PILLAR 3 ANNUAL REPORT PASHA Bank Georgia

as per year end 2017

PASHA Bank

New heights. Together.

MANAGEMENT STATEMENT

The Board of Directors of PASHA Bank confirms the authenticity and accuracy of all the data and information provided in the given Pillar 3 report. The report is prepared in full compliance with the internal control process as agreed with the Supervisory Board. The given report meets the requirements of the Order N92 / 04 issued in April 2017 by the President of the National Bank of Georgia about Approving the Regulation of Disclosing Information by the Commercial Banks within Pillar 3 as well as other regulations and norms established by the National Bank of Georgia.

HUMAN RESOURCES

Our People

The most important strategic resource for us is our people.

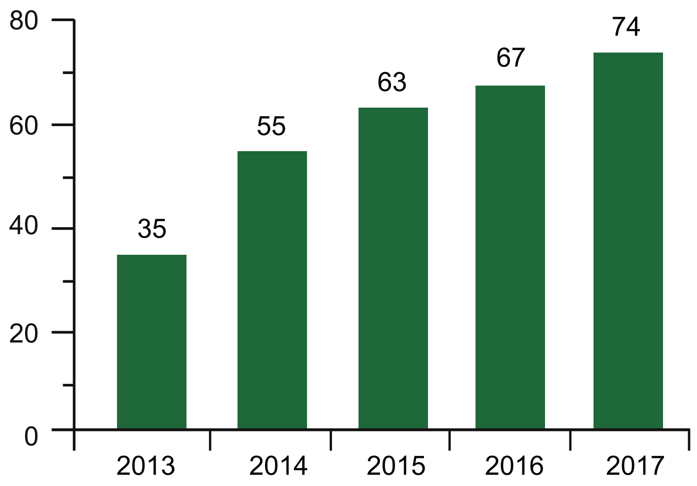
We take pride in having talented professionals eager to make a difference and we believe investment in people is the best allocation of resources. Supporting our people in professional development, encouraging innovations and ensuring they feel valued, challenged and motivated is on top of our agenda.

We take pride in having established culture of mutual respect, transparent relations and cooperation.

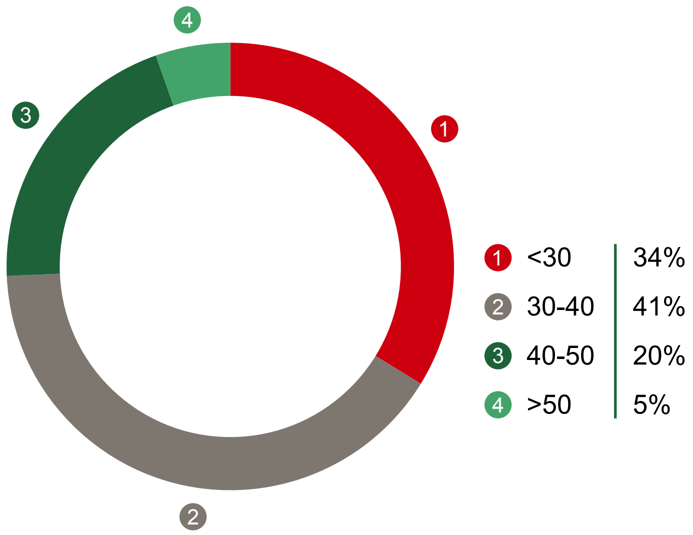
Our HR strategy for the period 2013-2017 was focused on supporting sustainable growth of the Bank by attracting top talent. To that end, we have successfully developed and implemented major HR systems, such as job grading, performance management, compensation, training and development, motivation and recognition frameworks.

Our aim is to make PASHA Bank Georgia an employer of choice for the recent graduates and mid-career professionals alike.

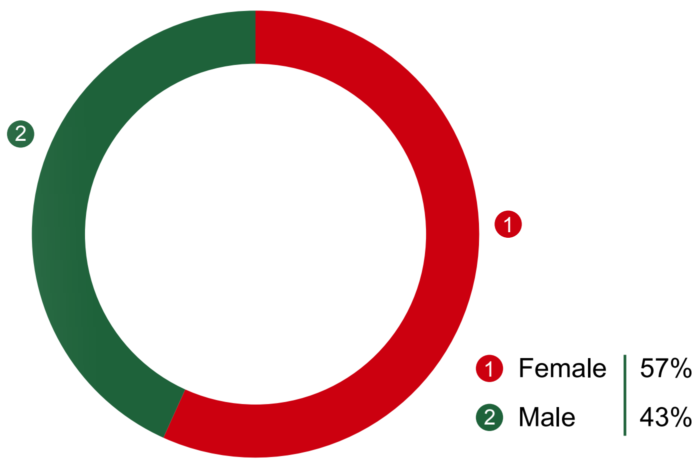
Number of Employees (2013-2017)



