LIBERTY

JSC LIBERTY BANK

PILLAR 3 REPORT 2019

a bank for everyone, everywhere.

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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	Section 7.2
438	Capital requirements	Annex 1: Table 5; 9.1; 11; 13	Section 7
439	Exposure to counterparty credit risk	Annex 1: Table 15	Annex: Table 10
440	Capital buffers	Annex 1: Table 9.1	Sections 7.1
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, 8.2.5, 8.3 and 8.5
443	Unencumbered assets	N/A	N/A
444	Use of ECAIs	Article 6.3	Section 8.2.6
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 7.4
452	Use of the IRB Approach to credit risk	N/A	N/A
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 2,144 million (per NBG) as of 31 December 2019. The Bank operates only in Georgia and has the largest retail network comprised of more than 400 branches and service outlets.

Ratings of JSC Liberty Bank

Fitch Ratings		Rating	Outlook	Date
Issuer Default Rating	Long-term	B+	Negative	10-Apr-20
	Short-term	B	-	
Support Rating		4	-	
Support Rating Floor		B	-	

Standard & Poor's		Rating	Outlook	Date
Issuer Credit Rating	Long-term	B	Stable	10-Apr-20
	Short-term	B		

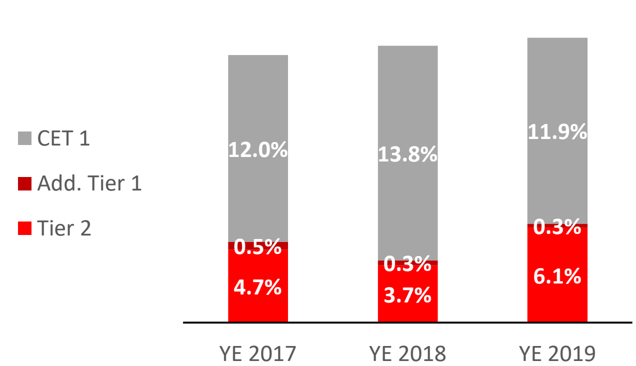
Moody's		Rating	Outlook	Date
Bank Deposits (Foreign)	Long-term	Ba3	Stable	20-Jun-19
Bank Deposits (Domestic)		Ba3		
Counterparty Risk Rating (Foreign)	Long-term	Ba2	-	
Counterparty Risk Rating (Domestic)		Ba2	-	

Due to the economic and financial market fallout from the coronavirus outbreak (COVID-19) in 2020 Georgian Banking Sector outlook has been revised to Negative from Stable.

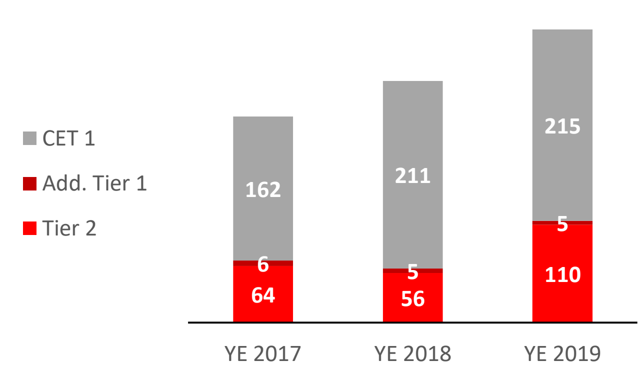
During 2019, the Bank continued to strengthen its capital base by attracting subordinated debt and as a result Tier 2 Capital reached GEL 110 million, up 97% y-o-y. Common Equity Tier 1 Capital ("CET1") reached GEL 215 million, up 2.3% y-o-y.

Risk-weighted exposures ("RWE") grew to GEL 1,803 million, driven by growth in total assets and increase of GEL 11 million and GEL 12 million in operational risks and market risks, respectively.

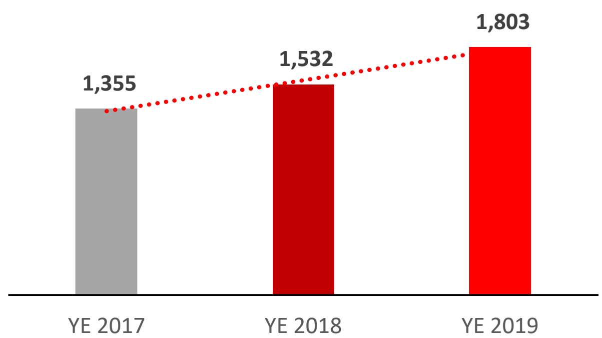
Regulatory Capital Ratios



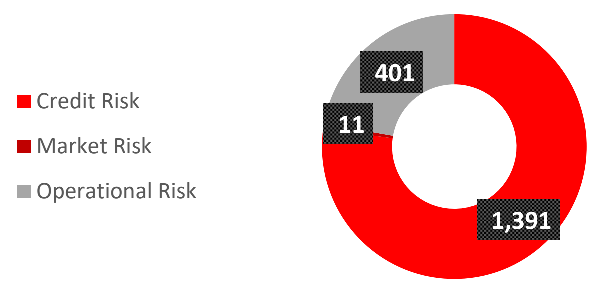
Regulatory Capital, GEL mln



RWE, GEL mln

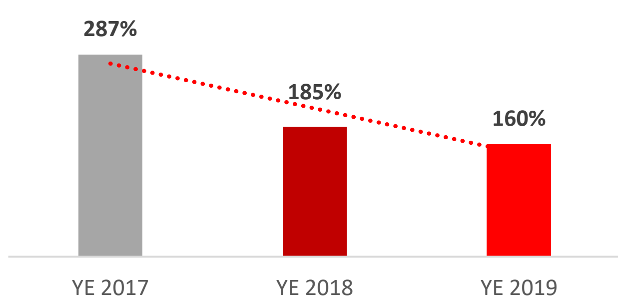


Distribution of RWE by risk type YE 2019, GEL mln



In 2019, the bank started to use its liquid assets more effectively and use its liquid funds to finance business lending, as a result, liquidity position decreased noticeably during the year. As of YE 2019, total Liquidity Coverage Ratio (per NBG) stood at 160%.

Liquidity Coverage Ratio



The Bank reported net income (per NBG) of GEL 26.8 million in 2019, down 48% y-o-y. Decrease is due to the development projects' costs and decreased NIM due to increasing share of low yield loans in total portfolio. As of 31 December 2019, the Bank's total assets stood at GEL 2,144.2 million, up 16% y-o-y, and total shareholders' equity amounted to GEL 303.6 million, up 9.4% y-o-y.

2.2 Key Indicators and Financial Statements of the Bank

Table 2.2.1 Key Metrics

Regulatory capital (amounts, GEL)	31/12/2019	31/12/2018	31/12/2017
Common Equity Tier 1 (CET1)	215,359,099	210,609,648	162,443,898
Tier 1	219,924,483	215,175,032	168,582,962
Total regulatory Capital	330,141,000	271,168,740	232,494,384
Risk-weighted assets (RWA)	1,802,789,012	1,531,726,198	1,355,390,670

Capital ratios as a percentage of RWA	31/12/2019	31/12/2018	31/12/2017
Common equity Tier 1 ratio	11.95%	13.75%	11.99%
Tier 1 ratio	12.20%	14.05%	12.44%
Total regulatory capital ratio	18.31%	17.70%	17.15%

Income	31/12/2019	31/12/2018	31/12/2017
Total Interest Income/Average Annual Assets	13.43%	15.91%	15.44%
Total Interest Expense/Average Annual Assets	5.25%	6.29%	6.61%
Earnings from Operations/Average Annual Assets	2.83%	5.21%	5.20%
Return on Average Assets (ROAA)	1.35%	2.82%	3.09%
Return on Average Equity (ROAE)	9.34%	20.63%	25.76%

Asset Quality	31/12/2019	31/12/2018	31/12/2017
Non-Performed Loans/Total Loans	5.04%	8.61%	10.12%
LLR/Total Loans	6.63%	9.56%	11.11%
FX Loans/Total Loans	24.59%	21.92%	1.54%
FX Assets/Total Assets	31.23%	27.05%	20.00%
Loan Growth-YTD	19.13%	9.10%	29.78%

Liquidity	31/12/2019	31/12/2018	31/12/2017
Liquid Assets/Total Assets	26.47%	35.78%	40.06%
FX Liabilities/Total Liabilities	34.31%	29.57%	25.95%
Current & Demand Deposits/Total Assets	41.36%	45.63%	36.11%

Liquidity Coverage Ratio*	31/12/2019	31/12/2018	31/12/2017
Total HQLA	724,438,720	681,357,537	733,359,924
Net Cash outflow	442,132,789	352,678,528	255,294,208
LCR ratio (%)	163.85%	193.20%	287.26%

** 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.*

*Table 2.2.2 Balance Sheet**

	31/12/2019	31/12/2018	31/12/2017
Assets			
Cash	215,830,754	212,685,636	159,390,048
Due from NBG	141,792,380	162,539,717	121,631,457
Due from Banks	175,902,915	102,386,837	230,837,972
Dealing Securities	-	-	-
Investment Securities	142,840,525	192,727,243	218,146,845
Loans	1,240,836,088	1,041,614,343	954,773,517
Less: Loan Loss Reserves	-82,260,658	-99,568,321	-106,061,539
Net Loans	1,158,575,430	942,046,022	848,711,978
Accrued Interest and Dividends Receivable	15,915,316	15,458,030	13,580,610
Other Real Estate Owned & Repossessed Assets	47,775	63,136	97,643
Equity Investments	106,733	260,644	257,257
Fixed Assets and Intangible Assets	207,676,100	163,515,721	160,905,358
Other Assets	85,504,784	55,835,328	56,112,736
Total Assets	**2,144,192,712**	**1,847,518,314**	**1,809,671,904**
Liabilities			
Due to Banks	36,050,082	7,856,370	4,589,398
Current (Accounts) Deposits	597,191,171	598,098,931	473,130,499
Demand Deposits	289,571,292	244,896,235	180,430,122
Time Deposits	671,046,820	635,845,922	671,644,737
Own Debt Securities	-	-	2,646,118
Borrowings	60,000,000	-	-
Accrued Interest and Dividends Payable	7,107,124	5,672,962	6,359,116
Other Liabilities	80,019,839	29,629,166	142,022,030
Subordinated Debentures	99,640,227	48,008,568	102,616,253
Total Liabilities	**1,840,626,554**	**1,570,008,154**	**1,583,438,273**
Equity Capital			
Common Stock	54,628,743	54,628,743	54,404,798
Preferred Stock	61,391	61,391	61,391
Less: Repurchased Shares	-10,154,020	-10,154,020	-10,454,283
Share Premium	39,651,986	39,651,986	39,952,249
General Reserves	1,694,028	1,694,028	1,694,028
Retained Earnings	189,508,428	163,127,939	111,565,946
Asset Revaluation Reserves	28,175,602	28,500,093	29,009,502
Total Equity Capital	**303,566,158**	**277,510,160**	**226,233,631**
Total Liabilities and Equity Capital	**2,144,192,712**	**1,847,518,314**	**1,809,671,904**

