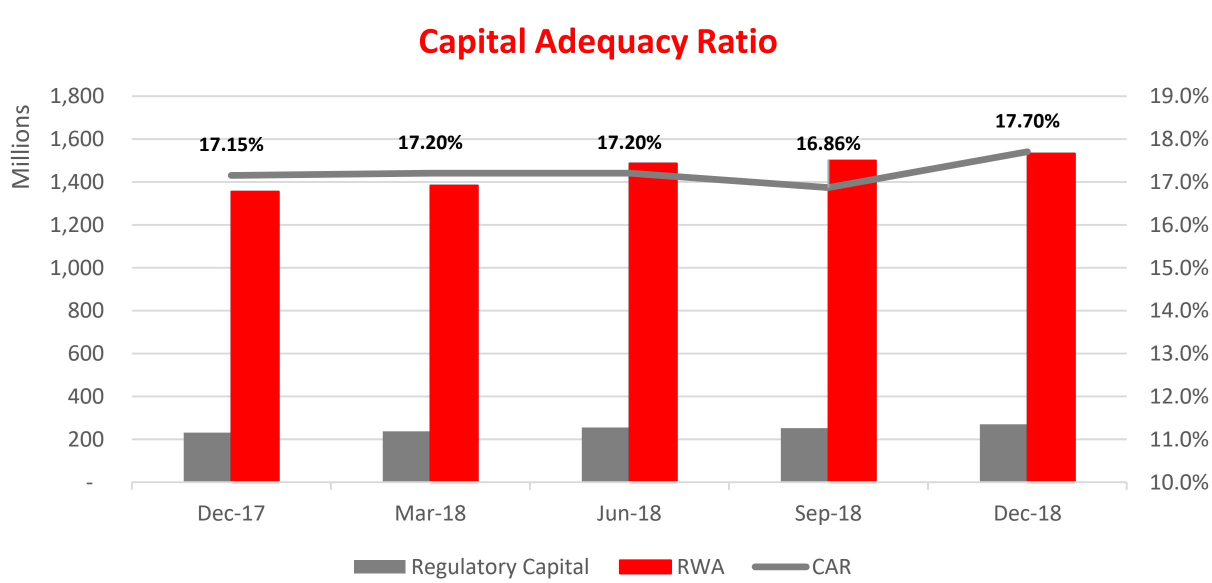
Table 7.2.1 Regulatory Capital under BASEL III

GEL '000s, unless otherwise noted	***31-Dec-18***	***31-Dec-17***	***Change***
Common Equity Tier 1 capital prior to regulatory adjustments	**272,945**	**220,095**	**24%**
Qualifying common share capital	44,490	43,951	1%
Share premium on qualifying common share capital	35,132	33,875	4%
Accumulated other comprehensive income	28,500	29,010	-2%
Other disclosed reserves	1,694	1,694	0%
Retained earnings	163,128	111,566	46%
Common Equity Tier 1 capital: regulatory adjustments	**-62,335**	**-57,651**	**8%**
Revaluation reserves on assets	-28,500	-29,010	-2%
Accumulated unrealised revaluation gains on assets through P&L	-2,368	-2,035	16%
Intangible assets	-31,206	-26,349	18%
Investments in subsidiaries/affiliates	-260	-257	1%
COMMON EQUITY TIER 1 CAPITAL	**210,610**	**162,444**	**30%**
Additional Tier 1 Capital	**4,565**	**6,139**	**-26%**
TIER 1 CAPITAL	**215,175**	**168,583**	**28%**
TIER 2 CAPITAL	**55,994**	**63,911**	**-12%**
Subordinated debt	41,715	51,415	-19%
General reserves	14,279	12,496	14%
REGULATORY CAPITAL	**271,169**	**232,494**	**17%**

In 2018 total Regulatory Capital increased by GEL 38.68 million compared to 2017. The main changes were caused by increasing RE due to 2018 net profit amounted GEL 51.56 million and decreasing Tier 2 capital due to amortization of subordinated loans.

The Chart below shows quarterly trend of regulatory capital and total risk weighted assets.

Table 7.2.2 Regulatory Capital under BASEL III



See table 2 and table 3 in appendix for additional information about Regulatory Capital.

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. In addition to the mandatory requirement all banks are required to hold a capital conservation buffer, countercyclical capital buffer and systematic risk buffer, to ensure that they accumulate a sufficient capital base in prosperous times to enable them to absorb losses in the event of a crisis.

The purpose of the conservation buffer is to conserve a bank's capital. When a bank breaches the buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make.

The countercyclical capital buffer is a prudential tool introduced by the Basel III agreement to counteract the effects of the economic cycle on banks' lending activity.

With the objective to formalize and establish this framework National Bank of Georgia introduced "Rule on Additional Capital Buffer Requirements for Commercial Banks within of Pillar 2". In accordance with this rule, Pillar 2 capital requirements include requirements for unhedged currency induced credit risk buffer, concentration buffer, net stress-test buffer and GRAPE buffer.

It's important to note, that capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 4.5%, Tier 1 capital 6% and Total Regulatory Capital 8%). Therefore, 56 % of capital required under Pillar 2 should be held through Common Equity Tier 1, while 75% through Tier 1 capital instruments.

The table below shows Minimum Requirements for Liberty banks as of 31 December 2018:

Table 7.3.1.1 Minimum Requirements

Minimum Requirements	Ratios	Amounts (GEL)
Pillar 1 Requirements		
Minimum CET1 Requirement	4.50%	68,927,679
Minimum Tier 1 Requirement	6.00%	91,903,572
Minimum Regulatory Capital Requirement	8.00%	122,538,096
Combined Buffer		
Capital Conservation Buffer	2.50%	38,293,155
Countercyclical Buffer	0.00%	-
Systemic Risk Buffer	0.60%	9,190,357
Pillar 2 Requirements		
CET1 Pillar 2 Requirement	1.36%	20,837,014
Tier 1 Pillar2 Requirement	1.82%	27,828,859
Regulatory capital Pillar 2 Requirement	6.60%	101,051,082
Total Requirements		
CET1	8.96%	137,248,205
Tier 1	10.92%	167,215,943
Total regulatory Capital	17.70%	271,072,690

7.3.2 Risk-weighted Risk Exposures

As of 31 December 2018, risk-weighted exposures in the amount of GEL 1,531.7 million by type of risk break down as follows: credit risk accounted for 74.58% of RWE, market risk accounted for 0.03% of RWE and operational risk accounted for 25.39% of RWE. Between 31 December 2018 and 31 December 2017, RWE for credit risk increased by GEL 142.6 million, RWE for operational risk increased by GEL 37.5 million due to increase 3-year average revenue used in Basic Indicator calculation, whereas RWE for market risk decreased immaterially by GEL 3.8 million. The table below provides RWE split by categories and capital requirements.

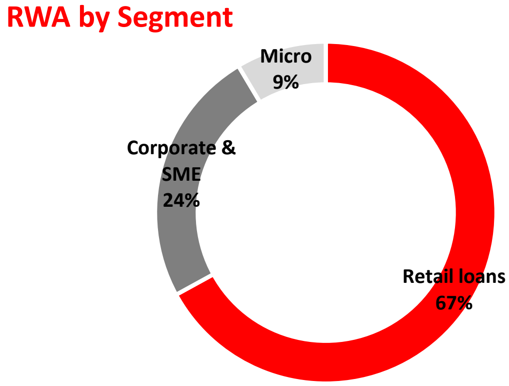
Table 7.3.2.1 Minimum Capital Requirements and Risk-weighted Exposures

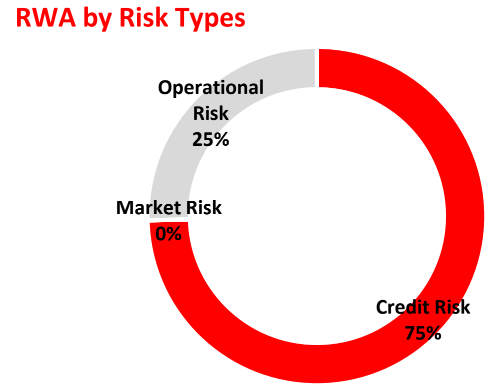
GEL Millions, unless otherwise noted	*31-Dec-18*		*31-Dec-17*		*Change(1)*
	RWE	*Capital Requirement*	*RWE*	*Capital Requirement*	
Credit Risk	**1,142.3**	**202.2**	**999.7**	**105.6**	**14%**
Balance sheet items	1,120.0	198.2	980.1	103.5	14%
Central governments or central banks	86.0	15.2	75.5	8.0	14%
Commercial banks	26.3	4.7	48.3	5.1	-46%
Corporates	267.8	47.4	54.0	5.7	396%
Retail	429.7	76.1	552.4	58.3	-22%
Exposures secured by residential property	12.3	2.2	3.1	0.3	297%
Past due items	3.8	0.7	2.6	0.3	46%
High-risk category	158.6	28.1	108.5	11.5	46%
Other items	135.5	24.0	135.7	14.3	0%
Off-balance sheet items	11.2	2.0	10.4	1.1	8%
Counterparty credit risk	11.1	2.0	9.2	1.0	21%
Market Risk	**0.5**	**0.1**	**4.3**	**0.5**	**-88%**
Operational Risk	**388.9**	**68.8**	**351.4**	**37.1**	**11%**
TOTAL	**1,531.7**	**271.1**	**1,355.4**	**143.1**	**13%**

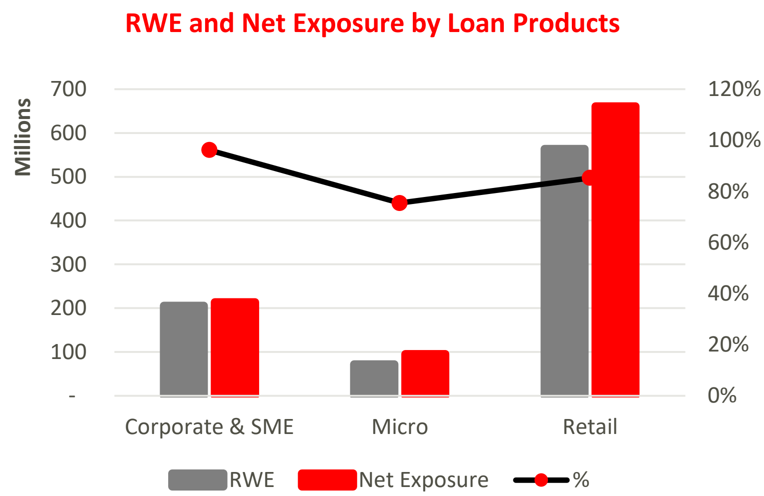
(1) Percentage change in the RWE is same as the percentage change in the capital requirement.

