

Rule on General Risk Assessment Program (GRAPE)

Article 1. General Provisions

The aim of the rule on General Risk Assessment Program (GRAPE) (hereafter: the rule) is to effectively organize the risk-based supervision process towards commercial banks.

Article 2. Definition of Terms

1. General Risk Assessment Program – a continuous cycle of risk based supervision aimed at assessing the risk levels of commercial banks and elaborating relevant supervisory actions;
2. Commercial Banks' Risk Categories – credit risk, liquidity risk, market risk, operational risk, business model, profitability, macroeconomic environment, group structure, corporate governance and overall risk;
3. Risk Supervisors – employees of the Specialized Groups and Supervisory Policy Department of the National Bank of Georgia responsible for the assessment of a particular risk category on the level of each commercial bank and system:
 - a) Employees of Corporate and SME Credit Risk Division and Retail Credit Risks Division supervise credit risks;
 - b) Employees of Financial Risks and Macro Prudential Policy Division supervise liquidity and market risks, as well as risks related to business model, profitability and macroeconomic environment;
 - c) Employees of Operational Risks and Information Processing Division supervise operational risks;
 - d) Employees of Corporate Governance and Supervisory policy Division supervise risks related to group structure and corporate governance, as well as overall risk levels.
4. Supervisors of Commercial Banks – employees of Banking Supervision Department of the National Bank of Georgia responsible for the assessment of all risk categories for a specific commercial bank;
5. Supervisory Plan – agenda in progress of the banking supervision function of NBG in the framework of General Risk Assessment Program, which, based on the prevailing priorities sets which commercial banks and risk categories are to be assessed.

Article 3. Risk Assessment

1. Risk assessment of concrete risk category of a particular commercial bank is carried out by the supervisors of the respective risk and commercial bank;
2. The assessment of a particular risk category on the systemic level is carried out by the supervisor of a given risk;
3. The assessment of a particular risk category of each bank includes the determination of inherent risk, the analysis of existing mitigants and the evaluation of net risk level;

4. Throughout the risk analysis and assessment phase, in order to achieve consistency of assessments of particular risk categories across different commercial banks, risk supervisors take into account other commercial banks' risk profiles;
5. Risk assessment is mainly based on the "CAMEL" assessment framework, the document on the "Core Principles for Effective Banking Supervision" of BASEL Committee on Banking Supervision, and other leading international supervisory practice;
6. Risk assessment constitutes a continuous supervisory cycle.

Article 4. Supervisory actions

1. Following the assessment of identified risks, risk supervisors and commercial bank supervisors, in case of necessity, shall develop a proposal on a supervisory actions, with the purpose of reducing the levels of different risk categories, or requesting the increase of resources needed for mitigating large risks by commercial banks;
2. Determination of supervisory actions can be carried out throughout any phase of the continuous supervisory cycle, whether it is the bank's overall risk assessment, or a separate risk category assessment, or as a result of obtaining any other information, which the National Bank considers a basis for a timely response.

Article 5. Process of determination and approval of the risk assessments and supervisory actions

1. The initiation of the risk assessment and supervisory action is carried out according to the supervisory plan, within the framework of both cyclical (periodically recurring) and non-cyclical tasks;
2. Each task has an author/head of the group, group members and a reviewer. As a rule, the author/head of the group and the reviewer are from different departments;
3. During the initial stage, the supervisory plan is approved by the Heads of Specialized Groups and Supervisory Policy Department, and Banking Supervision Department of National Bank. The final approval of the supervisory plan is made by the Vice-governor responsible for the banking supervision, in an agreement with the Governor;
4. Communication of the supervisory actions with commercial banks usually is accompanied by only those main arguments which constitute the basis for supervisory actions.

Article 6. Quantitative assessment of risks and the corresponding level of supervisory attention

1. Except for the corporate governance category, in order to determine the level of risk categories given in Paragraph 2 of Article 2 of this Rule, the following are assessed:
 - A) Inherent risk;
 - B) Risk mitigants, wherein the Supervisory Board, the executive management, and the risk governance and control are assessed.
2. The risk level for each risk category and the overall risk level are determined by assigning scores on a [1; 5] interval 0.5 assessment increments;
3. Moderate risk category corresponds to score equal to 3, relatively low risk category – scores less than 3, and relatively high risk category – scores more than 3;
4. Weights are assigned to risk categories for each commercial bank. The sum of the weights should be equal to 100%. The basis for determining the weights constitutes the average weights for each risk category on a scale of a sector, determined by the Specialized Groups and Supervisory Policy Department and Banking Supervision Department of the National Bank;
5. The weights determined in accordance with Paragraph 4 of this article are adjusted for each commercial bank, depending on its business model and on the level of importance of a specific risk category for a given commercial bank.
6. Information on assigned scores is confidential and constitutes the National Bank's internal supervisory orientation tool only.
7. The intensity of supervisory attention is determined by a commercial bank's risk profile and its systemic importance.