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

Table 2.2.3 Income Statement

In GEL	31/12/2019	31/12/2018	31/12/2017
Interest Income from Bank's "Nostro" and Deposit Accounts	12,848,204	15,242,283	5,501,932
Interest Income from Loans	230,688,130	244,671,111	215,794,913
from the Interbank Loans	373,448	439,024	149,605
from the Retail or Service Sector Loans	15,397,774	1,158,770	57,092
from the Energy Sector Loans	555,148	-	-
from the Agriculture and Forestry Sector Loans	179,952	15,217	16,376
from the Construction Sector Loans	2,651,006	1,017	-
from the Mining and Mineral Processing Sector Loans	300,806	-	-
from the Transportation or Communications Sector Loans	6,866	-	-
from Individuals Loans	206,991,092	237,673,327	215,016,665
from Other Sectors Loans	4,232,039	5,383,756	555,175
Fees/penalties income from loans to customers	9,470,967	13,097,408	21,448,494
Interest and Discount Income from Securities	13,177,569	19,866,470	18,877,400
Other Interest Income	224,874	101,697	25,638
Total Interest Income	**266,409,744**	**292,978,969**	**261,648,377**
Interest Paid on Demand Deposits	41,158,193	39,813,822	32,801,595
Interest Paid on Time Deposits	52,471,809	68,216,258	65,370,215
Interest Paid on Banks Deposits	331,663	11,226	93,149
Interest Paid on Own Debt Securities	7,453,977	7,784,629	13,570,535
Interest Paid on Other Borrowings	341,426	-	232,920
Other Interest Expenses	2,267,590	305	315
Total Interest Expense	**104,024,658**	**115,826,240**	**112,068,729**
Net Interest Income	**162,385,086**	**177,152,729**	**149,579,648**
Net Fee and Commission Income	22,226,083	37,046,926	66,395,673
Fee and Commission Income	34,495,046	47,130,548	76,108,055
Fee and Commission Expense	12,268,963	10,083,622	9,712,382
Dividend Income	644,108	-	-
Gain (Loss) from Dealing Securities	-	-	-
Gain (Loss) from Investment Securities	220,661	-608,118	-84,890
Gain (Loss) from Foreign Exchange Trading	15,178,278	5,667,815	-33,882
Gain (Loss) from Foreign Exchange Translation	-4,957,200	-695,175	1,536,374
Gain (Loss) on Sales of Fixed Assets	315,197	183,487	-478,280
Non-Interest Income from other Banking Operations	49,385	1,280	2,235
Other Non-Interest Income	2,504,360	4,190,379	2,968,613
Total Non-Interest Income	**36,180,872**	**45,786,594**	**70,305,843**
Non-Interest Expenses from other Banking Operations	2,859,905	2,753,934	166,809
Bank Development, Consultation and Marketing Expenses	8,588,191	6,060,863	9,384,462
Personnel Expenses	77,350,895	66,782,087	70,165,697
Operating Costs of Fixed Assets	1,674,918	1,613,130	1,346,985
Depreciation Expense	29,839,840	21,722,702	20,893,516
Other Non-Interest Expenses	26,647,847	29,140,466	28,825,664
Total Non-Interest Expenses	**146,961,596**	**128,073,182**	**130,783,133**
Net Non-Interest Income	**-110,780,724**	**-82,286,588**	**-60,477,290**
Net Income before Provisions	51,604,362	94,866,141	89,102,358
Loan Loss Reserve	23,259,771	37,712,183	26,623,163
Provision for Possible Losses on Investments and Securities	104,000	1	-
Provision for Possible Losses on Other Assets	648,098	-282,637	715,184
Total Provisions for Possible Losses	**24,011,869**	**37,429,547**	**27,338,347**
Net Income before Taxes and Extraordinary Items	27,592,493	57,436,594	61,764,011
Taxation	760,376	5,435,166	9,385,303
Net Income after Taxation	26,832,117	52,001,428	52,378,708
Extraordinary Items	-	-	-
Net Income	**26,832,117**	**52,001,428**	**52,378,708**

2.3 Business Strategy

In the beginning of 2020, new CEO of Liberty Bank – Vasil Khodeli was appointed. The 2020 marks the refocus of the strategy for the Liberty Bank, spanning across the change and transformation initiatives. The immediate plan is to strengthen the Management Board, reinforce the universal banking business model and move closer to the digitalization of the products and processes, all resulting into improving the access to finance in the regions of Georgia across all customer segments.

The new Management Board's objective is to maximise the shareholder value by further growing the Bank into one of the leading financial institutions in Georgia and delivering profitable growth. The Bank has the broadest physical distribution network in Georgia, which includes full-service branches, service centres, smaller-scale sales outlets, as well as the outlets located at various third-party businesses. The Bank intends to further grow reach to its customers through remote and digital channels.

The Bank elaborated new vision and mission statements in early 2020:

- Vision: Our vision is to improve the life of every individual, family and business in Georgia
- Mission: We care with big heart about individuals, their families and businesses. We will be accessible everywhere, where our customers are and will provide tailored and swift service

2020 plans

- In 2020 Liberty Bank faced considerable adverse market conditions due to COVID-19 pandemic. The aim of the Bank is to navigate the adverse market with minimum possible negative impact on the Bank, whilst continuing to care about the well-being of its customers. Despite the challenges, COVID-19 pandemic also provides an opportunity to increase the digitization level overall and to focus on the new design of services and products that could suit the needs of customers in various segments across Georgia.
- In 2020, the Bank aims to retain the position of the third largest bank in Georgia by asset size, whilst maintaining the high level of Larization both on asset and liability side.

Universal Banking

- Liberty Bank will maintain its universal banking model with strong emphasis on Retail and MSME banking. The Corporate and Private banking businesses will remain a strong support in terms of building the universal bank.
- Whilst focusing on delivering strong performance as a universal bank, Liberty Bank will focus on developing innovative products, streamlining the processes and increasing its digitization level, as well as acquiring new customers, including those that are largely unbanked.

Digital Banking

- The Bank intends to continue improving its digital banking capabilities and create superb digital user experience through its mobile and internet banking platforms.
- The Bank also aims to streamline its onboarding process for new customers.
- The innovative products will also be elaborated for the elderly and socially vulnerable segment, along with offering broader financial education opportunities.
- The e-commerce marketplace Onoff, which is planned to be evolved as a subsidiary of Liberty Bank, will further support growth of digital offerings enabling the building ecosystem environment for customers.

Customer Service

- Liberty Bank is a customer-centred financial services provider and intends to continue further enhancing customer service and experience. In this regard, the set of improvements are planned in relation to the customer servicing model, organizational redesign, and customer complaints handling.

Credit Ratings

- Liberty Bank intends to achieve retaining the credit ratings in the worsened Covid-19 environments, but also plans to improve its credit rating over longer time horizon.
- The latest credit rating of the bank are as follows:
    - Fitch: B+, outlook – negative, affirmation date: 10 April 2020
    - S&P: B, outlook – stable, affirmation date: 10 April 2020
    - Moody's: Ba3, outlook – stable, affirmation date: 20 June 2019

Funding

- Liberty Bank intends to further optimize its funding structure and tap the opportunities to reduce its cost of funds. In this regard, the Bank intends to continue cooperation and dialogue with International Development Financial Institutions.

Corporate & Social Responsibility

- The bank is actively promoting environmentally beneficial, as well as educational and health care CSR projects addressing the needs of the elderly and the most vulnerable part of society.
    - "Green Boxes" for used paper in HQ
    - Free financial and computer education for 60+, now online
    - Solidarity Fund for cancer patients under 22 and Re-Hub day centre for disabled children's rehabilitation
    - Utility payments for 52 shelters and care houses across country

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

Profitability	31-Dec-19	31-Dec-18
ROAA, (annualised), %	2.2%	3.2%
ROAE, (annualised), %	14.9%	23.5%
Interest Income/Average Interest Earning Assets (annualised), %	15.4%	19.1%
Cost of Funds (annualised),%	6.3%	8.0%

Asset Quality	31-Dec-19	31-Dec-18
NPLs/Gross Loans,%	4.3%	7.2%
Cost of Risk	1.5%	4.3%

amounts are in GEL thousands	31-Dec-19	31-Dec-18
Gross Loans	1,269,216	1,061,647
Private companies	335,690	191,479

3 OWNERSHIP AND GROUP STRUCTURE

3.1 Ownership Structure

As of 31 December 2019 and 2018, 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-19		31-Dec-18	
	Ownership Interest, %	Voting Rights, %	Ownership Interest, %	Voting Rights, %
Georgian Financial Group B.V.	74.38%	91.99%	61.18%	75.66%
JSC Heritage Securities (NOMINEE Holder)	1.62%	1.12%	14.69%	17.29%
Liberty Bank (Treasury Shares)	18.43%	0.00%	18.43%	0.00%
Galt & Taggart Securities	3.44%	4.25%	3.47%	4.29%
JSC "Georgian Central Securities Depository" (NOMINEE Holder)	0.55%	0.68%	0.98%	1.21%
Other Minority Shareholders (less than 1%)	1.58%	1.96%	1.26%	1.55%
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 7.94% as of 31 December 2019 (31 December 2018: 24.12%). The decrease in free float rate from 2019 to 2018 is caused by the increase in equity interest of Georgian Financial Group B.V..

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. By December 31, 2018 the equity interest of GFG amounted to 75.66% and by December 31, 2019 it increased to 91.99%.

As of, December 31, 2019 the ultimate beneficiary owners of the bank holding 5% or more of shares were:

Beneficiary Owners	
Irakli Otar Rukhadze	30.66%
Benjamin Alberts Marson	30.66%
Igor Alexeev	30.66%

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 2019, total net investments in these entities amounted to GEL 0.1 million both per NBG and per IFRS (31 December 2018: GEL 0.3 million per NBG and GEL 0.1 million per IFRS) and are considered as immaterial.

Bank Ownership Interest

Name	Country of Incorporation	31-Dec-19	31-Dec-18	Date of Incorporation	Activities
Bus Stop LLC(1)	Georgia	100.00%	100.00%	27-Aug-09	Outdoor advertising
JSC Smartex	Georgia	21.47%	21.47%	5-Jan-09	Early-stage VC investments

(1) Currently dormant.

4 CORPORATE GOVERNANCE

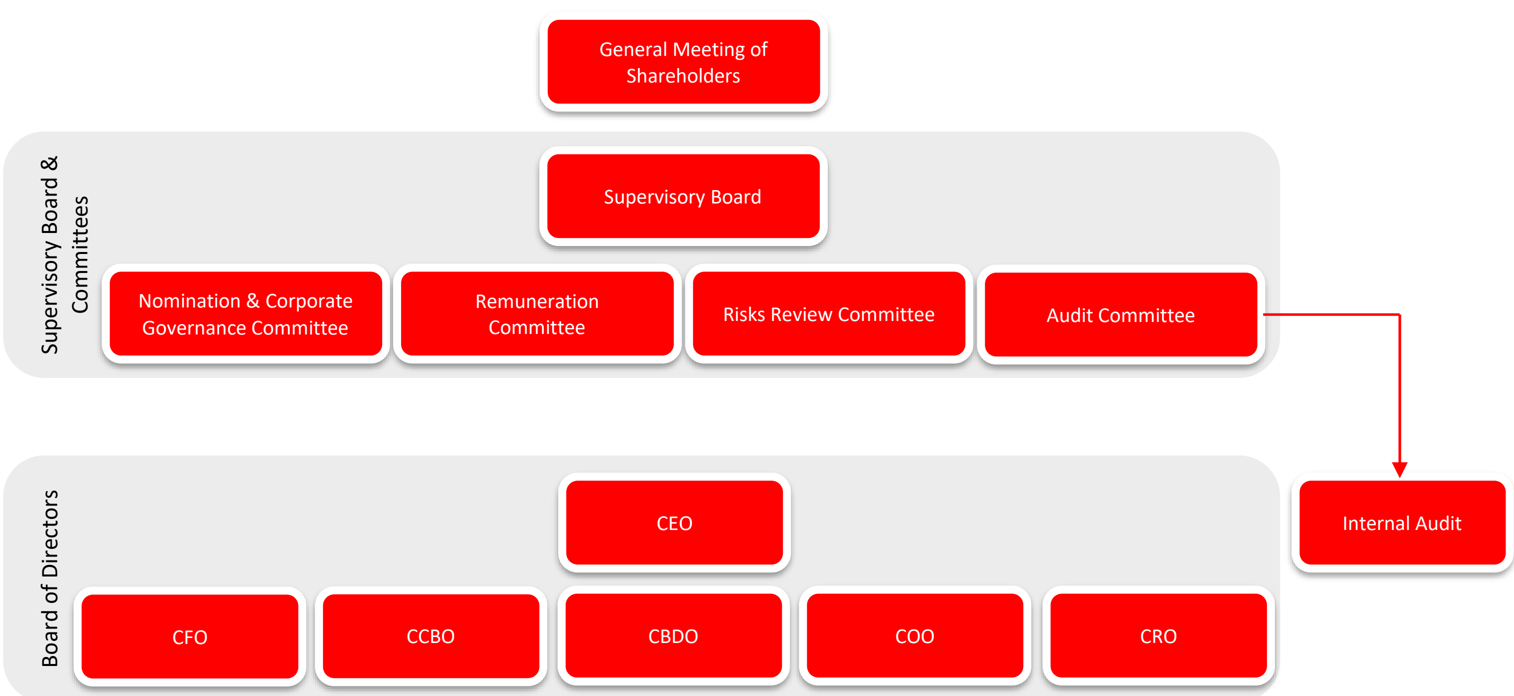
4.1 Corporate Governance Framework

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 Georgian 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 their 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 2019:



4.2 Annual General Meeting of Shareholders

An annual general meeting of shareholders ("AGM") is a mandatory yearly gathering of the Bank's 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 external auditors.