The main change in credit risk was caused by increasing corporate loan portfolio by GEL 184 million.

The tables below show distribution of RWA by Risk Types and Loan Products:







See table 4 in appendix for additional information about Risk Weighted Risk Exposures.

7.4 Capital Management

The Capital Management is induced by bank's strategic and organizational requirements, taking into account the regulatory, economic and commercial environment. The main goal is maintaining stable capital base to overcome fundamental risks.

The bank defines losses into categories. Some financial losses that are normal part of business day to day operations are covered by the bank's earnings. However, if various internal and external factors cause losses that might exceed earning, capital should be used for covering.

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

The supervisory board approves capital plan and decisions related to changes in capital structure of the banks. The strategy includes fundamental objectives and basis practices:

Objectives	Practices
Manage capital adequacy to cope with the impact of the risk, rising from normal and stressed condition.	• Comply with the regulatory requirement • Retain the RAS limit buffer
Maintain the adequate level of capital to finance business growth and related risks.	• Make short-term and long-term forecast of capital adequacy ratio
Define strategies for addressing potential capital shortages.	• Make Stress-test
Guide capital planning, capital issuance and dividend distribution action.	• Develop procedures for capital planning, which will be compliant with main strategies

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's risk controlling and monitoring process results in generating revision to the identified risks and defining new action items for risk treatment process. The regulatory capital ratios are calculated on a monthly basis and are reported to the NBG. The Bank observes its capital buffer over the minimum regulatory ratios on a monthly basis. The internal capital adequacy ratio is calculated and assessed on a quarterly basis. ERM and Market Analysis division takes the organizational and technical measures to ensure that all of the 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 table below indicates the primary objectives and core practices for ICAAP:

Primary Mission	Process
Maintain adequate capital to withstand the impact of the risks that may arise under the normal conditions.	• Meet minimum requirement set by NBG • Maintain capital buffer defined in RAS statement
Maintain adequate capital to cover the Group's current and forecast business needs and associated risks in order to provide a viable and sustainable business offering.	• Use a forecast of the risk profile and capital requirements resulting from the business and strategic capital planning process
Maintain adequate capital to cope potential risks deriving from unpredictable and uncontrollable case.	• Regularly make stress testing according to framework adopted by the Management Board and endorsed by the Supervisory Board

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 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 Bank'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 on ("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 risks as follows:

ECR for credit risk:

The Bank uses Value-at-Risk ("VAR") with 99.9% confidence level on a one-year time horizon to calculate risk weighted exposures for total loan portfolio, sovereigns, central banks and commercial banks. 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.

The table below shows calculation principles for client's loan portfolio and sovereign, central banks and commercial banks ECR.

Retail Loans	• PD and LGD for loan portfolio is estimated by product, using internal data of the Bank; • CICR Exposure, which is foreign currency exposure at default weighted in 75%, is added to ECR;
Corporate & SME Loans	• PD and LGD for loan portfolio is estimated by client, using internal data of the Bank; • CICR Exposure, which is foreign currency exposure at default weighted in 75%, is added to ECR; • Maturity adjustment is applied; • ECR for Sector and Single-name concentration;
Sovereigns, central banks and commercial banks	• PD is estimated based on the ratings provided by S&P Ratings and respective default probabilities based on S&P Ratings research; LGD is assumed 45%; • Maturity adjustment is applied;

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.

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. The bank defines additional buffers above minimum requirement due to changes in new documentations and software in progress.

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.

Economic Capital Requirement by Risk Types

GEL millions unless otherwise noted	*31-Dec-18*	*31-Dec-17*	*Change*
Credit risk	161.1	129.5	24%
Market risk	5.1	6.0	-15%
Operational risk	50.6	28.1	80%
Total economic capital requirement	**216.7**	**163.6**	**32%**

As of 31 December 2018, the total ECR for the Bank equalled GEL 216.7 million compared to the total ECR of GEL 163.6 million as of 31 December 2017. The ECR for credit risk increased by GEL 31.6 million, mainly driven by increase in corporate loan portfolio. ECR for market risk decreased by 15% y-o-y, reflecting higher economic capital for interest rate risk in the banking books. ECR for operational risk increased by GEL 22.4 million, since the Bank uses basic indicator approach that relies on relevant three-year average indicators and additional buffer for operational risks.

As of 31 December 2018, the ECR was GEL 54.3 million less compared to the capital requirement (at 17.7% of RWE) under the NBG Regulation. The table below provides the differences by risk types between the ECR and capital requirement under the NBG Regulation.

Difference between ECR and Capital Requirement under the NBG Regulation

GEL millions unless otherwise noted	*31-Dec-18*			*31-Dec-17*		
	ECR	*(at 17.70%)*	*Difference*	*ECR*	*(at 10.56%)*	*Difference*
Credit risk	161.1	202.2	-41.1	129.5	105.6	24.0
Market risk	5.1	0.1	5.0	6.0	0.5	5.5
Operational risk	50.6	68.8	-18.3	28.1	37.1	-9.0
Total	**216.7**	**271.1**	**-54.3**	**163.6**	**143.1**	**20.5**

As of 31 December 2018, the ECR for credit risk amounted to GEL 161.1 million, while the capital requirement under the Pillar 1 Regulation was GEL 41.1 million more and equalled GEL 202.2 million. The higher capital requirement under NBG regulation for credit risk and operational risk is mainly driven by higher requirement. The ECR for the market risk was GEL 5.1 million compared to GEL 0.1 million capital requirement under the Pillar 1 Regulation. The difference is attributed to GEL 2.3 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 GEL 50.6 million, while capital requirement under the Pillar 1 Regulation comprised GEL 68.8 million.

7.5.3 Assessment of Internal Capital Adequacy

The Bank has assessed its internal capital adequacy as of 31 December 2018 and the results are provided in the table below.

Internal Capital Adequacy

GEL millions unless otherwise noted	*31-Dec-18*	*31-Dec-17*	*Change*
Capital Supply			
Shareholders' equity	277.5	226.2	23%
Revaluation reserves on assets	(28.5)	(29.0)	-2%
Tier 2 capital[1]	53.8	61.1	-12%
CAPITAL SUPPLY	**302.8**	**258.4**	**17%**
Capital Demand			
Economic capital requirement	216.7	163.6	32%
Intangible assets	31.2	26.3	18%
CAPITAL DEMAND	**247.9**	**190.0**	**30%**
INTERNAL CAPITAL ADEQUACY RATIO	**122.1%**	**136.0%**	

(1) Tier 2 Capital includes the eligible subordinated debt in the amounts of GEL 41.7 million and GEL 51.4 million as of 31 December 2018 and 31 December 2017, 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 GEL 12.8 million and GEL 9.7 million as of 31 December 2018 and 31 December 2017, 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 2018, the internal capital adequacy ratio was 122.1% and the internal capital buffer comprised GEL 54.9 million.

7.6 Leverage Ratio

In September 2018 NBG introduced leverage ratio, that is based on BIS Basel 3 framework. The Leverage Ratio framework is critical and complementary to the risk-based capital framework. The Leverage Ratio captures 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 commercial banks should maintain Leverage Ratio higher than the 5% minimum set by NBG. The Bank's Leverage Ratio was 11.5% and 9.3% as of 31 December 2018 and 31 December 2017, respectively.
The table below provides details on Leverage Ratio calculated according to NBG standards.

Leverage Ratio

GEL millions, unless otherwise noted	***31-Dec-18***	***31-Dec-17***	***Change***
On-balance sheet exposures	**1,834.4**	**1,799.8**	**2%**
On-balance sheet items	1,865.9	1,826.4	2%
(Asset amounts deducted in determining Tier 1 capital)	-31.5	-26.6	18%
Off-balance sheet exposures	**22.4**	**12.1**	**86%**
Off-balance sheet exposures at gross notional amount	83.4	33.2	152%
(Adjustments for conversion to credit equivalent amounts)	-61.0	-21.1	189%
Derivative exposures	**11.1**	**9.2**	**20%**
Total leverage ratio exposures	**1,867.9**	**1,821.1**	**3%**
Tier 1 capital	**215.2**	**168.6**	**28%**
Leverage Ratio	**11.52%**	**9.26%**	

The main changes in off-balance exposure were due to increase of guarantees exposure by GEL 7.5 million and increase of loan undisbursed amount by GEL 43 million.