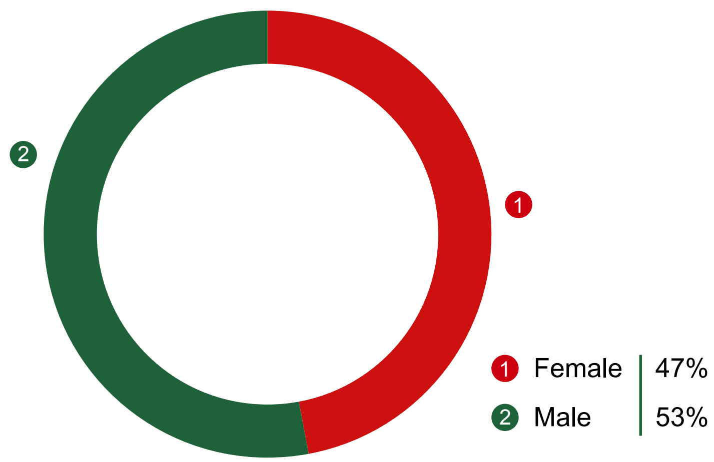
Age Composition



Gender Balance



Gender Balance in Middle Management



Learning and Development

We create environment that enables professional growth and continuous learning. The Bank offers different opportunities to gain knowledge and skills: professional trainings locally and abroad, full coverage of international professional certification costs, access to professional literature, English courses, courses in different hard and soft skills, etc. The total spent on employee training and development in 2017 is 3.2% of the overall employee cost.

Number of people trained (2017)	51
% of people trained abroad	25%
Total training hours of employees for 2017	1760
Average training hours for 2017	25

For those employees who we regard to have high potential to develop further and become future leaders, the special Talent Program has been put in place. Employees involved in the program are offered additional trainings customized to their particular needs.
We have also launched the Internship Program for young talents, which has been successfully running for three years already. We have hired thirteen interns during this period; nine of them were offered full-time employment in various positions.

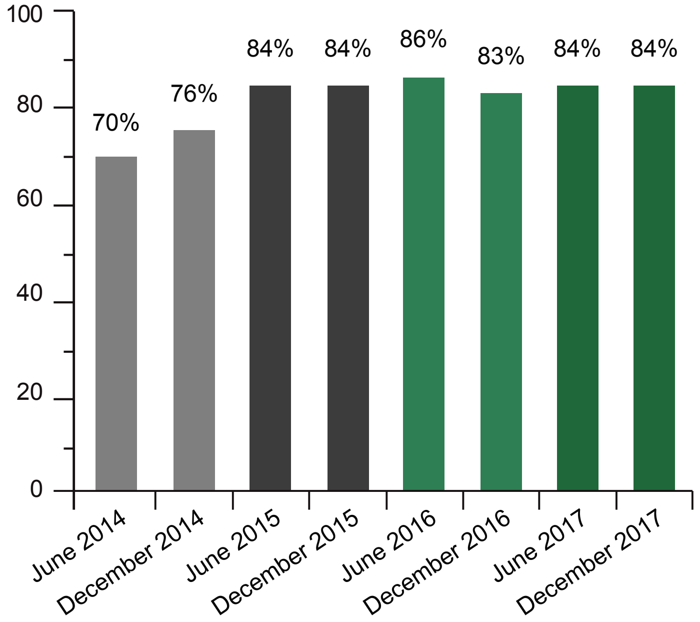
Our internship program allows young people to gain practical and theoretical knowledge in the field of their interest. Internship is paid and lasts for four months.

Employee engagement and satisfaction

We strive to ensure that our employees are happy with their jobs. To better understand their needs and attitudes, we conduct internal satisfaction survey twice a year. The survey covers different topics, such as - the team, the management, loyalty, stress, development opportunities, etc.

The chart shows how our employees' internal satisfaction indicator has evolved over time:

Satisfaction %



In addition in 2017, Health Index Study was conducted by McKinsey team. In response to the study results, we have planned five projects for 2018.

Remuneration of key management personnel

Remuneration policy of PASHA Bank ensures fair approach and competitive compensation for key management personnel and all employees of the Bank.
PASHA Bank defines key management personnel as members of the Supervisory Board and the Board of Directors.
The Supervisory Board consists of five members. Biographies of the Supervisory Board members are provided on page 15.
The Board of Directors consists of three members - Chairman of the Board of Directors, Chief Commercial Officer and Chief Financial Officer. Biographies of the Board of Directors members are provided on page 23.
The HR and Remuneration Committee of the Supervisory Board is vested with responsibility to recommend the remuneration for the key management personnel. More information regarding the committee is provided on page 19.
In addition, according to the Article 6, Section 6.11, Subsection 6.11.7 of PASHA Bank's Charter: the General Meeting of Shareholders reviews and makes resolutions on the following issues - election and dismissal of members of the Supervisory Board, determine the remuneration of its members and conclusion of contracts with them.
According to the Article 7, Section 7.9, Subsection 7.9.1 of PASHA Bank's Charter: Objectives and the competence of the Supervisory Board include the following - appointment and dismissal of the member of Board of Directors, concluding the agreements with the member of Board of Directors, determining their remuneration and working conditions.
Supervisory Board members, apart from the Chairman of the Supervisory Board, are not remunerated. Remuneration of the Chairman of the Supervisory Board consists of monthly fixed pay only.
Remuneration of members of the Board of Directors consists of two components – fixed pay (salary) and variable pay (bonus). The variable pay is mainly based on the results of the Board of Directors performance as a team, although also includes individual assessment factors. Compensations consist of only monetary component.
The remuneration system for the members of the Board of Directors is set by the Supervisory Board based on the principles of fairness and transparency. The risks associated with management remuneration affect every aspect of the Bank's business, including financial performance, culture, operations, reputation, and governance. To mitigate these risks the Supervisory Board has been committed to maintaining the management remuneration system that ensures strategy alignment, is based on the clear performance matrix and is appropriately governed.