4.2.1 Convocation 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 issue proxies, and the person(s) nominated under such proxies may vote on behalf of such shareholders.

General meeting of shareholders is presided over by the chairman of the Supervisory Board, or in his/her absence, by the deputy chairman, senior independent Board member or any other member of the Supervisory Board. In cases where the chairman does not attend the meeting and/or may not vote due to the matters related to possible conflict of interests, the deputy chairman, senior independent Supervisory Board member shall preside the meeting. In the absence of the members of the Supervisory Board, the meeting is presided over by the Chief Executive Officer.

All shareholders registered with the share registry 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 in accordance with the relevant provisions of the Articles of Association of the Bank and the applicable Georgian Law. If more than one shareholder owns more than 75% of voting shares of the Bank, convocation of the general meeting of shareholders is mandatory.

4.2.2 Roles of the AGM

Under Georgian Law and the Articles of Association 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 2019

Considering that Georgian Financial Group B.V. holds more than 75% of the Bank's voting shares, GFG adopted the following resolutions in 2019:

January 16, 2019

- Approval of the resignation of Irakli Managadze from the membership of the Supervisory Board.

May 14, 2019

- Election of Giorgi Kalandarishvili as the member of the Supervisory Board of the Bank.

May 31, 2019

- Approval of 2018 audited consolidated IFRS financial statements of the Bank;
- Approval of annual 17% dividend pay-out in relation to the convertible preferred shares of the Bank for the calendar year 2018.

June 17, 2019

- Election of Murtaz Kikoria as the independent member of the Supervisory Board of the Bank.

August 01, 2019

- Election of Magda Magradze as the independent member of the Supervisory Board of the Bank.

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. Under the NBG regulation effective from 1st of June 2018, the member of the Supervisory Board may 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-19	Supervisory Board Members
Chairman	Irakli Otar Rukhadze
Independent Board member	Murtaz Kikoria
Independent Board member	Magda Magradze
Deputy chairman, senior 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 (resigned from the Supervisory Board on 13 December 2019)

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.

Murtaz Kikoria

Skills and experience:

Murtaz Kikoria was elected as an independent member of the Supervisory Board of Liberty Bank in June 2019. Subsequently, as of July 2019 he was elected as the chairman of the Risks Review Committee. Murtaz joined the Bank with a tremendous background and experience in banking and financial sector generally, as he had served as the chief executive officer of the sector leading companies/groups, namely in JSC Bank of Georgia in 2015-2016 and Georgia Healthcare Group in 2012-2014 years respectively. In addition to being the top executive of the above-mentioned highly reputable and regulated companies, he also has a multi-year experience of working as the chief financial officer of the Bank of Georgia and a senior banker at European Bank for Reconstruction and Development (EBRD). Therefore, his knowledge and experience in finances, capital markets and funding acquisition are particularly important and valuable for the Bank. Murtaz's distinguished experience in banking and finances is even more enhanced by his managing, controlling and supervising skills which were well established starting from the beginning of 2000s when he worked as the head of the banking supervision and regulation department at the National Bank of Georgia followed with 2016-2018 years when he served as the Vice-President of the National Bank of Georgia.

Education:

Murtaz Graduated from Tbilisi State University, faculty of Economics (finances and credits). His academic knowledge is also enhanced by several valuable local and international conferences, trainings and workshops in banking operations, financial markets, financing, negotiations and leadership, anti-money laundering and other relevant issues related to the banking sector.

Magda Magradze

Skills and experience:

Magda Magradze joined the Bank in August 2019. Subsequently, in October 2019 she was elected as the chairperson of the Remuneration Committee. Magda is the sole female Supervisory Board member. She has an outstanding background in project management, strategic planning, finances, monitoring, controlling and reporting. She has been working as a top executive at LEPL Millennium Challenge Account – Georgia where she currently occupies the position of the chief executive officer. Under her personal leadership and supervision, the organisation has successfully accomplished several projects. Currently the organisation manages a long-term project anticipating tens of millions of US Dollars. The project is primarily focused on developing general, professional and higher education in Georgia, including rehabilitation and equipment of public schools and managing the professional development of academic staff. During 2008-2013 years Magda also worked as a manager of academic support programme implemented by the open societies. The programme mostly concentrated on educational development, creating local, regional and global academic network in southern Caucasus. Due to her personal endeavours and restless efforts several exchange educational programmes have been implemented in Georgia. Using her exceptional skills and experience Magda brings to the Supervisory Board high diversity, credibility, independence, high level of professionalism, planning and control. The Supervisory Board and the Bank in general, is well balanced in terms of performing business operations and risk management.

Education:

Magda has graduated from Tbilisi State University, faculty of law and was awarded the qualification of a lawyer. She is also an alumnus of Tbilisi State Institute of Economic Relations and is awarded the qualification of economist.

Irakli Managadze (resigned from the Supervisory Board on 30 January 2019)

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. Subsequently, as of January 2019 he was appointed as the Chairman of the Audit Committee and the deputy chairman, senior independent member of the Supervisory Board. 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 is compliant with the Corporate Governance Code adopted by the National Bank of Georgia in terms of the number of independent and female members of the Supervisory Board. Each 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 fifty times during 2019 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 2019 are provided in table below.

Supervisory Board Meetings

Members	*Scheduled Meetings Eligible to Attend*	*Scheduled Meetings Attended*	*Attendance, %*
Irakli Otar Rukhadze	50	50	100%
Mamuka Tsereteli	50	50	100%
David Shonia	43	43	100%
Murtaz Kikoria	26	26	100%
Magda Magradze	20	20	100%
Irakli Managadze	2	1	50%

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 the Activities of Commercial Banks and Law of Georgia on Entrepreneurs set 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-19	Management Board Members
Chief Executive Officer	Vasil Khodeli (appointed as of 30 December 2019)
Chief Executive Officer	Giorgi Kalandarishvili (resigned as of 21 May 2019)
Chief Financial Officer	Davit Tsiklauri (appointed as of 08 April 2020)
Chief Financial Officer (acting chief executive officer from 21 May 2019 until 30 December 2019)	Levan Lekishvili (resigned as of 08 April 2020)
Corporate Banking Director	David Verulashvili
Chief Risks Officer	Mamuka Kvaratskhelia
Chief Operations Officer	Levan Tkhelidze

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 legal and regulatory environment. Diversity of their expertise and skills has an essential role in creation of long-term shareholder value in the Bank.

Vasil Khodeli

Vasil Khodeli was appointed as the Chief Executive Officer of the Bank on 30 December 2019. Vasil is a career banker and a prominent managing powerhouse in banking sector. He has more than 20 years of working experience in financial and more precisely, in banking sector. Prior to joining the Bank as the head of the Management Board Vasil has been working for JSC Bank of Georgia on several key managerial positions. From 2014 to 2017 he was the head of corporate and investment banking department and years of successful working in corporate banking lead him the way in 2017 to the management board of Bank of Georgia and he became the deputy chief executive officer, chief corporate banking investment officer. In his new position he continued corporate banking affairs and successfully supervised management of corporate and investment portfolios with the exposure of hundreds of millions and effectively dealt with thousands of corporate clients operating in various business sectors. Vasil also worked for the former JSC Tbilinterbank in late 1990s prior to joining the Bank of Georgia. He has graduated from Tbilisi State University and holds a master's degree in economics. He was also awarded with a dual MBA degree from Grenoble School of Management and Caucasus Business School.

Davit Tsiklauri

Davit Tsiklauri is the newest member of the Management Board. He replaced Levan Lekishvili and was appointed as the Deputy Chief Executive Officer, Chief Financial Officer in April 2020. During 2017 he worked for the Bank of Georgia Group as the deputy chief executive officer, head of corporate and investment banking and from 2017 till 2019 as the chief financial officer. Before joining the Bank of Georgia Group Davit was a deputy chief executive officer, head of corporate and investment banking at TBC Bank Group. He also has valuable experience of working for financial institutions on international level as from 2008 till 2014 he worked for Deutsche Bank as associate, debt capital markets and Vice-President, capital markets and treasury solutions. Currently Davit also serves as the supervisory board member at Hamkorbank, Uzbekistan. As of June 2019 he has also been working as the sole Georgian investment board member at the Pensions Agency of Georgia. In the wake of his appointment as the Chief Financial Officer of the Bank, in April 2020 he resigned from the Pensions Agency investment board membership in order to avoid conflict of interests. Davit holds the MBA degree from London Business School and a bachelor's degree in telecommunications and engineering from Georgian Technical University. His career path clearly identifies him as an extremely valuable asset and a profitable acquisition for the Bank.

Giorgi Kalandarishvili (resigned from the Management Board on 21 May 2019)

Giorgi Kalandarishvili was elected as a member of the Supervisory Board and appointed as the CEO of JSC Liberty Bank in October 2017 and resigned on 21 May 2019. 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 (resigned from the Management Board on 8 April 2020)

Levan Lekishvili joined Liberty Bank in June 2018 as a Deputy CEO, Chief Financial Officer. As of 21 May 2019 till 30 December 2019 Levan was the Acting Chief Executive Officer of the Bank. As of 08 April 2020 Levan resigned from the membership of the Management Board. 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

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

- Provide 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, ensure that the managers of such branches and service centres effectively fulfil their tasks and functions;
- Review the information obtained from internal audit or external inspections as well as the reports submitted by branch managers and managers of 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);
- Monitor and adhere to the risk management principles set by the Supervisory Board and ensure that 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 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 86 times in 2019 and resolved various issues concerning the development of new products, management and/or implementation of current and prospective projects, establishment of certain structural units, adoption of governing and guiding documents, such as the terms and conditions for various products, launching and removal of branches/service centres, implementation of structural 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 the 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 in 2018. Upon further establishment of the Risks Review Committee and the Remuneration Committee in 2019, the Bank became fully compliant with the Corporate Code for Commercial Banks in terms of the Supervisory Board committees.

4.5.1 Audit Committee

The Audit Committee is responsible for monitoring the operation of internal control functions, planning and supervising the fulfilment of annual action plan by the internal audit department, communicate with the external independent auditor, recommend to the Supervisory Board on possible weakness in internal control mechanisms.

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);
- Murtaz Kikoria (Member).

The majority of Audit Committee members shall be the independent members of the Supervisory Board. Therefore, the Bank is 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 2019 and discussed reports from internal audit department of the Bank as well as approved certain appointments, budget and action plan of 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:

- Irakli Otar Rukhadze (Chairman);
- Murtaz Kikoria (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 met 2 times in 2019.

4.5.3 Risks Review Committee

The Risks Review Committee is responsible for supervision and compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to all types of risks faced by the Bank. It detects and monitors the fundamental risk issues and manages and controls relevant risk decisions.

The Risks Review Committee assists the Supervisory Board in relation to risk management and internal control to review the adequacy and effectiveness of the risk control units over certain types of operational and credit risks.

The Risks Review Committee also monitors the Bank's compliance with the risk management and risk mitigation policies and procedures. Considering the abovementioned, the Risks Review Committee considers that the Bank's 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:

- Murtaz Kikoria (Chairman);
- Irakli Otar Rukhadze (Member);
- Magda Magradze (Member).