8 CREDIT RISK

Credit risk is the risk that the borrower or any counterparty 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 unfavourable 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 2018 was GEL 1,862.9 million, up 2% 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

GEL '000s, unless otherwise noted	***31-Dec-18***	***31-Dec-17***	***Change***
Central governments or central banks	367,187	352,046	4%
Commercial banks	107,481	230,896	-53%
Corporates	286,592	59,347	383%
Retail	575,789	759,108	-24%
Claims secured by mortgages	35,217	8,774	301%
Past due items	3,764	2,970	27%
High-risk category	109,879	90,502	21%
Other items	348,512	296,172	18%
Balance Sheet Items	**1,834,420**	**1,799,815**	**2%**
Off-balance sheet items	17,477	10,908	60%
Counterparty credit risk	11,076	9,199	20%
TOTAL EXPOSURE TO CREDIT RISK	**1,862,973**	**1,819,921**	**2%**

See Appendix Table 5, 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 6.

8.2 Credit Risk Management

Credit risk management at the Bank is overseen by the Chief Risk Officer (Deputy CEO), under the supervision of the Management Board and the Supervisory Board.

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;
- Automated retail exposures.

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

Corporate customers	Retail customers	Automated retail loans
•Application process and due diligence of the client's financial position – is performed by Corporate Bankers / Senior Credit Experts; •Client's business specifications / management assessment – is performed by Corporate Bankers / Senior Credit Experts; •Client's legal due diligence (when necessary) – is performed by legal department of the Bank; •Collateral assessment / appraisal – is performed by collateral assessment unit of the Bank (independent from the front office); •Client's risk assessment and appraisal (based on report, client's free cash flow sufficiency for servicing the requested loan) – is performed by the Bank's credit risk management department.	•Application process and collection of first-hand documents from the client (proof of income, liabilities, inflows and costs of the family, other necessary information) – is performed by the Credit Experts at Service Centres & Branches; •Collateral assessment / appraisal – is performed by collateral assessment unit of the Bank (independent from the front office); •Review and identification of client's credit rating – done by the independent credit risk teams.	•Application process and collection of client personal information - is performed by the front line employees (operators / sales agents); •Assessment is done by an automatic processing (approval & rejection) system - a software solution, which online analyses clients declared income and total liabilities, check eligibility for the certain cut off criteria (including credit score) and based on results either approves or rejects the application– the methodology and the score cards are reviewed and approved by the Management Board.

The decision-making limits and authorities are separated between several levels of the credit committee. The structure and model of the credit committees is adopted and approved by the Management Board. The Bank uses centralized approach model, where most of the decision making power is concentrated at the Head Office.

The Bank has adopted the following levels of the credit committees:

Local Credit Committee - Chaired by Credit Unit manager / Branch manager;

Regional Credit Committee - Chaired by Regional Director;

Small Credit Committee - Chaired by CRO;

Credit Risk Committee - Credit committee chaired by the CEO;

Local, Regional and Small Credit Committee single borrower/group of borrowers' exposure approval limits are defined by Credit Risk Committee. Credit Risk Committee limit is assigned by supervisory board.

Local and Regional credit committees are authorized to make decisions only if the loan application qualifies for the minimum requirements of the debt service / leverage parameters, which vary product by product. If the application does not qualify for the parameters is either rejected, or sent for the approval to small credit committee;

All Loan application which are presented to the small or higher level credit committee is analyzed by the credit risk management team and only after preliminary approval is presented to the committee.

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:

- Branch / business unit Level - Operational reports for daily portfolio at risk ("PAR") and loan loss provision ("LLP") overview and management;
- Middle Management / product owners – various reports on product and its quality (PAR, LLP, changes in composition and concentrations);
- Top Management - reports on business line / regional 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. 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 "Assets Classification and the Creation and Use of Reserves for Losses by Commercial Banks" 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. Bank recognises impairment losses according to IFRS 9 approach. 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 Bank addresses impairment assessment in two areas: individually significant risk exposures and collectively assessed loans.

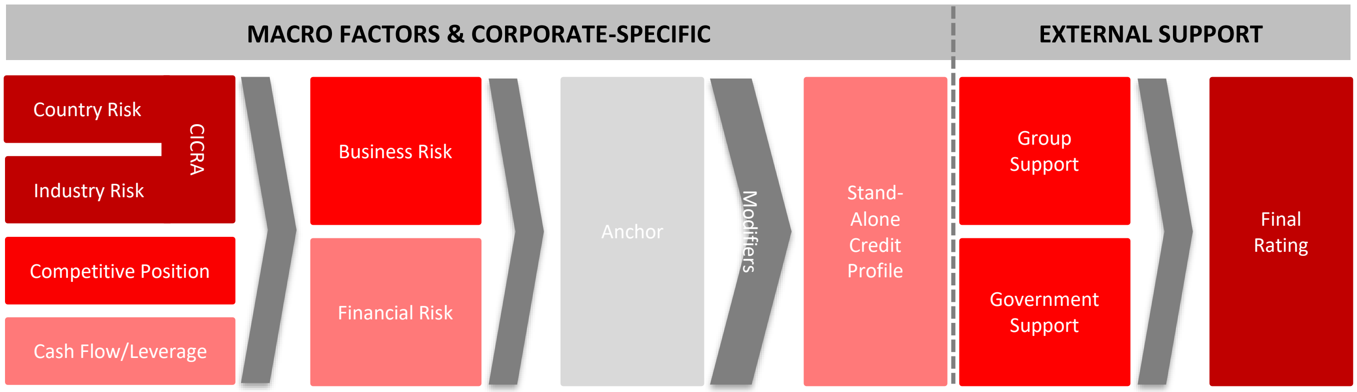
Individually significant risk exposures

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. According to Bank's methodology the minimum limit for individually significant risk exposures is 300 thousand GEL. Furthermore, any determined individual risk exposure is based on the decision taken by the Bank's managements' discussions, assumptions and estimates. For IFRS9 and credit risk management purposes the Bank uses the methodologies developed by S&P Global Market Intelligence for each individual exposure or borrower group. This includes the following models: PD Scorecard, LGD Scorecard and Credit Cycle Projection Overlay.

The PD Scorecard provides a framework to determine the Stand Alone Credit Profile and Final Rating for non-financial corporate issuers. The assessment reflects these companies' business risk profiles, financial risk profiles, and other factors that may modify the stand alone credit profile outcome.

The business risk (BR) profile of an entity comprises of the risk and return potential for a company in the markets in which it participates, the competitive climate within those markets, the country risks within those markets, and the competitive advantages and disadvantages the company has within those markets. The Scorecard combines the weighted scores of industry and country risk (together known as 'Corporate Industry & Country Risk') along with 'Competitive Position' to determine the entity's BR score.

The financial risk (FR) profile is the outcome of decisions that management makes in the context of its BR profile and its financial risk tolerances which reflects the manner in which the management seeks funding and the relationship of cash flows given the company's financial obligations. The FR score entails only one risk dimension ('Cash Flow / Leverage') which again is further divided into risk factors and are typically weighted in the Scorecard.



For the calculation of the LGD Component the Bank uses the LGD Scorecard based on the expectations of general economic conditions. Three Scenarios are considered - positive, neutral and negative. The final LGD is calculated as a weighted average interest rate of 3 scenarios based on the above mentioned economic scenarios.

The Credit Cycle Projection Overlay transforms average PD rates to forward-looking PDs, using macroeconomic variables. For the calculations of forward-looking PD rates the Bank uses macroeconomic forecasting scenarios proposed by the NBG. The forecast horizon is three years and the scenarios are updated biannually. The scenarios describe the macroeconomic situation in the country and cover all of the main macroeconomic variables. However, not all of these variables require inclusion in the credit loss assessment model.

For the purposes of final ECL calculation (For Individually significant risk exposures) 50% probability should be assigned to the baseline scenario, while the upside and adverse scenarios should both be given 25%-25% probabilities.

To adequately address credit risks, Liberty Bank believes that is necessary to implement a counter cyclical buffer in ECL calculations for pro cyclical sectors. For this purposes the Bank uses the main principle of the Spanish Dynamic Provisioning System stipulates that credit risk assessment should not only be made by actual loan losses. Better foresight is expected since “bad loans” are extended during “good times”.

Pursuant to Liberty Bank’s corporate lending strategy Pro-cyclical sectors belong to the following economic sectors:

1. Construction Development, Land Development and other Land Loans;
2. Real Estate Management: Office, commercial and residential real estate leasing;
3. Construction (Non-Development) Companies;
4. Production and Trade of Construction Materials;
5. Production and Trade of Durable Goods;

For these 5 sectors the bank has created additional 2% of counter cyclical buffer for unexpected loses which is strong risk mitigation factor.

Collectively assessed loans

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, 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 – DRR ("Discounted Recovery Rate"). 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.

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.

The Bank has selected Fitch Ratings, Standard & Poor's Ratings and Moody's Ratings 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.

Bank uses credit rating agency information for weighting commercial and central banks' exposures.

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 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

As of 31 December 2018 GEL '000s, unless otherwise noted	0%	20%	35%	50%	75%	100%	150%	250%	Credit RWE before CRM	CRM	Credit RWE after CRM
Central governments or central banks	281,181	-	-	-	-	86,005	-	-	86,005	-	86,005
Commercial banks	-	101,202	-	375	-	5,905	-	-	26,332	-	26,332
Corporates	-	-	-	2,425	-	284,167	-	-	285,379	17,602	267,778
Retail(1)	-	-	-	-	575,789	-	-	-	431,842	2,138	429,704
Claims secured by mortgages	-	-	35,217	-	-	-	-	-	12,326	-	12,326
Past due items	-	-	-	138	-	3,390	235	-	3,812	-	3,812
High-risk category2	-	-	-	-	-	15,921	92,169	1,789	158,647	-	158,647
Other items	212,237	1,025	-	-	-	135,250	-	-	135,455	-	135,455
Balance Sheet Items	**493,418**	**102,227**	**35,217**	**2,938**	**575,789**	**530,637**	**92,404**	**1,789**	**1,139,799**	**19,740**	**1,120,059**
Off-balance sheet items	-	-	-	-	12,971	4,506	-	-	14,234	3,041	11,194
Counterparty credit risk	-	-	-	-	-	11,076	-	-	11,076	-	11,076
TOTAL	**493,418**	**102,227**	**35,217**	**2,938**	**588,761**	**546,219**	**92,404**	**1,789**	**1,165,110**	**22,781**	**1,142,329**

As of 31 December 2017 GEL '000s, unless otherwise noted	0%	20%	35%	50%	75%	100%	150%	250%	Credit RWE before CRM	CRM	Credit RWE after CRM
Central governments or central banks	276,549	-	-	-	-	75,497	-	-	75,497	-	75,497
Commercial banks	-	225,070	-	5,000	-	826	-	-	48,340	-	48,340
Corporates	-	-	-	2,308	-	57,038	-	-	58,193	4,220	53,973
Retail(1)	-	-	-	-	759,108	-	-	-	569,331	16,945	552,386
Claims secured by mortgages	-	-	8,774	-	-	-	-	-	3,071	-	3,071
Past due items	-	-	-	277	-	2,121	572	-	3,118	511	2,607
High-risk category2	-	-	-	-	-	2,568	86,145	1,789	136,259	27,733	108,526
Other items	158,952	1,844	-	-	-	135,376	-	-	135,745	-	135,745
Balance Sheet Items	**435,501**	**226,914**	**8,774**	**7,585**	**759,108**	**273,427**	**86,718**	**1,789**	**1,029,553**	**49,409**	**980,144**
Off-balance sheet items	-	-	-	-	17	10,891	-	-	10,904	529	10,374
Counterparty credit risk	-	-	-	-	-	9,199	-	-	9,199	-	9,199
TOTAL	**435,501**	**226,914**	**8,774**	**7,585**	**759,125**	**293,516**	**86,718**	**1,789**	**1,049,655**	**49,938**	**999,717**

(1) Upon the NBG instructions, gross exposures that exceed GEL 20 thousand are not allowed to be included in retail class and are included in corporates class.

(2) High-risk category comprises the investment property risk-weighted at 250%.

For more details on credit risk-weighted RWE, see Appendix Table 7. For detailed breakdown of CRM, refer to Appendix Table 8 and for details on the effect of CRM, see Appendix Table 9. For more information on counterparty credit risk, refer to Appendix Table 10.

8.4 Credit Risk Concentration

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.

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 individuals or group of individuals.
- 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.

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.

According to NBG requirements the bank calculates concentration risk based on Herfindahl-Hirschman Index ("HHI") methodology and is subject to monthly reporting.

8.5 Restructured Loans

The Bank has adopted and implemented strict restructuring policy. For ECL calculation purposes the Bank defines "Refinanced loan due to non-business problems" - as a loan, in which the bank and the borrower have agreed to change the repayment terms and the change of repayment terms are not caused by the borrower's financial difficulties. "Restructured loan - due to business problems" – is defined as a loan, in which the Bank and the borrower have agreed to change the repayment terms because of the borrower's legal or financial difficulties. 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. For ECL calculation purposes all restructured loans are a subject to stage 2 and stage 3 expected credit risk assessment.
The table below sets out count and gross volume of outstanding restructured loans.

Restructured Loans

GEL 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 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%**
As of 31 December 2018, of which:	**1**	**0.1**	**4,574**	**14.1**	**4,575**	**14.1**
- Not overdue	-	-	3,408	9.7	3,408	9.7
- <30 days overdue	-	-	376	1.0	376	1.0
- 30-60 days overdue	-	-	86	0.3	86	0.3
- 60-90 days overdue	-	-	64	0.4	64	0.4
- 90-150 days overdue	1	0.1	126	0.5	127	0.6
- >150 days overdue	-	-	514	2.2	514	2.2
Total NPL (90+ days overdue)	**1**	**0.1**	**640**	**2.7**	**641**	**2.8**
NPL Rate	**100%**	**100%**	**14%**	**19%**	**14%**	**20%**

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.

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. These risks are managed by the Treasury and Settlements department and the results are reported to the Management Board.

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. Total OCP is limited to 20% of the Total Regulatory Capital under the NBG Regulation. OCP is managed by Treasury and Settlements 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 and Settlements 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 and Settlements department on a daily basis. If necessary, the Treasury and Settlements 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 2018, the RWE for the market risk amounted to 0.53 million GEL with the total capital requirement (including Pillar 2 buffers) of 0.09 million GEL, 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 GEL 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 loans- 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;

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.

As of 31 December 2018, sensitivity of NII to the 200 bps change in the interest rate was negative GEL 2.3 million, which is also considered to be the ECR of the Bank for interest rate risk in the banking book.

9.2.3 Hedging of the Interest Rate Risk

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

- Forward rate agreements;
- Interest rate swaps.

However, as the interbank derivatives market in GEL remains under-developed, the main action to mitigate the interest rate risk is the respective change in interest rates by the Bank.

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 and information security risks are included under operational risk. The operational risk includes legal, but does not cover strategic and the reputational risks.

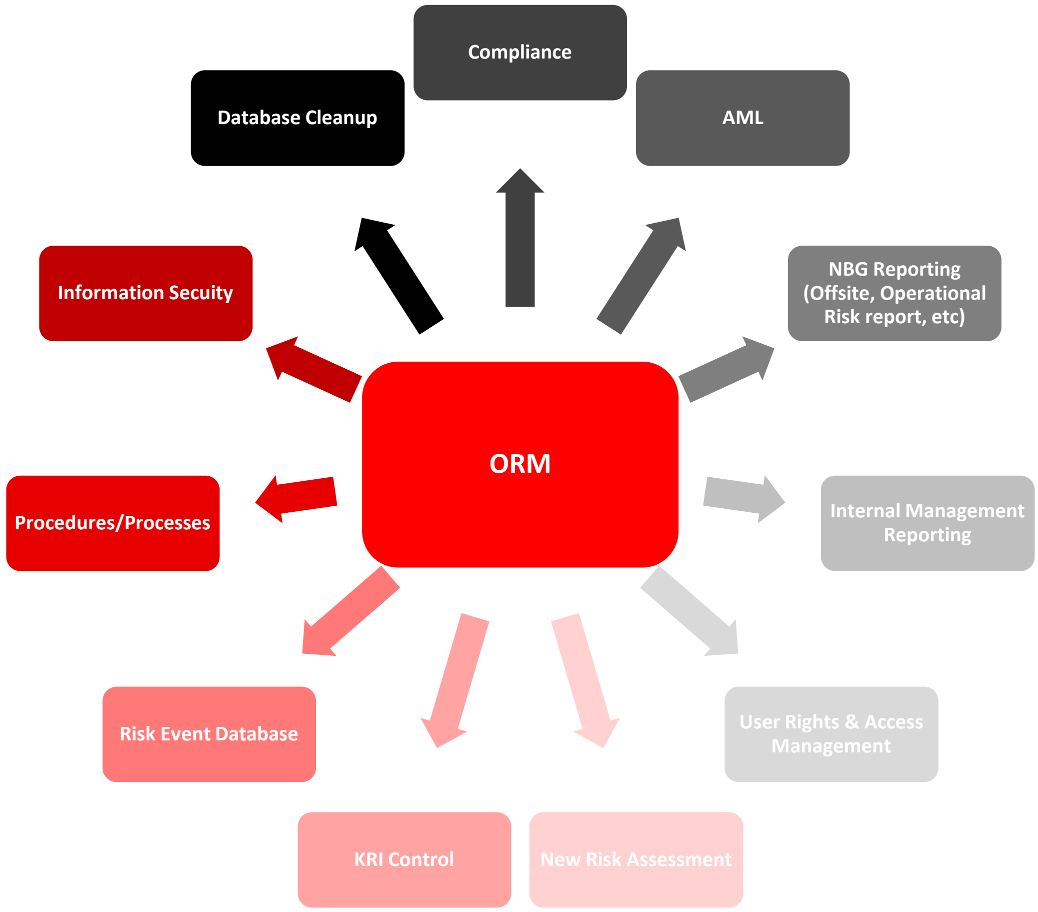
10.1 Operational Risk Management Structure

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.