The majority of the Risks Review Committee members shall be the independent members of the Supervisory Board. Therefore, the Bank is in full compliance with the requirements of the Corporate Governance Code of Georgia for Commercial Banks.

The Risks Review 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 Risks Review Committee are as follows:

- Approve risk management reports on a regular basis and recommend to the Supervisory Board accordingly;
- Review and monitor the risk strategy and risk appetite and its consistency and alignment with strategic, capital and financial plans and submit respective recommendations to the Supervisory Board;
- Oversee the strategies for capital and liquidity management as well as for all of the Bank's relevant risks, such as credit and operational risks, market and reputational risks along with other relevant types of risks to ensure they are consistent with the stated risk appetite and risk culture;
- Review reports on any breaches of risk appetite and the adequacy of proposed action;
- Review and recommend the internal capital adequacy assessment process (ICAAP) report to the Supervisory Board for approval;
- Monitor the effectiveness and independence of the CRO, evaluate his/her levels of achievement and recommend to the Supervisory Board on issues related to appointment and/or resignation/dismissal of the CRO.

Risks Review Committee formally met one time in 2019, assessed the Bank's risks culture and approved the operational risk management report.

4.5.4 Remuneration Committee

The Remuneration Committee is responsible for creating of and supervising the proper functioning of adequate and effective remuneration system for the members of the Management Board, material risk takers and certain other employees of the Bank.

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

- Magda Magradze (Chairman);
- Irakli Otar Rukhadze (Member);
- Mamuka Tsereteli (Member).

The majority of the Remuneration Committee members shall be the independent members of the Supervisory Board. Therefore, the Bank is in full compliance with the requirements of the Corporate Governance Code of Georgia for Commercial Banks.

The Remuneration Committee shall be held at least semi-annually and in certain cases such meetings may be called by the Supervisory Board at any time.

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

- Conduct regular reviews of, and making recommendations to the Supervisory Board on the remuneration policy to ensure that the Bank's remuneration policy is in compliance with the international standards and the respective rules approved by the regulator;
- Review and update annually the list of material risk takers which shall be later approved by the Supervisory Board;
- Review and design all share incentive plans for approval by the Supervisory Board and shareholders;
- Make recommendations to the Supervisory board on the remuneration of the categories of persons covered by the Bank's remuneration policy;
- Supervise the process of disclosing information on issues related to remuneration.

The Remuneration Committee has not formally met in 2019.

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 approved the 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 Remuneration Policy

In 2019 the Supervisory Board approved the Remuneration Policy. The principles and structure set forth under the Remuneration Policy supports the sound governance and risk management incentivising good performance, acceptable risk-taking behaviour, reinforces the Bank's operating and risk culture and is in line with the business and risk strategy, objectives, values and long-term interests of the Bank.

The Remuneration Policy runs in pursuit of the following objectives, including continuous monitoring of market trends and practices, compliance with regulatory requirements and principles of good business conduct, motivation and retention of employees, minimisation of potential risks arising from implementation of the principles governing the remuneration of staff covered by the Policy, creation of alignment between the rewards and the risk exposure of the staff and delivery of the remuneration that is affordable and appropriate in terms of value allocated to the respective units and employees.

In addition, the Remuneration Policy also determines the components of remuneration, principles (such as deferral and retention principles), mechanisms for adjustment of variable remuneration (malus and clawback clauses) and methods and forms of payment together with all applicable caps and other restrictions as determined by the regulator or recommended under the best practice available.

4.6.4 Anti-Bribery and Anti-Corruption Policy, Environmental Sustainability Policy

By adopting Anti-Bribery and Anti-Corruption Policy in 2019, the Bank declares its values that include:

- transparent, prudent and dependable conduct;
- encouraging employees to take more responsibility for their work;
- Arm's Length approach, anticipating the circumstances, where parties to a transaction are independent and treated on an equal footing;
- prohibition of offering or giving anything of value to – and soliciting or accepting anything of value from - anyone for a corrupt purpose, such as improper payments or benefits to public officials or private parties for a business advantage, including both the offer, promise or payment of bribes (directly or indirectly) or assisting in, abetting or facilitating any such conduct and the request, solicitation, agreement to accept or receipt of bribes (directly or indirectly);

The Environmental Sustainability Policy was approved by the Supervisory Board in 2019. The Policy expresses and confirms the Bank's readiness to comply with all relevant legislation and other requirements. In addition, the Bank aims to minimize its impact on the environment by integrating environmental considerations into business decisions, engaging with industry groups and non-governmental organizations and civil society in order to contribute positively and proactively to environmental sustainability in business, raising the employees' awareness of environmental issues, encouraging environmentally responsible behavior and committing other socially and environmentally helpful activities.

4.6.5 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;

4.6.6 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.

4.6.7 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 4,586 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. The bank treats their employees the same regardless of race, gender and other issues to avoid discrimination and lawsuits, always assuming they work in the same type of position of position or capacity. 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. Some bonuses are performance-related while others are given to a workgroup at the end of a big project. 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. At the beginning of the reporting year, the KPI is determined for each employee based on the bank's strategy, the quality of which is taken into account when calculating the annual bonus. 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:

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, volume 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 KPIs and fulfillment of the KBOs.

Remuneration Policy for senior management:

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; Incentive programs and cash awards of the members of the Management Board are subject to approval of the Supervisory Board as well.
- Fixed remuneration is determined by the remunertion committee based on responsibility, experience and skills and is reflected in top manager's employment contract.
- Variable remuneration of top management is issued only in cash and depends on the KPIs, which include the fulfillment of the strategic objectives and financial indicators.

Supervisory Board

- Remuneration of the Supervisory Board members is set by the Annual General Meeting and is closely related to the achievement of corporate KPIs and the Bank's general performance by the end of the given calendar year;

In 2020, the bank plans to introduce the remuneration system for senior management, which will be determined by the achievement/performance of specific KBOs adopted by the Supervisory Board. This system will be in compliance with the requirements of the Corporate Governance Code.

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.

6 RISK MANAGEMENT

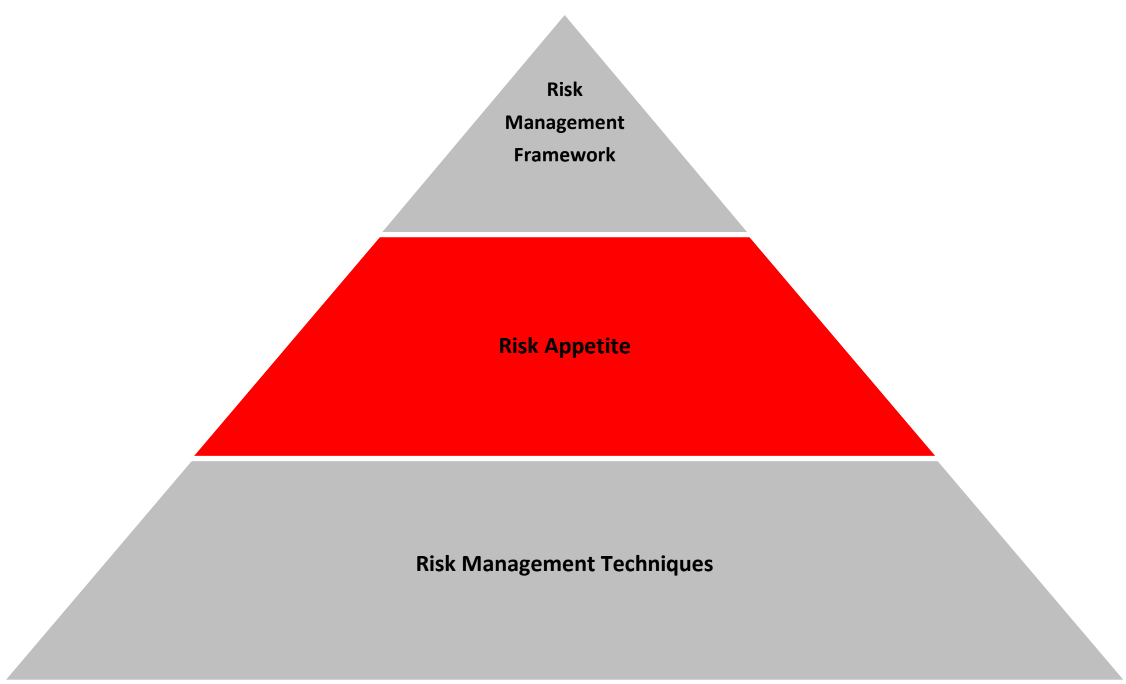
Risk is inherent in the Bank's activities but managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable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

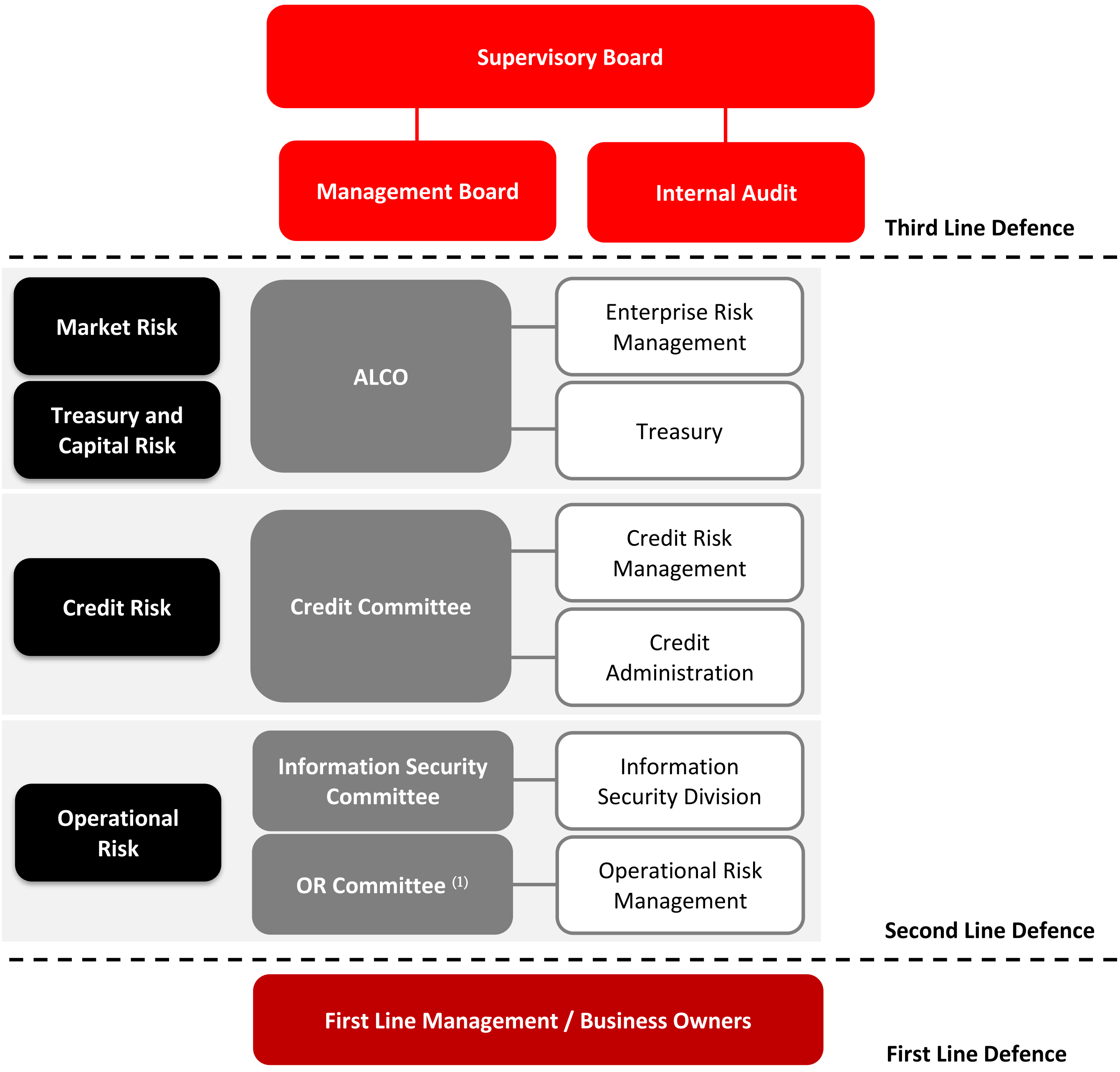
The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The key risks of the Bank are managed by the following committees and units with the active involvement of Management Board:

- 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 Committee;
- 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:

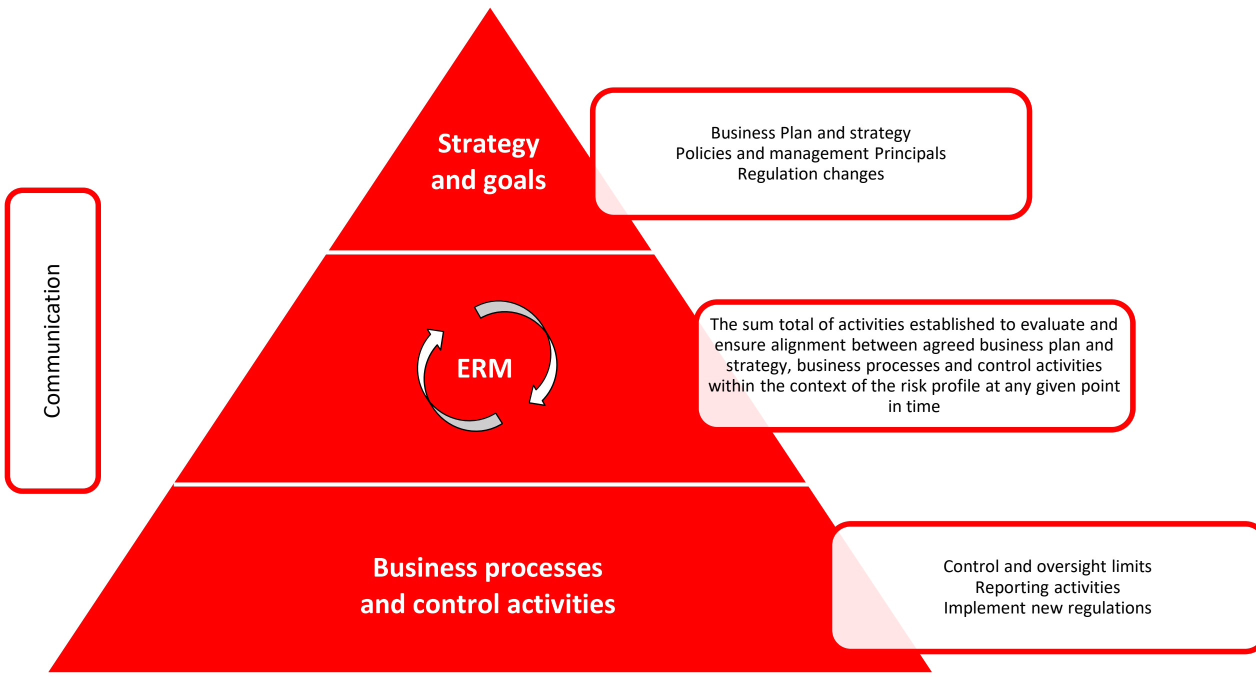
Capital Risk	•Manage capital adequacy according to NBG requirement and analyse the capital forecasts; •Manage economic capital and analyse main changes; •Monitor early warning indicators along with quarterly capital stress-tests;
Liquidity Risk	•Develop funding plan considering the Bank's investment 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

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 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 financial 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. The stress tests are conducted on an enterprise level.

ERM and Market Analysis division 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.

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.

7 CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

7.1 Capital Requirements

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.

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.

In December 2019, NBG postponed increase of CET1 and tier 1 requirements for GRAPE and concentration buffers.

As of 31 December 2019, systemic risk buffer increased to 0.9% from 0.6%, according to Decree # 174/04 of the president of NBG dated 18 October 2017.

In December 2019, NBG increased maximum level of loan to value ratio from 50% to 80%, for loans qualifying as exposures secured by mortgages on residential property. Such exposures are subject to 35% risk weighting.

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.

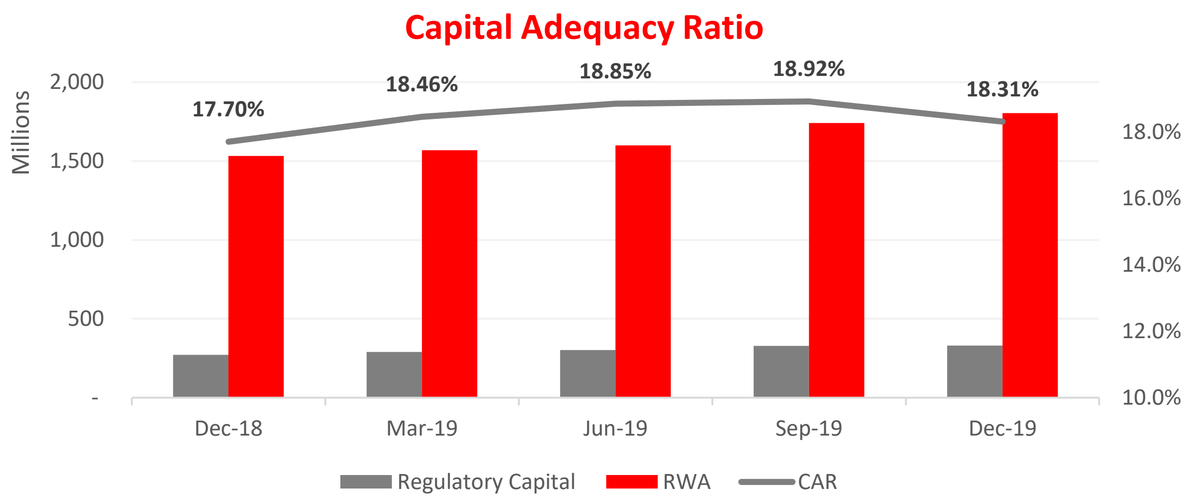
Table below sets out the details of the Bank's capital base under the NBG Regulation.

Table 7.2.1 Regulatory Capital under BASEL III

GEL '000s, unless otherwise noted	***31-Dec-19***	***31-Dec-18***	***Change***
Common Equity Tier 1 capital prior to regulatory adjustments	**299,001**	**272,945**	**10%**
Qualifying common share capital	44,490	44,490	0%
Share premium on qualifying common share capital	35,132	35,132	0%
Accumulated other comprehensive income	28,176	28,500	-1%
Other disclosed reserves	1,694	1,694	0%
Retained earnings	189,508	163,128	16%
Common Equity Tier 1 capital: regulatory adjustments	**-83,642**	**-62,335**	**34%**
Revaluation reserves on assets	-28,176	-28,500	-1%
Accumulated unrealised revaluation gains on assets through P&L	-2,693	-2,368	14%
Intangible assets	-52,666	-31,206	69%
Investments in subsidiaries/affiliates	-107	-260	-59%
COMMON EQUITY TIER 1 CAPITAL	**215,359**	**210,610**	**2%**
Additional Tier 1 Capital	**4,565**	**4,565**	**0%**
TIER 1 CAPITAL	**219,924**	**215,175**	**2%**
TIER 2 CAPITAL	**110,217**	**55,994**	**97%**
Subordinated debt	92,835	41,715	123%
General reserves	17,382	14,279	22%
REGULATORY CAPITAL	**330,141**	**271,169**	**22%**

In 2019 total Regulatory Capital increased by GEL 58.9 million compared to 2018. The main changes resulted from increase in RE by GEL 26.38 million, and increase in Tier 2 capital due to attraction of GEL 51.12 million 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.

7.2.1 Risk-weighted Risk Exposures

As of 31 December 2019, risk-weighted exposures in the amount of GEL 1,802.8 million by type of risk break down as follows: credit risk accounted for 77.1% of RWE, market risk accounted for 0.06% of RWE and operational risk accounted for 22.2% of RWE. Between 31 December 2019 and 31 December 2018, RWE for credit risk increased by GEL 248.2 million, RWE for operational risk increased by GEL 11.99 million due to increase 3-year average revenue used in Basic Indicator calculation, whereas RWE for market risk increased by GEL 10.9 million. The table below provides RWE split by categories and capital requirements.

Table 7.2.1.1 Minimum Capital Requirements and Risk-weighted Exposures

GEL Millions, unless otherwise noted	*31-Dec-19*		*31-Dec-18*		*Change(1)*
	RWE	*Capital Requirement*	*RWE*	*Capital Requirement*	
Credit Risk	**1,390.5**	**254.6**	**1,142.3**	**202.2**	**22%**
Balance sheet items	1,358.4	248.8	**1,120.0**	**198.2**	**21%**
Central governments or central banks	114.0	20.9	86.0	15.2	33%
Commercial banks	49.8	9.1	26.3	4.7	90%
Corporates	268.4	49.2	267.8	47.4	0%
Retail	552.7	101.2	429.7	76.1	29%
Exposures secured by residential property	33.4	6.1	12.3	2.2	171%
Past due items	4.0	0.7	3.8	0.7	6%
High-risk category	143.8	26.3	158.6	28.1	-9%
Other items	192.2	35.2	135.5	24.0	42%
Off-balance sheet items	19.3	3.5	11.2	2.0	73%
Counterparty credit risk	12.8	2.3	11.1	2.0	15%
Market Risk	**11.4**	**2.1**	**0.5**	**0.1**	**nmf**
Operational Risk	**400.9**	**73.4**	**388.9**	**68.8**	**3%**
TOTAL	**1,802.8**	**330.1**	**1,531.7**	**271.1**	**18%**

(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 increase in retail loan portfolio of GEL 151.5 million, resulting mainly from threshold growth for retail class up to 0.2% of regulatory retail portfolio. Exposures secured by residential property increased by GEL 60.2 million, mainly due to decreased LTV requirement for such loans.

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

7.3 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.

7.3.1 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.

7.3.2 Planning, Monitoring and Reporting of Capital Adequacy

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.

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. 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 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 10.4% and 11.5% as of 31 December 2019 and 31 December 2018, respectively.

The table below provides details on Leverage Ratio calculated according to NBG standards.

7.4.1 Leverage Ratio

GEL millions, unless otherwise noted	*31-Dec-19*	*31-Dec-18*	*Change*
On-balance sheet exposures	**2,083.3**	**1,834.4**	**14%**
On-balance sheet items	2,167.0	1,865.9	16%
(Asset amounts deducted in determining Tier 1 capital)	-83.6	-31.5	166%
Off-balance sheet exposures	**25.9**	**22.4**	**16%**
Off-balance sheet exposures at gross notional amount	120.1	83.4	44%
(Adjustments for conversion to credit equivalent amounts)	-94.2	-61.0	54%
Derivative exposures	**12.8**	**11.1**	**15%**
Total leverage ratio exposures	**2,122.1**	**1,867.9**	**14%**
Tier 1 capital	**219.9**	**215.2**	**2%**
Leverage Ratio	**10.36%**	**11.52%**	**-10%**

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 2019 was GEL 2,159.1 million, up 16% 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-19***	***31-Dec-18***	***Change***
Central governments or central banks	300,630	367,187	-18%
Commercial banks	181,229	107,481	69%
Corporates	283,109	286,592	-1%
Retail	741,353	575,789	29%
Claims secured by mortgages	95,403	35,217	171%
Past due items	4,063	3,764	8%
High-risk category	99,987	109,879	-9%
Other items	408,423	348,512	17%
Balance Sheet Items	**2,114,196**	**1,834,420**	**15%**
Off-balance sheet items	32,096	17,477	84%
Counterparty credit risk	12,806	11,076	16%
TOTAL EXPOSURE TO CREDIT RISK	**2,159,098**	**1,862,973**	**16%**

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 Credit Risk Management during COVID-19

Bank has revised its credit policy to align with updated credit risk approach. The Board of Directors in addition to the Risk Committee place a greater focus on the loan portfolio analysis during COVID-19 crisis. A credit portfolio review identifies impaired credit exposures and risk concentrations. The aim is to address material risks in a timely and focused manner and derive appropriate measures such as:

- Identification of risk criteria and risk exposures;
- Identification and close monitoring of impaired credit exposures, with potential workout solutions determined;
- Monitoring of risk concentrations, for example, sectoral concentrations in collateral;
- Monitoring of risk drivers.