The ORM department at the Bank is overseen by the CRO, under the supervision of the CEO. The Supervisory Board, the Management Board and the ORM department are notably responsible for the following tasks:

Supervisory Board	Management Board	ORM Department
• Determine, approve and periodically review risk framework and all underlining policies; • Approve the Bank's risk appetite in accordance with the existing regulations, bank's internal risks and strategic development;	• Facilitate consistent implementation of the operational risk management policies, processes and systems, that include all products, services and operations; • Ensures that operational risk management units are independent;	• 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;

Operational risks cover the following areas:

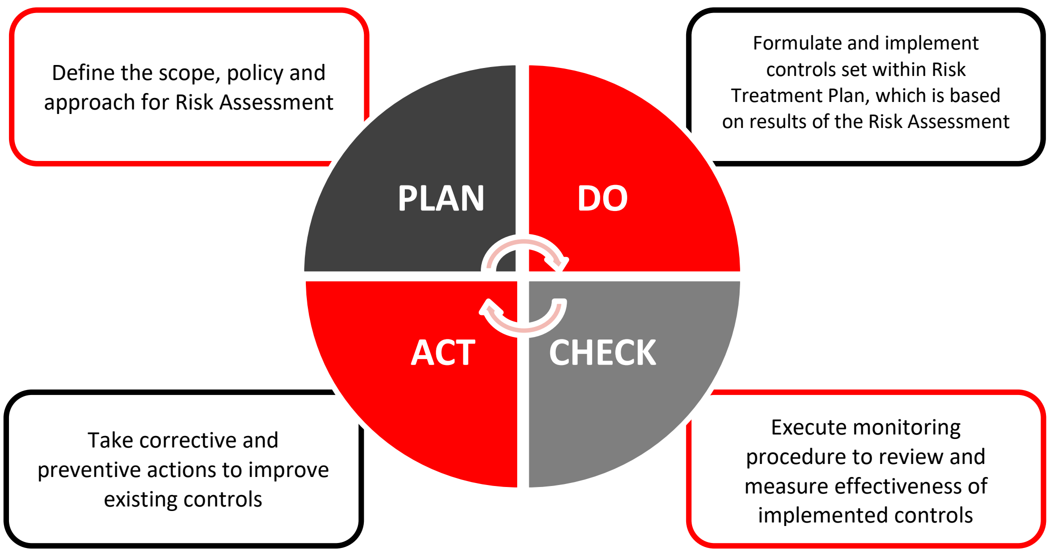


Bank's Operational Risk Profile is divided into the following Risks:

- IT Errors, misses
- Cash desk errors
- External Fraud
- Internal Fraud
- Processing Errors, misses
- Clients claims
- Penalties/Legal liabilities
- Hacking
- Chargeback
- Card fraud
- Other

Since the Bank's operations are highly dependent on the Information Technology (IT), the importance of the IT systems in the Bank's operational risk profile is significant. The conducted business impact analysis indicates that IT systems breakdown or failure might have a significant impact on the Bank. In 2018 Bank has upgraded two main core Operational (RS V6) and Loan Registration (Alta LMS Module) systems, which improves service process, data synchronization, backup procedures as well as the Disaster Recovery infrastructure for the critical processes, IT systems and qualified personnel in place.

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 Managing the Operational Risk

The overall objective of the operational risk management is to identify risks arising from inadequate or failed internal processes, people and systems or from external events and mitigate them where feasible and to the extent economically reasonable.

In general, the Bank has moderate appetite towards the operational risks and aims to reduce the losses resulting from risk events to the point where the Bank is not materially impacted by them.

The Bank has no appetite towards operational risks related to fraud, information security (including IT) and compliance breaches, therefore the Bank makes all efforts to eliminate these types of risks.

The key mitigation controls the Bank deploys stem from its Operational Risk Profile (ORP) and the Risk Appetite Statement (RAS) of the Supervisory Board.

10.2.1 Operational Risk Assessment

Risk Assessment Matrix → Risk Map are the key milestones of the Bank’s approach towards the Operational Risk Assessment process.

Risk Assessment Matrix – As the outcome of the risk assessment the **Risk Assessment Matrix** is generated for each individual risks, which are sorted from highest to lowest risk scores. Risk scores are determined based on the following matrix:

GEL'000s Unless Otherwise Noted

Frequency (Low – High) / Severity (Low – High)	0 -1	1 - 10	10 - 50	50 - 250	> 250
More Than once a month (High)	5	10	15	20	25
Once in every two month	4	8	12	16	20
Once in a six month	3	6	9	12	15
Once a year	2	4	6	8	10
Less than once a year (Low)	1	2	3	4	5

10.2.2 New Risk Approval

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 Measuring Operational Risk

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.

10.3.1 Quantitative Data on Operational Losses

Over the past three years total operational losses amounted to GEL 5.6 million. Table below provides information on historical operational loss data (unrounded amounts are provided in Appendix Table 14).

Historical Operational Losses

GEL millions, unless otherwise noted	2018	2017	2016	Total
Total amount of losses	2.2	1.8	1.7	5.6
Total amount of losses, exceeding GEL 10,000	1.1	0.8	0.9	2.8
Number of events with losses exceeding GEL 10,000	24	22	24	70
Total amount of 5 biggest losses	0.7	0.4	0.5	1.6

10.3.2 Capital Requirement

The Bank uses the basic indicator approach to calculate the RWE for Operation Risk. As of December 2018, the RWE for Operational Risk amounted to GEL 388 million with the economic capital requirement of GEL 50.5 million. Table 10.3.2.1 sets out detailed calculation of the RWE for Operational Risk.

Table 10.3.2.1 Risk-Weighted Exposure for Operational Risk

	2018	2017	2016	Average of sums of net interest and net non-interest income during last three years	Risk Weighted Asset (RWA)
Net Interest Income	177,152,729	149,579,648	118,125,036		
Total Non-Interest Income	45,786,594	70,305,843	62,440,218		
less: Income (loss) from selling property	183,487	(478,280)	1,499,797		
Total Income	**222,755,836**	**220,363,771**	**179,065,457**	**207,395,021**	**388,865,665**

The Bank has a number of mitigating controls in place to ensure that any operational risk event is captured at acceptable loss level and mitigated as such. There are set limits on each e-channel and any out of the trend fluctuation will automatically result in the shutdown of the channel until further investigation. Additionally, the big mitigating control against any fraud is the BBB insurance policy with the deductible of GEL 100,000 per claim. The Bank believes that based on its historical loss data, which for the past three years amounted to GEL 5.6 million, the current allocation of capital for operational risk purposes is more than sufficient to cover any unexpected losses arising from operational risk for the next 12 months.

10.4 Corporate Insurance

ORM department is responsible for managing insurance coverage timely updates while the Board has set the specific request that the Bank is covered for areas listed below. It is the Bank's policy to have internationally recognized insurance company to cover for Property Insurance (all Risks), Directors and Officers Liability, BBB & Computer Crime and Motor Fleet.

In case of a risk event falling under insurance protection, ORM department is responsible for ensuring that the appropriate information is provided in a timely manner to the respective insurer.

Current corporate insurance coverage includes:

- Property Insurance (all Risks)
- Directors' and Officers' Liability
- BBB & Computer Crime
- Motor Fleet Insurance
- Pay-Boxes Insurance
- ATM 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. Liquidity risk is inherent in all banking operations and can be affected by a range of the Bank-specific and market-wide events.

11.1 Liquidity Risk Management and Control

The primary objective of the liquidity risk management is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress the source of which could be either Bank-specific or market-wide. Main objective of liquidity risk control framework includes securing a balanced financing mix for the Bank's activities, compliance with standards set by the NBG, maintain internal buffers that are consistent with the RAS, managing crisis situations and controlling the cost of funding.

The Treasury and Settlements department manages the 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. Input for analysis for ALCO purposes is presented by Treasury and Settlements department and ERM and Market Analysis division. ERM and Market Analysis division performs additional monthly stress-tests on liquidity position of the Bank and reports the results to the ALCO. Besides, ERM and Market Analysis division is actively involved in day-to-day transactions/decisions affecting or potentially influencing the liquidity position of the Bank.

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

Treasury

- Managing and reporting liquidity risk and available liquid funds on an enterprise level
- Execution of the Bank's short-term and long-term funding plan
- Identification of early warning indicators and reporting to the Management Board
- Ensures that the Bank is operating within the established liquidity limits set by the RAS at all times

ERM

- Monthly stress-testing of the Bank's liquidity position
- Collaborates with the Management Board and ALCO in setting, reviewing and controlling liquidity risk measures and limits
- Actively involved in day-to-day decisions affecting or potentially influencing the liquidity position

ALCO

- Develops short-term and long-term funding plan considering the Bank's investment capabilities to avoid excessive liquid funds
- Establishes the level of liquidity risk tolerance as part of the RAS
- Monitors early warning indicators along with monthly liquidity stress-tests and acts according to its results
- Manages liquidity risk mitigation tools and maturity gap of assets and liabilities
- Approves interbank counterparty exposure limits
- Develops and implements the recovery plan in the event of liquidity crisis situations

The Treasury and Settlements department ensures that the Bank operates within established limits. ERM and Market Analysis division controls and reports any breach of limit to the Management Board. The Management Board is continuously updated through sufficiently detailed reporting on the treasury operations. Liquidity Report covering most recent changes in the Bank's liquidity position is presented to the Management Board on a monthly basis.

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 LCR is calculated following Basel 3 framework, however, higher run-off rates apply. 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%, GEL LCR of 75% and Foreign Currency ("FX") LCR of 100% on a daily basis.

Liquidity Coverage Ratio and Regulatory Liquidity Ratio

	Dec-17	*Mar-18*	*Jun-18*	*Sep-18*	*Dec-18*
LCR, Total (last day of the month)	287.3%	274.1%	226.5%	209.1%	184.6%
LCR, GEL (last day of the month)	285.9%	303.5%	212.9%	214.7%	183.5%
LCR, FX (last day of the month)	289.0%	232.6%	256.9%	197.6%	186.5%
Liquidity Ratio (last day of the month)	62.2%	62.5%	41.5%	56.8%	50.5%
Liquidity Ratio (average for the month)	61.7%	64.1%	57.3%	52.9%	45.4%

For more detailed information on LCR, see Appendix Table 11.

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 2018, the Bank's total Liquid Funds comprised GEL 662.6 million and total Available Liquid Funds comprised GEL 388.7 million. The table below presents details of the composition of Available Liquid Funds.

Available Liquid Funds

GEL millions, unless otherwise noted	*31 December 2018*			*31 December 2017*			*Change*		
	GEL	*FCY*	*Total*	*GEL*	*FCY*	*Total*	*GEL*	*FCY*	*Total*
Cash	141.7	71.0	212.7	121.3	38.1	159.4	17%	86%	33%
Correspondent accounts and deposits with the NBG	76.5	86.0	162.5	46.1	75.5	121.6	66%	14%	34%
Correspondent accounts and deposits with other banks	-	101.6	101.6	15.1	214.9	229.9	-100%	-53%	-56%
Available on call funding from the NBG	185.8	-	185.8	217.6	-	217.6	-15%	nmf	-15%
Total Liquid Funds	**404.0**	**258.6**	**662.6**	**400.0**	**328.5**	**728.5**	**1%**	**-21%**	**-9.0%**
Interbank deposits & Loro	0.3	1.3	1.5	0.2	3.4	3.6	50%	-62%	-58%
Obligatory reserve requirement	36.4	86.0	122.4	39.5	61.1	100.6	-8%	41%	22%
Vault cash needed for operations	100.0	50.0	150.0	90.0	36.0	126.0	11%	39%	19%
Total Available Liquid Funds	**267.4**	**121.4**	**388.7**	**270.3**	**228.0**	**498.3**	**-1%**	**-47%**	**-22%**

Maturity gap of assets and liabilities is evaluated by ERM and market analysis division on regular basis. Modelling 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. Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Bank's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Bank's operations and liquidity needs.

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 and Market Analysis division with the support of Treasury and Settlements 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 2018, under all conducted stress-test scenarios, the Bank maintained adequate liquidity position.

The Bank maintains a Recovery Plan which includes pressure on liquidity triggers and recovery plan strategy. The liquidity triggers are monitored by Treasury and Settlements department and Enterprise Risk Management division on a daily basis. Any potential trigger event is escalated to the Management Board level and should be discussed at the ALCO meeting. Recovery Plan strategy will be executed by the Head of Treasury and Settlements department under the supervision of ALCO and Management Board.

11.5 Net Stable Funding Ratio

The Net Stable Funding Ratio ("NSFR") was proposed by the NBG starting from January 2019, as the regulatory metric for assessing a bank's structural funding profile. The NSFR is intended to reduce medium to long-term funding risks by requiring banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liabilities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

Reporting is done monthly starting from January 2019. Limit to maintain the NSFR of minimum 100% will be introduced starting from 2019. The Bank is currently in the process of assessing the impacts of the NSFR, and would expect to formally embed this metric within the Bank's overall liquidity risk management framework later in 2019.

Table 11.5.1 below sets out the Net Stable Funding Ratio for 2019 monthly.

Table 11.5.1 Net Stable Funding Ratio 2019

	Jan-19	***Feb-19***	***Mar-19***
Available amount of stable funding	1,460,293,159	1,465,640,164	1,477,326,234
Required amount of stable funding	857,003,738	883,112,837	902,591,028
Net Stable Funding Ratio	**170.4%**	**166.0%**	**163.7%**

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 2018 and all numbers are reported in GEL, unless otherwise noted.

Table 1: Off-balance sheet items per standardized regulatory report

In GEL	Off-Balance Sheet Items	31/12/2018			31/12/2017			31/12/2016		
N		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
1	**Contingent Liabilities and Commitments**	**48,146,211**	**35,544,800**	**83,691,011**	**32,808,396**	**342,931**	**33,151,327**	**31,441,026**	**509,470**	**31,950,496**
1.1	Guarantees Issued	7,227,052	811,510	8,038,562	766,939	72,854	839,793	701,335	148,005	849,340
1.2	Letters of credit Issued	-	-	-	-	-	-	-	-	-
1.3	Undrawn loan commitments	40,719,159	34,644,629	75,363,788	32,041,457	270,077	32,311,534	30,739,691	361,465	31,101,156
1.4	Other Contingent Liabilities	200,000	88,661	288,661	-	-	-	-	-	-
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	**Guarantees received as security for receivables of the bank**	**787,792,434**	**1,158,509,299**	**1,946,301,733**	**-**	**-**	**-**	**-**	**731,469**	**731,469**
4.1	Surety, joint liability	-	-	-	-	-	-	-	-	-
4.2	Guarantees	787,792,434	1,158,509,299	1,946,301,733	-	-	-	-	731,469	731,469
5	**Assets pledged as security for receivables of the bank**	**82,931,131**	**1,027,431,635**	**1,110,362,766**	**980,424,441**	**437,539,386**	**1,417,963,827**	**1,005,798,488**	**539,851,551**	**1,545,650,039**
5.1	Cash	21,427,694	7,267,465	28,695,159	30,412,869	1,973,649	32,386,518	31,409,566	5,118,329	36,527,895
5.2	Precious metals and stones	24,411,000	79,509,551	103,920,551	-	70,509,305	70,509,305	-	69,519,889	69,519,889
5.3	Real Estate:	339,727	631,571,898	631,911,625	119,670	149,376,565	149,496,235	735,143	166,880,364	167,615,507
5.3.1	*Residential Property*	134,727	351,547,537	351,682,264	119,670	135,950,237	136,069,907	446,767	139,097,873	139,544,640
5.3.2	*Commercial Property*	-	99,639,492	99,639,492	-	5,161,594	5,161,594	288,376	16,919,169	17,207,545
5.3.3	*Complex Real Estate*	-	22,451,323	22,451,323	-	574,177	574,177	-	729,540	729,540
5.3.4	*Land Parcel*	-	14,626,080	14,626,080	-	3,462,886	3,462,886	-	6,092,889	6,092,889
5.3.5	*Other*	205,000	143,307,466	143,512,466	-	4,227,671	4,227,671	-	4,040,893	4,040,893
5.4	Movable Property	229,666	127,875,123	128,104,789	-	103,663,968	103,663,968	185,500	82,275,227	82,460,727
5.5	Shares Pledged	-	26,766,000	26,766,000	-	-	-	-		-
5.6	Securities	-	152,566,203	152,566,203	-	-	-	-		-
5.7	Other	36,523,044	1,875,395	38,398,439	949,891,902	112,015,899	1,061,907,801	973,468,279	216,057,742	1,189,526,021
6	**Derivatives**	**164,167,884**	**225,612,148**	**389,780,032**	**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)	94,504,512	91,374,305	185,878,817	-	51,715,034	51,715,034	-	52,853,891	52,853,891
6.2	Payables through FX contracts (except options)	69,663,372	134,237,843	203,901,215	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**	**72,719,647**	**961,531**	**73,681,178**	**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	40,123,915	134,296	40,258,211	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 months	-	-	-	-	-	-	-	-	-
7.3	Principal of receivables derecognized during 5 years month (including last 3 months)	72,719,647	961,531	73,681,178	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-cancellable operating lease**	**10,139,419**	**42,902,409**	**53,041,828**	**10,737,524**	**25,957,001**	**36,694,525**	**11,305,714**	**35,664,638**	**46,970,352**
8.1	Through indefinite term agreement	-	-	-	-	-	-	-	-	-
8.2	Within one year	2,529,136	8,126,749	10,655,885	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	1,386,996	7,406,449	8,793,445	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	1,272,887	6,582,884	7,855,771	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	1,201,674	5,770,158	6,971,832	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	1,057,674	4,436,430	5,494,104	1,028,574	2,680,485	3,709,059	963,390	4,025,477	4,988,867
8.7	More than 5 years	2,691,053	10,579,738	13,270,790	2,720,902	5,477,332	8,198,233	2,854,253	9,234,328	12,088,581
9	**Capital expenditure commitment**	**1,504,222**	**6,117,293**	**7,621,515**	**69,041**	**2,189,165**	**2,258,206**	**134,798**	**103,809**	**238,607**

Table 2: Regulatory capital

N		In GEL
1	Common Equity Tier 1 capital before regulatory adjustments	272,944,776
2	Common shares that comply with the criteria for Common Equity Tier 1	44,490,460
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	35,132,256
4	Accumulated other comprehensive income	28,500,093
5	Other disclosed reserves	1,694,028
6	Retained earnings (loss)	163,127,939
7	**Regulatory Adjustments of Common Equity Tier 1 capital**	**62,335,128**
8	Revaluation reserves on assets	28,500,093
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	2,368,463
10	Intangible assets	31,205,928
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	260,644
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**	**210,609,648**
24	**Additional tier 1 capital before regulatory adjustments**	**4,565,384**
25	Instruments that comply with the criteria for Additional tier 1 capital	45,654
26	Including: instruments classified as equity under the relevant accounting standards	45,654
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	4,519,730
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**	**4,565,384**
36	**Tier 2 capital before regulatory adjustments**	**55,993,709**
37	Instruments that comply with the criteria for Tier 2 capital	41,714,597
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	14,279,112
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**	**55,993,709**