To understand which clients are likely to be most affected, bank needs to take a new approach to credit risk management in order to anticipate declining credit quality more quickly and intervene proactively.

- Bank conducts granular analysis on an industry basis to understand how the COVID-19 crisis could impact a sector's supply- and demand-side economics;
- Bank tries to assess which clients are most at risk during this crisis; Stress testing allows bank to model potential liquidity impacts;
- Bank reviews portfolio to see which clients in affected industries are most at risk. Analyzing the EBITDA margin, free cash flow, and cost structure can help bank assess the intrinsic "fragility" of a company's balance sheet;
- Bank credit actions could combine levers such as moratoria, government-backed financing, and new credit lines to clients facing short-term cash shortages. This also includes debt restructuring, such as maturity revision, interest-only payments, and the conversion of short-term debt into long-term.

8.2.3 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.

8.2.4 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.

8.2.5 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.

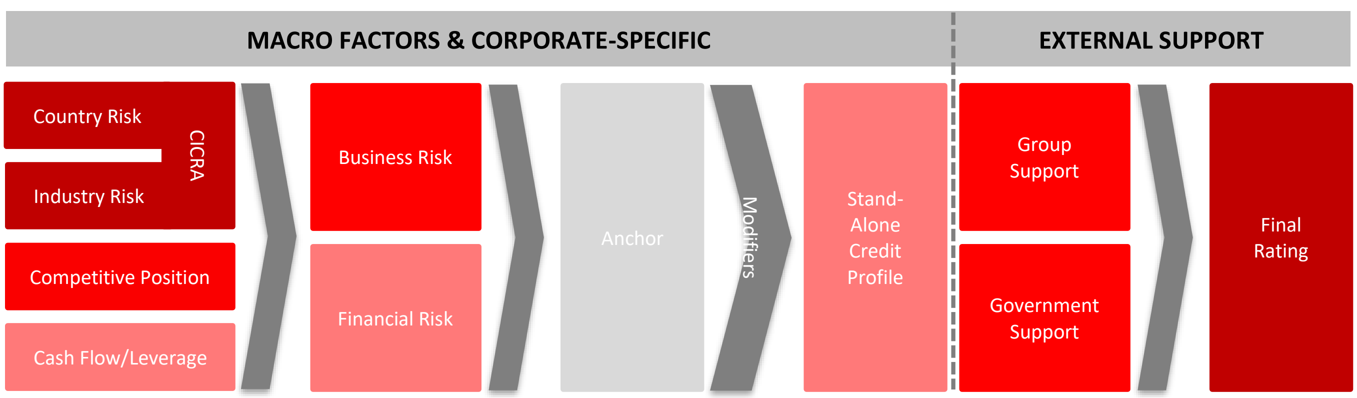
Individually significant risk exposures

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.

8.2.6 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 2019 *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	186,621	-	-	-	-	114,009	-	-	114,009	-	114,009
Commercial banks	-	146,147	-	28,941	-	6,141	-	-	49,841	-	49,841
Corporates	-	-	-	-	-	283,109	-	-	283,109	14,708	268,401
Retail(1)	-	-	-	-	741,353	-	-	-	556,015	3,265	552,749
Claims secured by mortgages	-	-	95,403	-	-	-	-	-	33,391	-	33,391
Past due items	-	-	-	557	-	2,272	1,234	-	4,401	375	4,026
High-risk category(2)	-	-	-	-	-	15,640	82,575	1,772	143,932	109	143,823
Other items	215,352	1,140	-	-	-	191,931	-	-	192,159	-	192,159
Balance Sheet Items	**401,974**	**147,287**	**95,403**	**29,498**	**741,353**	**613,102**	**83,808**	**1,772**	**1,376,857**	**18,459**	**1,358,398**
Off-balance sheet items	-	-	-	-	14,925	17,171	-	-	28,365	9,033	19,332
Counterparty credit risk	-	-	-	-	-	12,806	-	-	12,806	-	12,806
TOTAL	**401,974**	**147,287**	**95,403**	**29,498**	**756,278**	**643,080**	**83,808**	**1,772**	**1,418,028**	**27,491**	**1,390,537**

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	-	-	-	-	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 category(2)	-	-	-	-	-	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**

(1) Upon the NBG instructions, in 2019 gross exposures that exceed 0.2% of regulatory retail portfolio, 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%.

In December 2019, bank implemented policy for defining group of interconnected borrowers. Upon the agreement with NBG, threshold for retail class was increased from GEL 20 thousand to 0.2% of regulatory retail portfolio.

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.

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 2019, the RWE for the market risk amounted to 11.4 million GEL with the total capital requirement (including Pillar 2 buffers) of 2.1 million GEL, reflecting the Bank's low risk appetite towards speculation on FX market direction.

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.

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 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. To minimize interest rate risk, bank focuses on increasing loan portfolio with floating rates.

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.

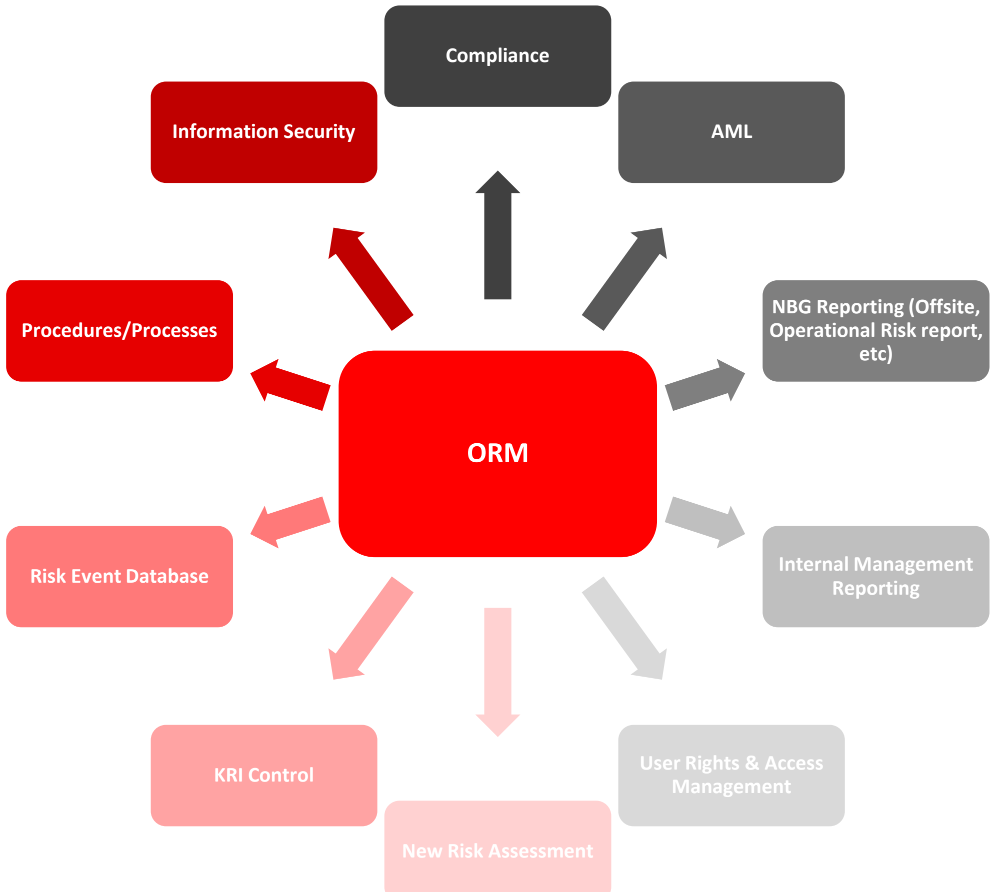
10.1 Operational Risk Management Structure

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/Risk Committee	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:

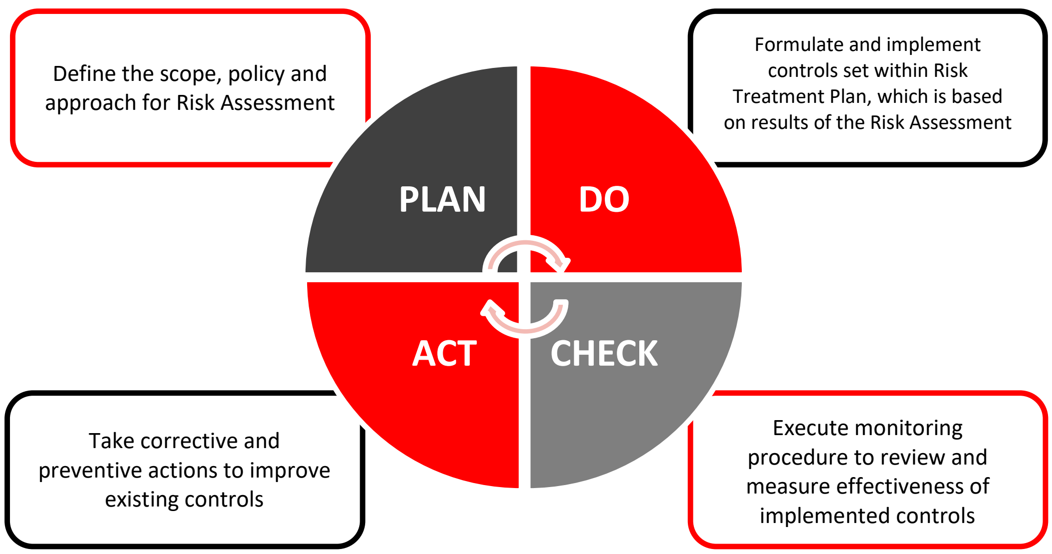


Bank's Operational Risk Profile is divided into the following Risks:

- 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:

Frequency	Low		Severity		High
> 380	5	10	15	20	25
180 - 380	4	8	12	16	20
50 -179	3	6	9	12	15
25 - 49	2	4	6	8	10
0-24	1	2	3	4	5
	0 -20	20 - 40	40 - 210	210 - 460	> 460

GEL '000s Unless Otherwise Noted

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 5.9 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	2019	2018	2017	Total
Total amount of losses	2.0	2.2	1.8	5.9
Total amount of losses, exceeding GEL 10,000	0.8	1.1	0.8	2.7
Number of events with losses exceeding GEL 10,000	25	24	22	71
Total amount of 5 biggest losses	0.4	0.7	0.4	1.6

10.3.2 Capital Requirement

The Bank uses the basic indicator approach to calculate the RWE for Operation Risk. As of December 2019, the RWE for Operational Risk amounted to GEL 400.9 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

	2019	2018	2017	Average of sums of net interest and net non-interest income during last three years	Risk Weighted Asset (RWA)
Net Interest Income	162,385,086	177,152,729	149,579,648		
Total Non-Interest Income	36,180,872	45,786,594	70,305,843		
less: Income (loss) from selling property	315,197	183,487	-478,280		
Total Income	**198,250,761**	**222,755,836**	**220,363,771**	**213,790,123**	**400,856,480**

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 5.9 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.

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 liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") standards.

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.

From October 2019, a change in LCR form was introduced. Foreign currency reserves are no longer deducted by 25% from liquid assets.

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. Since September 2019, the NBG replaced regulatory Liquidity ratio with Net Stable Funding Ratio. Regulatory Liquidity ratio is still being monitored daily while the minimum limit of 30% has been withdrawn.