Table 3: Reconciliation of balance sheet to regulatory capital

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	212,685,636	
2	Due from NBG	162,539,717	
3	Due from Banks	102,386,837	
4	Dealing Securities	-	
5	Investment Securities	192,727,243	
6.1	Loans	1,041,614,343	
6.2	Less: Loan Loss Reserves	(99,568,321)	
6.2.1	of which loan loss general reserves	14,279,112	table 2 (Capital), N39
6	Net Loans	942,046,022	
7	Accrued Interest and Dividends Receivable	15,458,030	
8	Other Real Estate Owned & Repossessed Assets	63,136	
9	Equity Investments	260,644	
9.1	Of which above 10% equity holdings in financial institutions	260,644	table 2 (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	163,515,721	
10.1	Of which intangible assets	31,205,928	table 2 (Capital), N10
11	Other Assets	55,835,328	
12	**Total assets**	**1,847,518,314**	
13	Due to Banks	7,856,370	
14	Current (Accounts) Deposits	598,098,931	
15	Demand Deposits	244,896,235	
16	Time Deposits	635,845,922	
17	Own Debt Securities	-	
18	Borrowings	-	
19	Accrued Interest and Dividends Payable	5,672,962	
20	Other Liabilities	29,629,166	
20.1	of which off-balance general reserves	(41,950)	
21	Subordinated Debentures	48,008,568	
21.1	Of which tier II capital qualifying instruments	41,714,597	table 2 (Capital), N37
22	**Total liabilities**	**1,570,008,154**	
23	Common Stock	54,628,743	table 2 (Capital), N2
24	Preferred Stock	61,391	table 2 (Capital), N26
25	Less: Repurchased Shares	(10,154,020)	table 2 (Capital), N2 & N26
26	Share Premium	39,651,986	table 2 (Capital), N3 & N28
27	General Reserves	1,694,028	table 2 (Capital), N5
28	Retained Earnings	163,127,939	table 2 (Capital), N6
29	Asset Revaluation Reserves	28,500,093	table 2 (Capital), N4 & N8
30	**Total Equity Capital**	**277,510,160**	

Table 4: Risk Weighted Assets

N	In GEL	31/12/2018	31/12/2017	31/12/2016
1	Risk Weighted Assets for Credit Risk	1,142,328,947	999,717,347	916,554,580
1.1	Balance sheet items	1,120,058,891	980,144,479	883,395,883
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
1.2	Off-balance sheet items	11,193,695	10,374,059	8,120,697
1.3	Counterparty credit risk	11,076,361	9,198,809	7,395,571
1.4	Currency induced credit risk*	-	-	17,642,430
2	**Risk Weighted Assets for Market Risk**	**531,586**	**4,301,150**	**2,843,858**
3	**Risk Weighted Assets for Operational Risk**	**388,865,665**	**351,372,173**	**230,563,834**
4	**Total Risk Weighted Assets**	**1,531,726,198**	**1,355,390,670**	**1,149,962,271**

***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.**

Table 5: 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	Subject to credit risk weighting
1	Cash	212,685,636	-	212,685,636
2	Due from NBG	162,539,717	-	162,539,717
3	Due from Banks	102,386,837	-	102,386,837
4	Dealing Securities	-	-	-
5	Investment Securities	192,727,243	-	192,727,243
6.1	Loans	1,041,614,343	-	1,041,614,343
6.2	Less: Loan Loss Reserves	(99,568,321)	-	(99,568,321)
6	Net Loans	942,046,022	-	942,046,022
7	Accrued Interest and Dividends Receivable	15,458,030	-	15,458,030
8	Other Real Estate Owned & Repossessed Assets	63,136	-	63,136
9	Equity Investments	260,644	260,644	-
10	Fixed Assets and Intangible Assets	163,515,721	31,205,928	132,309,793
11	Other Assets	55,835,328	-	55,835,328
Total exposures subject to credit risk weighting before adjustments		**1,847,518,314**	**31,466,572**	**1,816,051,742**

Table 6: Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes

1	**Total carrying value of balance sheet items subject to credit risk weighting before adjustments**	**1,816,051,742**
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	83,402,351
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	164,889,011
3	**Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes**	**2,064,343,104**
4	Effect of provisioning rules used for capital adequacy purposes	18,368,067
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(65,925,241)
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	(153,812,650)
6	Effect of other adjustments	-
7	**Total exposures subject to credit risk weighting**	**1,862,973,280**

Table 7: 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%		
		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	Risk Weighted Exposures before Credit Risk Mitigation
1	Claims or contingent claims on central governments or central banks	281,181,282	-	-	-	-	-	-	-	-	-	86,005,271	-	-	-	-	-	86,005,271
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	-	-	101,201,750	-	-	-	374,943	-	-	-	5,904,594	-	-	-	-	-	26,332,416
7	Claims or contingent claims on corporates	-	-	-	-	-	-	2,425,046	-	-	-	284,166,820	4,505,700	-	-	-	-	289,885,042
8	Retail claims or contingent retail claims	-	-	-	-	-	-	-	-	575,789,265	12,971,411	-	-	-	-	-	-	441,570,506
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	35,216,566	-	-	-	-	-	-	-	-	-	-	-	12,325,798
10	Past due items	-	-	-	-	-	-	138,266	-	-	-	3,390,140	-	235,350	-	-	-	3,812,298
11	Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-	-	-	15,920,748	-	92,168,944	-	1,789,237	-	158,647,256
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Other items	212,237,034	-	1,024,879	-	-	-	-	-	-	-	135,249,676	-	-	-	-	-	135,454,651
	Total	**493,418,316**	**-**	**102,226,629**	**-**	**35,216,566**	**-**	**2,938,255**	**-**	**575,789,265**	**12,971,411**	**530,637,249**	**4,505,700**	**92,404,294**	**-**	**1,789,237**	**-**	**1,154,033,240**

Table 8: Credit Risk Mitigation

		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	20,642,232	-	17,601,670	3,040,562	20,642,232
8	Retail claims or contingent retail claims	2,138,421	-	2,138,421	-	2,138,421
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	-
10	Past due items	-	-	-	-	-
11	Items belonging to regulatory high-risk categories	-	-	-	-	-
12	Short-term claims on commercial banks and corporates	-	-	-	-	-
13	Claims in the form of collective investment undertakings	-	-	-	-	-
14	Other items	-	-	-	-	-
	Total	**22,780,653**	**0**	**19,740,091**	**3,040,562**	**22,780,653**

Table 9: 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	367,186,553	-	-	86,005,271	86,005,271	23.42%
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	107,481,288	-	-	26,332,416	26,332,416	24.50%
7	Claims or contingent claims on corporates	286,591,866	54,053,888	4,505,700	289,885,042	269,242,810	92.49%
8	Retail claims or contingent retail claims	575,789,265	29,348,463	12,971,411	441,570,506	439,432,086	74.64%
9	Claims or contingent claims secured by mortgages on residential property	35,216,566	-	-	12,325,798	12,325,798	35.00%
10	Past due items	3,763,756	-	-	3,812,298	3,812,298	101.29%
11	Items belonging to regulatory high-risk categories	109,878,929	-	-	158,647,256	158,647,256	144.38%
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	nmf
13	Claims in the form of collective investment undertakings (‘CIU’)	-	-	-	-	-	nmf
14	Other items	348,511,588	-	-	135,454,651	135,454,651	38.87%
	Total	**1,834,419,810**	**83,402,351**	**17,477,110**	**1,154,033,240**	**1,131,252,587**	**61.09%**

Table 10: Counterparty credit risk

		Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
1	**FX contracts**	164,889,011	-	11,076,361	-	-	-	-	-	11,076,361	-	-	11,076,361
1.1	Maturity less than 1 year	95,225,639	2.0%	1,904,513	-	-	-	-	-	1,904,513	-	-	1,904,513
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	**164,889,011**		**11,076,361**	**-**	**-**	**-**	**-**	**-**	**11,076,361**	**-**	**-**	**11,076,361**

Table 11: 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				482,740,075	198,617,462	681,357,537	371,785,308	119,704,471	491,489,779
Cash outflows										
2	Retail deposits	666,195,308	275,578,230	941,773,537	106,566,845	73,450,194	180,017,039	21,665,398	12,350,078	34,015,476
3	Unsecured wholesale funding	383,110,473	127,251,648	510,362,121	171,843,019	35,248,802	207,091,821	134,360,560	26,922,753	161,283,313
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	35,127,986	26,237,564	61,365,551	7,160,326	7,105,597	14,265,923	1,880,008	2,580,958	4,460,966
7	Other contingent funding obligations	62,553,148	9,236,632	71,789,779	16,849,739	7,398,878	24,248,616	16,534,409	7,378,246	23,912,655
8	**TOTAL CASH OUTFLOWS**	**1,216,650,287**	**438,304,074**	**1,654,954,361**	**302,419,929**	**123,203,471**	**425,623,400**	**174,440,375**	**49,232,035**	**223,672,410**
Cash inflows										
9	Secured lending (e.g. reverse repos)	3,584,885	-	3,584,885	-	-	-	-	-	-
10	Inflows from fully performing exposures	691,293,832	210,389,688	901,683,519	68,059,882	4,884,989	72,944,871	179,014,649	84,255,650	263,270,300
11	Other cash inflows	23,942,453	54,574,200	78,516,653	-	-	-	-	-	-
12	**TOTAL CASH INFLOWS**	**718,821,170**	**264,963,888**	**983,785,057**	**68,059,882**	**4,884,989**	**72,944,871**	**179,014,649**	**84,255,650**	**263,270,300**
					Total value according to NBG's methodology* (with limits)			**Total value according to Basel methodology (with limits)**		
13	Total HQLA				482,740,075	198,617,462	681,357,537	371,785,308	119,704,471	491,489,779
14	Net cash outflow				234,360,047	118,318,482	352,678,528	43,610,094	12,308,009	55,918,102
15	**Liquidity coverage ratio (%)**				**206%**	**168%**	**193%**	**853%**	**973%**	**879%**

* 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 12: 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)	Note	Reconciliation with standardized regulatory reporting format													
						1 Cash	2 Due from NBG	3 Due from Banks	4 Dealing Securities	5 Investment Securities	6.1 Total Loans	6.2 Less: Loan Loss Reserves	6 Net Loans	7 Accrued Interest and Dividends Receivable	8 Other Real Estate Owned & Repossessed Assets	9 Equity Investments	10 Fixed Assets and Intangible Assets	11 Other Assets	12 TOTAL ASSETS
1	Cash and cash equivalents	392,899	392,899,458	401,254,788	1	212,685,636	76,571,846	102,386,837	-	-	-	-	-		-	-	-	9,610,469	**401,254,788**
2	Amounts due from credit institutions	99,731	99,730,694	99,123,014		-	85,967,871	-	-	-	-	-	-	32,325	-	-	-	13,122,818	**99,123,014**
3	Loans to customers	953,544	953,544,362	951,647,477	2	-	-	-	-	-	1,041,614,343	(99,568,321)	942,046,022	9,601,455	-	-	-	-	**951,647,477**
4	Investment securities	197,504	197,503,945	198,369,253	3					192,727,243				5,642,010					**198,369,253**
5	Property and equipment	128,936	129,127,930	129,127,930		-	-	-	-	-	-	-	-	-	-	-	129,127,930	-	**129,127,930**
6	Intangible assets	32,651	32,651,186	31,205,928		-	-	-	-	-	-	-	-	-	-	-	31,205,928	-	**31,205,928**
7	Prepayments	11,995	11,996,071	12,073,665		-	-	-	-	-	-	-	-	-	-	-	-	12,073,665	**12,073,665**
8	Current income tax assets	2,568	2,568,170	6,807,303		-	-	-	-	-	-	-	-	-	-	-	-	6,807,303	**6,807,303**
9	Other assets	20,405	19,019,735	17,908,956	4	-	-	-	-	-	-	-	-	182,240	63,136	260,644	3,181,863.42	14,221,072	**17,908,956**
10	**Total assets**	**1,840,233**	**1,839,041,552**	**1,847,518,314**		**212,685,636**	**162,539,717**	**102,386,837**	**-**	**192,727,243**	**1,041,614,343**	**(99,568,321)**	**942,046,022**	**15,458,030**	**63,136**	**260,644**	**163,515,721**	**55,835,328**	**1,847,518,314**

(1) Difference is reasoned by netting of cash and cash equivalents to liabilities per IFRS
(2) Difference is mainly reasoned by the different methodologies of provisioning/expected credit loss, fee deferral and overdue accrued interest recognition between NBG and IFRS
(3) Difference is mainly due to IFRS expected credit loss and NBG provisioning policy differences
(4) Difference is reasoned by offsetting specific financial assets and liabilities per IFRS and NBG vs IFRS provisioning policy differences

	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)	Note	Reconciliation with standardized regulatory reporting format									
						13 Due to Banks	14 Current (Accounts) Deposits	15 Demand Deposits	16 Time Deposits	17 Own Debt Securities	18 Borrowings	19 Accrued Interest and Dividends Payable	20 Other Liabilities	21 Subordinated Debentures	22 Total Liabilities
11	Amounts due to credit institutions	8,213	8,212,792	8,212,792		7,856,370	-	-	-	-	-	86	356,336	-	**8,212,792**
12	Amounts due to customers	1,482,249	1,482,328,053	1,488,407,495	1	-	598,098,931	244,896,235	635,845,922	-	-	5,342,629	4,223,778	-	**1,488,407,495**
13	Current income tax liabilities	-	-	5,463,655	2	-	-	-	-	-	-	-	5,463,655	-	**5,463,655**
14	Deferred income tax liabilities	2,089	2,088,701	2,549,851	2	-	-	-	-	-	-	-	2,549,851	-	**2,549,851**
15	Other liabilities	29,194	29,182,606	17,251,924	3	-	-	-	-	-	-	216,378	17,035,546	-	**17,251,924**
16	Subordinated debt	48,122	48,122,437	48,122,437		-	-	-	-	-	-	113,869	-	48,008,568	**48,122,437**
17	**Total liabilities**	**1,569,867**	**1,569,934,589**	**1,570,008,154**		**7,856,370**	**598,098,931**	**244,896,235**	**635,845,922**	**-**	**-**	**5,672,962**	**29,629,166**	**48,008,568**	**1,570,008,154**

(1) GEL 6 million difference is mainly due to recognition of GEL 2 million certain overdraft loans per IFRS and netting of certain items per IFRS in the amount of negative GEL 8 million
(2) The difference in current income and deferred income tax liabilities are caused by different tax recognition methodologies used in IFRS and the NBG reporting
(3) Difference is mainly due to accrued expenses not recognized per NBG

	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)	Note	Reconciliation with standardized regulatory reporting format							
						23 Common Stock	24 Preferred Stock	25 Less: Repurchased Shares	26 Share Premium	27 General Reserves	28 Retained Earnings	29 Asset Revaluation Reserves	30 Total Equity Capital
18	Share capital	54,629	54,628,743	54,628,743		54,628,743	-	-	-	-	-	-	**54,628,743**
19	Additional paid-in capital	35,558	36,850,537	36,850,537		-	-	-	35,132,256	-	1,718,281	-	**36,850,537**
20	Treasury shares	(10,138)	(10,138,283)	(10,138,283)		-	-	(10,138,283)	-	-	-	-	**(10,138,283)**
21	Convertible preferred shares	4,565	4,565,384	4,565,384		-	61,391	(15,737)	4,519,730	-	-	-	**4,565,384**
22	Retained earnings	169,840	167,288,614	175,704,499	1	-	-	-	-	1,694,028	161,409,658	12,600,813	**175,704,499**
23	Other reserves	15,912	15,911,968	15,899,280		-	-	-	-	-	-	15,899,280	**15,899,280**
24	**Total equity**	**270,366**	**269,106,963**	**277,510,160**		**54,628,743**	**61,391**	**(10,154,020)**	**39,651,986**	**1,694,028**	**163,127,939**	**28,500,093**	**277,510,160**

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

Table 13: Consolidation by entities

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	,,Smartex" LTD	Equity Method		x			Early-stage VC investments
2	,,Busstop" LTD	Full Consolidation	x				Outdoor Advertising

Table 14: Information about historical operational losses

	2018	2017	2016
Total amount of losses	2,160,766	1,784,200	1,678,662
Total amount of losses, exceeding GEL 10,000	1,100,856	805,169	885,598
Number of events with losses exceeding GEL 10,000	24	22	24
Total amount of 5 biggest losses	749,114	404,494	507,190

Table 15: Remuneration awarded during the reporting period

		Board of Directors	Supervisory Board	Other material risk takers
Fixed remuneration	**Number of employees**	**10**	**2**	**12**
	Total fixed remuneration	**3,183,875**	**76,862**	**1,119,380**
	Of which cash-based	3,183,875	76,862	1,119,380
	Of which: deferred	-	-	-
	Of which: shares or other share-linked instruments	-	-	-
	Of which deferred	-	-	-
	Of which other forms	-	-	-
	Of which deferred	-	-	-
Variable remuneration	**Number of employees**	**10**	**1**	**10**
	Total variable remuneration	**5,773,650**	**1,046**	**560,564**
	Of which cash-based	**5,707,518**	**0**	**547,341**
	Of which: deferred			
	Of which shares or other share-linked instruments			
	Of which deferred			
	Of which other forms	66,133	1,046	13,223
	Of which deferred	-	-	-
Total remuneration		**8,957,525**	**77,908**	**1,679,944**

Table 16: 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
Total amount:	**-**	**1,112,984,406**	**1,112,984,406**	**-**	**-**	**-**	**-**	**-**	**13,287,137**	**-**	**-**	**1,126,271,543**	**1,126,271,543**
Irakli Otar Rukhadze	-	1,109,051,116	1,109,051,116	-	-	-	-	-	13,287,137	-	-	1,122,338,253	1,122,338,253
David Verulashvili	-	3,933,290	3,933,290	-	-	-	-	-	-	-	-	3,933,290	3,933,290
Other material risk takers		235,880	235,880	-	-	-	-	-	-	235,880	-	-	-