Liquidity Coverage Ratio and Regulatory Liquidity Ratio

	Dec-18	*Mar-19*	*Jun-19*	*Sep-19*	*Dec-19*
LCR, Total (last day of the month)	184.6%	186.9%	177.5%	156.8%	159.6%
LCR, GEL (last day of the month)	183.5%	200.8%	180.2%	160.3%	121.6%
LCR, FX (last day of the month)	186.5%	159.5%	172.3%	151.0%	216.6%
Liquidity Ratio (last day of the month)	50.5%	49.5%	50.1%	44.8%	38.9%
Liquidity Ratio (average for the month)	45.4%	41.3%	43.2%	45.0%	43.0%

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

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).

Since September 2019, the NBG requires all banks to maintain the NSFR of minimum 100%.

Table 11.2.1 below sets out the Net Stable Funding Ratio for 2019.

Table 11.2.1 Net Stable Funding Ratio 2019

	Mar-19	*Jun-19*	*Sep-19*	*Dec-19*
Available amount of stable funding	1,477,326,234	1,523,637,704	1,561,800,747	1,560,353,218
Required amount of stable funding	902,591,028	942,625,837	1,009,013,507	1,085,216,809
Net Stable Funding Ratio	**163.68%**	**161.64%**	**154.78%**	**143.78%**

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 2019 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	31/12/2019			31/12/2018			31/12/2017		
N		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
1	**Contingent Liabilities and Commitments**	**51,626,192**	**68,804,449**	**120,430,641**	**48,146,211**	**35,544,800**	**83,691,011**	**32,808,396**	**342,931**	**33,151,327**
1.1	Guarantees Issued	5,947,533	12,000,052	17,947,585	7,227,052	811,510	8,038,562	766,939	72,854	839,793
1.2	Letters of credit Issued	8,574,362	-	8,574,362	-	-	-	-	-	-
1.3	Undrawn loan commitments	36,904,297	56,709,406	93,613,703	40,719,159	34,644,629	75,363,788	32,041,457	270,077	32,311,534
1.4	Other Contingent Liabilities	200,000	94,991	294,991	200000	88661	288661	-	-	-
2	**Guarantees received as security for liabilities of the bank**	-	-	-	-	-	-	-	-	-
3	**Assets pledged as security for liabilities of the bank**	**66,465,000**	-	**66,465,000**	-	-	-	-	-	-
3.1	Financial assets of the bank	66,465,000	-	66,465,000	-	-	-	-	-	-
3.2	Non-financial assets of the bank	-	-	-	-	-	-	-	-	-
4	**Guarantees received as security for receivables of the bank**	**556,411,384**	**2,138,938,946**	**2,695,350,330**	**787,792,434**	**1,158,509,299**	**1,946,301,733**	-	-	-
4.1	Surety, joint liability	-	-	-	-	-	-	-	-	-
4.2	Guarantees	556,411,384	2,138,938,946	2,695,350,330	787,792,434	1,158,509,299	1,946,301,733	-	-	-
5	**Assets pledged as security for receivables of the bank**	**140,348,714**	**2,084,344,274**	**2,224,692,989**	**82,931,131**	**1,027,431,635**	**1,110,362,766**	**980,424,441**	**437,539,386**	**1,417,963,827**
5.1	Cash	6,945,372	22,202,756	29,148,128	21,427,694	7,267,465	28,695,159	30,412,869	1,973,649	32,386,518
5.2	Precious metals and stones	78,939,393	93,537,413	172,476,806	24411000	79,509,551	103,920,551	-	70,509,305	70,509,305
5.3	Real Estate:	205,246	1,182,772,505	1,182,977,751	339,727	631,571,898	631,911,625	119,670	149,376,565	149,496,235
5.3.1	*Residential Property*	42,531	410,935,794	410,978,325	134,727	351,547,537	351,682,264	119,670	135,950,237	136,069,907
5.3.2	*Commercial Property*	11,000	143,431,537	143,442,537	-	99,639,492	99,639,492	-	5,161,594	5,161,594
5.3.3	*Complex Real Estate*	-	37,847,905	37,847,905	-	22,451,323	22,451,323	-	574,177	574,177
5.3.4	*Land Parcel*	4,000	48,368,699	48,372,699	-	14,626,080	14,626,080	-	3,462,886	3,462,886
5.3.5	*Other*	147,715	542,188,570	542,336,285	205000	143,307,466	143,512,466	-	4,227,671	4,227,671
5.4	Movable Property	5,513,505	151,979,963	157,493,468	229666	127,875,123	128,104,789	-	103,663,968	103,663,968
5.5	Shares Pledged	10,000,000	181,623,850	191,623,850	-	26766000	26766000	-	–	-
5.6	Securities	-	186,089,825	186,089,825	-	152566203	152566203	-	–	-
5.7	Other	38,745,198	266,137,963	304,883,161	36,523,044	1,875,395	38,398,439	949,891,902	112,015,899	1,061,907,801
6	**Derivatives**	**155,752,749**	**372,043,514**	**527,796,262**	**164,167,884**	**225,612,148**	**389,780,032**	**69,663,372**	**54,366,199**	**124,029,571**
6.1	Receivables through FX contracts (except options)	89,281,165	168,216,657	257,497,822	94504512	91,374,305	185,878,817	-	51,715,034	51,715,034
6.2	Payables through FX contracts (except options)	66,471,584	203,826,856	270,298,440	69,663,372	134,237,843	203,901,215	69,663,372	2,651,165	72,314,537
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**	**110,090,825**	**2,029,317**	**112,120,141**	**72,719,647**	**961,531**	**73,681,178**	**27,238,493**	**742,986**	**27,981,479**
7.1	Principal of receivables derecognized during last 3 month	6,341,831	16,276	6,358,107	40,123,915	134296	40,258,211	912,390	-	912,390
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)	110,090,825	2,029,317	112,120,141	72,719,647	961,531	73,681,178	27,238,493	742,986	27,981,479
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**	**3,258,606**	**45,189,746**	**48,448,352**	**10,139,419**	**42,902,409**	**53,041,828**	**10,737,524**	**25,957,001**	**36,694,525**
8.1	Through indefinite term agreement	-	-	-	-	-	-	-	-	-
8.2	Within one year	688,201	8,678,711	9,366,913	2,529,136	8,126,749	10,655,885	2,441,634	5,021,480	7,463,114
8.3	From 1 to 2 years	453,779	7,754,605	8,208,384	1,386,996	7,406,449	8,793,445	2,224,931	4,962,508	7,187,439
8.4	From 2 to 3 years	389,658	6,935,029	7,324,687	1,272,887	6,582,884	7,855,771	1,221,696	4,304,452	5,526,148
8.5	From 3 to 4 years	375,373	5,517,979	5,893,352	1,201,674	5,770,158	6,971,832	1,099,787	3,510,744	4,610,531
8.6	From 4 to 5 years	338,678	4,589,492	4,928,170	1,057,674	4,436,430	5,494,104	1,028,574	2,680,485	3,709,059
8.7	More than 5 years	1,012,917	11,713,930	12,726,846	2,691,053	10,579,738	13,270,790	2,720,902	5,477,332	8,198,233
9	**Capital expenditure commitment**	**483,551**	**5,750,730**	**6,234,281**	**1,504,222**	**6,117,293**	**7,621,515**	**69,041**	**2,189,165**	**2,258,206**

Table 2: Regulatory capital

N		In GEL
1	Common Equity Tier 1 capital before regulatory adjustments	**299,000,774**
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	28,175,602
5	Other disclosed reserves	1,694,028
6	Retained earnings (loss)	189,508,428
7	**Regulatory Adjustments of Common Equity Tier 1 capital**	**83,641,675**
8	Revaluation reserves on assets	28,175,602
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	2,692,955
10	Intangible assets	52,666,386
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	106,733
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**	**215,359,099**
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**	**110,216,518**
37	Instruments that comply with the criteria for Tier 2 capital	92,834,808
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	17,381,710
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**	**110,216,518**

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	215,830,754	
2	Due from NBG	141,792,380	
3	Due from Banks	175,902,915	
4	Dealing Securities	-	
5	Investment Securities	142,840,525	
6.1	Loans	1,240,836,088	
6.2	Less: Loan Loss Reserves	(82,260,658)	
6.2.1	of which loan loss general reserves	17,381,710	
6	Net Loans	1,158,575,430	
7	Accrued Interest and Dividends Receivable	15,915,316	
8	Other Real Estate Owned & Repossessed Assets	47,775	
9	Equity Investments	106,733	
9.1	Of which above 10% equity holdings in financial institutions	106,733	
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	207,676,100	
10.1	Of which intangible assets	52,666,386	table 9 (Capital), N10
11	Other Assets	85,504,784	
12	**Total assets**	**2,144,192,712**	
13	Due to Banks	36,050,082	
14	Current (Accounts) Deposits	597,191,171	
15	Demand Deposits	289,571,292	
16	Time Deposits	671,046,820	
17	Own Debt Securities	-	
18	Borrowings	60,000,000	
19	Accrued Interest and Dividends Payable	7,107,124	
20	Other Liabilities	80,019,839	
20.1	of which off-balance general reserves	(52,490)	
21	Subordinated Debentures	99,640,227	
21.1	Of which tier II capital qualifying instruments	92,834,808	
22	**Total liabilities**	**1,840,626,554**	
23	Common Stock	54,628,743	
24	Preferred Stock	61,391	
25	Less: Repurchased Shares	(10,154,020)	
26	Share Premium	39,651,986	
27	General Reserves	1,694,028	
28	Retained Earnings	189,508,428	
29	Asset Revaluation Reserves	28,175,602	
30	**Total Equity Capital**	**303,566,158**	

Table 4: Risk Weighted Assets

N	In GEL	31/12/2019	31/12/2018	31/12/2017
1	Risk Weighted Assets for Credit Risk	1,390,536,797	1,142,328,947	999,717,347
1.1	Balance sheet items	1,358,398,135	1,120,058,891	980,144,479
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
1.2	Off-balance sheet items	19,332,413	11,193,695	10,374,059
1.3	Counterparty credit risk	12,806,249	11,076,361	9,198,809
2	**Risk Weighted Assets for Market Risk**	**11,395,735**	**531,586**	**4,301,150**
3	**Risk Weighted Assets for Operational Risk**	**400,856,480**	**388,865,665**	**351,372,173**
4	**Total Risk Weighted Assets**	**1,802,789,012**	**1,531,726,198**	**1,355,390,670**

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	215,830,754	-	215,830,754
2	Due from NBG	141,792,380	-	141,792,380
3	Due from Banks	175,902,915	-	175,902,915
4	Dealing Securities	-	-	-
5	Investment Securities	142,840,525	-	142,840,525
6.1	Loans	1,240,836,088	-	1,240,836,088
6.2	Less: Loan Loss Reserves	(82,260,658)	-	(82,260,658)
6	Net Loans	1,158,575,430	-	1,158,575,430
7	Accrued Interest and Dividends Receivable	15,915,316	-	15,915,316
8	Other Real Estate Owned & Repossessed Assets	47,775	-	47,775
9	Equity Investments	106,733	106,733	-
10	Fixed Assets and Intangible Assets	207,676,100	52,666,386	155,009,714
11	Other Assets	85,504,784	-	85,504,784
Total exposures subject to credit risk weighting before adjustments		**2,144,192,712**	**52,773,119**	**2,091,419,593**

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**	**2,091,419,593**
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	120,135,650
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	261,457,691
3	**Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes**	**2,473,012,934**
4	Effect of provisioning rules used for capital adequacy purposes	22,776,449
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	(88,039,558)
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	(248,651,442)
6	Effect of other adjustments	-
7	**Total exposures subject to credit risk weighting**	**2,159,098,383**

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	186,621,399	-	-	-	-	-	-	-	-	-	114,008,662	-	-	-	-	-	114,008,662
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	-	-	146,147,004	-	-	-	28,940,930	-	-	-	6,140,686	-	-	-	-	-	49,840,552
7	Claims or contingent claims on corporates	-	-	-	-	-	-	-	-	-	-	283,109,466	17,171,379	-	-	-	-	300,280,844
8	Retail claims or contingent retail claims	-	-	-	-	-	-	-	-	741,353,060	14,924,713	-	-	-	-	-	-	567,208,329
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	95,402,720	-	-	-	-	-	-	-	-	-	-	-	33,390,952
10	Past due items	-	-	-	-	-	-	556,642	-	-	-	2,272,242	-	1,233,634	-	-	-	4,401,013
11	Items belonging to regulatory high-risk categories	-	-	-	-	-	-	-	-	-	-	15,639,764	-	82,574,530	-	1,772,239	-	143,932,157
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Other items	215,352,115	-	1,139,604	-	-	-	-	-	-	-	191,931,268	-	-	-	-	-	192,159,189
	Total	**401,973,514**	**-**	**147,286,608**	**-**	**95,402,720**	**-**	**29,497,572**	**-**	**741,353,060**	**14,924,713**	**613,102,087**	**17,171,379**	**83,808,163**	**-**	**1,772,239**	**-**	**1,405,221,697**

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	21,863,324	-	14,708,443	7,154,881	21,863,324
8	Retail claims or contingent retail claims	5,142,980	-	3,265,361	1,877,619	5,142,980
9	Claims or contingent claims secured by mortgages on residential property	-	-	-	-	-
10	Past due items	375,386	-	375,386	-	375,386
11	Items belonging to regulatory high-risk categories	109,460	-	109,460	-	109,460
12	Short-term claims on commercial banks and corporates	-	-	-	-	-
13	Claims in the form of collective investment undertakings	-	-	-	-	-
14	Other items	-	-	-	-	-
	Total	**27,491,150**	**-**	**18,458,649**	**9,032,500**	**27,491,150**

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	300,630,061	-	-	114,008,662	114,008,662	37.92%
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	181,228,620	-	-	49,840,552	49,840,552	27.50%
7	Claims or contingent claims on corporates	283,109,466	79,748,084	17,171,379	300,280,844	278,417,520	92.72%
8	Retail claims or contingent retail claims	741,353,060	40,387,566	14,924,713	567,208,329	562,065,349	74.32%
9	Claims or contingent claims secured by mortgages on residential property	95,402,720	-	-	33,390,952	33,390,952	35.00%
10	Past due items	4,062,517	-	-	4,401,013	4,025,627	99.09%
11	Items belonging to regulatory high-risk categories	99,986,533	-	-	143,932,157	143,822,697	143.84%
12	Short-term claims on commercial banks and corporates	-	-	-	-	-	nmf
13	Claims in the form of collective investment undertakings ('CIU')	-	-	-	-	-	nmf
14	Other items	408,422,987	-	-	192,159,189	192,159,189	47.05%
	Total	**2,114,195,963**	**120,135,650**	**32,096,091**	**1,405,221,697**	**1,377,730,548**	**64.19%**

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**	261,457,691		12,806,249	-	-	-	-	-	12,806,249	-	-	12,806,249
1.1	Maturity less than 1 year	192,284,707	2.00%	3,845,694	-	-	-	-	-	3,845,694	-	-	3,845,694
1.2	Maturity from 1 year up to 2 years	5,735,400	5.00%	286,770	-	-	-	-	-	286,770	-	-	286,770
1.3	Maturity from 2 years up to 3 years	-	8.00%	-	-	-	-	-	-	-	-	-	-
1.4	Maturity from 3 years up to 4 years	6,915,898	11.00%	760,749	-	-	-	-	-	760,749	-	-	760,749
1.5	Maturity from 4 years up to 5 years	56,521,686	14.00%	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	-	0.50%	-	-	-	-	-	-	-	-	-	-
2.2	Maturity from 1 year up to 2 years	-	1.00%	-	-	-	-	-	-	-	-	-	-
2.3	Maturity from 2 years up to 3 years	-	2.00%	-	-	-	-	-	-	-	-	-	-
2.4	Maturity from 3 years up to 4 years	-	3.00%	-	-	-	-	-	-	-	-	-	-
2.5	Maturity from 4 years up to 5 years	-	4.00%	-	-	-	-	-	-	-	-	-	-
2.6	Maturity over 5 years	-			-	-	-	-	-	-	-	-	-
	Total	**261,457,691**		**12,806,249**	**-**	**-**	**-**	**-**	**-**	**12,806,249**	**-**	**-**	**12,806,249**

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				369,096,715	355,342,004	724,438,720	327,702,199	171,513,784	499,215,984
Cash outflows										
2	Retail deposits	693,618,602	323,680,521	1,017,299,123	118,580,736	77,525,352	196,106,088	26,165,574	15,208,517	41,374,091
3	Unsecured wholesale funding	400,548,693	268,310,761	668,859,454	181,754,698	88,216,482	269,971,180	143,944,595	77,222,306	221,166,901
4	Secured wholesale funding	-	-	-	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	63,437,584	-	62,748,045	-	-	-	-	-	-
6	Other contractual funding obligations	38,834,626	50,897,680	89,732,306	7,962,222	14,228,880	22,191,102	2,230,215	4,692,632	6,922,848
7	Other contingent funding obligations	66,455,232	56,795,527	123,250,758	32,333,271	7,790,707	40,123,978	32,271,842	8,133,367	40,405,209
8	**TOTAL CASH OUTFLOWS**	**1,262,894,737**	**699,684,488**	**1,962,579,225**	**340,630,928**	**187,761,421**	**528,392,349**	**204,612,226**	**105,256,822**	**309,869,048**
Cash inflows										
9	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	908,492,275	492,226,951	1,400,719,226	75,688,998	9,732,392	85,421,390	116,634,351	191,954,544	308,588,895
11	Other cash inflows	35,496,391	58,766,492	94,262,882	728,460	109,710	838,170	728,652	557,460	1,286,112
12	**TOTAL CASH INFLOWS**	**943,988,666**	**550,993,442**	**1,494,982,108**	**76,417,458**	**9,842,102**	**86,259,560**	**117,363,004**	**192,512,003**	**309,875,007**
					Total value according to NBG's methodology* (with limits)			**Total value according to Basel methodology (with limits)**		
13	Total HQLA				369,096,715	355,342,004	724,438,720	327,702,199	171,513,784	499,215,984
14	Net cash outflow				264,213,470	177,919,319	442,132,789	87,249,222	26,314,206	77,467,262
15	**Liquidity coverage ratio (%)**				**140%**	**200%**	**164%**	**376%**	**652%**	**644%**

* 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.

LIBERTY

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	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12
						Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repossessed Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets	TOTAL ASSETS
1	Cash and cash equivalents	415,766	415,765,657	419,645,695	1	215,830,754	27,912,026	175,902,915											**419,645,695**
2	Amounts due from credit institutions	124,482	124,481,928	113,880,354			113,880,354												**113,880,354**
3	Loans to customers	1,179,369	1,179,368,990	1,158,575,430	2						1,240,836,088	(82,260,658)	1,158,575,430						**1,158,575,430**
4	Investment securities	146,506	146,505,643	142,944,525						142,840,525				104,000					**142,944,525**
5	Property and equipment	154,446	154,254,832	156,873,230													156,873,230		**156,873,230**
6	Intangible assets	49,684	49,683,707	50,802,870													50,802,870		**50,802,870**
7	Right Of Use Asset	34,217	34,216,608	34,216,608														34,216,608	**34,216,608**
8	Prepayments	6,572	6,571,938	23,279,591	3													23,279,591	**23,279,591**
9	Current income tax assets	6,568	6,568,170	9,807,303														9,807,303	**9,807,303**
10	Other assets	19,461	20,164,794	34,167,106	4									15,811,316	47,775	106,733		18,201,282	**34,167,106**
11	**Total Assets**	**2,137,071**	**2,137,582,266**	**2,144,192,712**		**215,830,754**	**141,792,380**	**175,902,915**	**-**	**142,840,525**	**1,240,836,088**	**(82,260,658)**	**1,158,575,430**	**15,915,316**	**47,775**	**106,733**	**207,676,100**	**85,504,784**	**2,144,192,712**

(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 reasoned by the different methodologies and classification of loan accrued interest between IFRS and the NBG
(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	14	15	16	17	18	19	20	21	22
						Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities
12	Amounts due to credit institutions	97,401	97,401,378	99,664,160		36,050,082					60,000,000	2,358	3,611,720		**99,664,160**
13	Amounts due to customers	1,565,158	1,565,088,082	1,569,312,547			597,191,171	289,571,292	671,046,820			6,364,682	5,138,582		**1,569,312,547**
14	Current income tax liabilities	0	0	10,941,569	1								10,941,569		**10,941,569**
15	Deferred income tax liabilities	4,581	4,581,209	2,181,966	1								2,181,966		**2,181,966**
16	Other liabilities	61,095	61,113,693	58,886,085								740,084	58,146,001		**58,886,085**
17	Subordinated debt	100,031	100,030,827	99,640,227										99,640,227	**99,640,227**
18	**Total liabilities**	**1,828,266**	**1,828,215,188**	**1,840,626,554**		**36,050,082**	**597,191,171**	**289,571,292**	**671,046,820**	**0**	**60,000,000**	**7,107,124**	**80,019,839**	**99,640,227**	**1,840,626,554**

(1) The difference in current income and deferred income tax liabilities are caused by different tax recognition methodologies used in IFRS and the NBG reporting

	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	24	25	26	27	28	29	30
						Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital
19	Share capital	54,629	54,628,743	54,628,743		54,628,743							**54,628,743**
20	Additional paid-in capital	36,851	35,557,785	35,132,256					35,132,256				**35,132,256**
21	Treasury shares	(10,138)	(10,138,283)	(10,138,283)				(10,138,283)					**(10,138,283)**
22	Convertible preferred shares	4,565	4,565,384	4,565,384			61,391	(15,737)	4,519,730				**4,565,384**
23	Retained earnings	206,006	207,863,749	191,526,947	1					1,694,028	189,508,428	324,491	**191,526,947**
24	Other reserves	16,890	16,889,701	27,851,111								27,851,111	**27,851,111**
25	**Total equity**	**308,803**	**309,367,079**	**303,566,158**		**54,628,743**	**61,391**	**(10,154,020)**	**39,651,986**	**1,694,028**	**189,508,428**	**28,175,602**	**303,566,158**

(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: Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	Description
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

	2019	2018	2017
Total amount of losses	1,951,554	2,160,766	1,784,200
Total amount of losses, exceeding GEL 10,000	783,897	1,100,856	805,169
Number of events with losses exceeding GEL 10,000	25	24	22
Total amount of 5 biggest losses	415,334	749,114	404,494

Table 15: Remuneration awarded during the reporting period

		Board of Directors	Supervisory Board	Other material risk takers
Fixed remuneration	**Number of employees**	**6**	**4**	**9**
	Total fixed remuneration	**1,902,053**	**399,155**	**1,292,898**
	Of which cash-based	1,892,621	399,030	1,292,898
	Of which: deferred	-	-	-
	Of which: shares or other share-linked instruments	-	-	-
	Of which deferred	-	-	-
	Of which other forms	9,432	125	-
	Of which deferred	-	-	-
Variable remuneration	**Number of employees**	**5**		**9**
	Total variable remuneration	**5,789,689**	**0**	**548,985**
	Of which cash-based	**5,754,362**		**548,985**
	Of which: deferred			
	Of which shares or other share-linked instruments			
	Of which deferred			
	Of which other forms	35,327		
	Of which deferred			
Total remuneration		**7,691,742**	**399,155**	**1,841,883**

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		
	Unvested	Vested	Total	Awarded during the period		Vesting	Reduction during the period		Other Changes		Unvested	Vested	Total
				Of which: Unvested	Of which: Vested		Unvested	Vested	Purchase	Sell			
Total amount:	**-**	**1,122,113,830**	**1,122,113,830**	**-**	**-**	**-**	**-**	**-**	**242,043,663**	**-**	**-**	**1,364,157,493**	**1,364,157,493**
Irakli Otar Rukhadze	-	1,122,113,830	1,122,113,830	-	-	-	-	-	242,043,663	-	-	1,364,157,493	1,364,157,493