Bonus eligibility

The Bank's Board of Directors is eligible for annual bonuses only in the case of the 75% realization of the annual budgeted net profit amount. The gross bonus amount is calculated based on the following KPIs and their respective weights:

KPI	Weigh
1 Behavioral KPI	10%
2 Performance KPIs	85%
3 Shared Group KPIs	5%

Behavioral KPI

Behavioral KPI is the 360 degree assessment of the Board of Directors members' emotional and social Intelligence as the capacity for recognizing their own feelings and those of others, for motivating themselves and for managing emotions effectively in themselves and in others. It describes the behaviors that sustain people in challenging roles, or as their careers become more demanding, and it captures the qualities that help people deal effectively with change.

Performance KPIs

- Return on average equity ratio – 20% weight;
- Cost to income ratio – 20% weight;
- NPL ratio – 15% weight;
- Number of open high risk internal auditors' findings – 5% weight;
- Interest bearing assets concentration ratio – 15% weight;
- Share of related legal entities funding ratio – 15% weight;
- Trade finance business development ratio– 10% weight.

Bonus calculation

Each member of the Board of Directors is entitled to a base bonus adjusted depending on the performance, assessed through the KPIs above.

The base bonus is either equal to a % of net profit or a multiple of the Board of Directors member's monthly gross salary.

The adjustment to the base bonus is calculated based on the following table:

Level of achievement	Score of achievement	Adjustment to Base bonus in %
Exceed expectations	4.26-5.00	110
Meet expectations	3.00-4.25	100
Almost as expected	2.76-2.99	80
Below expectations	1.75-2.75	60
Extremely below expectations	0.00-1.74	40

Remuneration of employees

Remuneration of the Bank's employees consists of competitive salaries and variable pay. The latter is linked to individual performance of employees. Our compensations consist of only monetary component. Remuneration of the employees comprises of two components – fixed pay (salary) and variable pay (bonus).
Salaries are determined internally on the basis of the job role, individual experience, performance, and market tendencies. Salaries are defined based on the salary scale to ensure fair treatment of everyone on any job level. Salary scale is developed internally and approved by the Board of Directors. It is linked to the job role level – job grade. Every job is analyzed according to the level of financial, informational, customer service etc. responsibilities by the grading panel, the latter is selected and approved by the Chairman of the Board of Directors taking

into account independence from any conflict of interests of the members. Members of the grading panel are vested with the responsibility to analyze the job. Job specifics, current market trends and a skill-set required for a particular position are considered in determining compensations. To be aware of the market trends and stay competitive, we participate in Georgian banking sector annual compensation survey conducted by independent company – "HR Expert". Inflation rate is the factor affecting overall approach to the compensations.

Every job in PASHA Bank is eligible for variable pay. Bonus system is performance based and is designed to harmonize high performance and benefits of employees, eliminating conflict of interests at the same time. Performance assessment is conducted annually. Individual performance is evaluated by the immediate supervisor who is responsible for providing continuous feedback and fair evaluation. Performance is managed according to the internal methodology which is approved by the Board of Directors.

Remuneration policy and incentive schemes for the Board of Directors are reviewed by the HR and Remuneration Committee. HR and Remuneration Committee suggest target pool for the annual bonuses of the Board of Directors and support staff. The decision on eligibility of the Bank for bonus pool is under the decision of the Supervisory Board of the Bank. Bonus methodologies for Board of Directors, support function and front office are reviewed and approved by the Supervisory Board.
Retention bonuses are distributed by the end of the strategic period – 2015 – 2017. Bonuses for middle management and support function employees are linked to the individual functional and behavioral performance and are calculated and distributed annually. Corporate banking and treasury functions receive quarterly bonuses based on their KPIs. KPIs for every function are defined in a way to ensure that there is no conflict of interest.
In addition to the compensation package, PASHA Bank offers various types of additional benefits to its employees to help them stay healthy and fit.

CORPORATE GOVERNANCE

Commitment to Corporate Governance

PASHA Bank defines corporate governance as a set of structures and processes for the direction and supervision of the Bank, which involves a set of relationships between the Bank's shareholders, the Supervisory Board and the Board of Directors with the purpose of creating long-term shareholder value. We view corporate governance as means to improve operational efficiency, attract financing at a lower cost and build a better reputation. We consider a sound system of corporate governance as an important contribution to the rule of law in Georgia and an important determinant of the role of the Bank in a modern economy and society.

The Bank demonstrates its commitment to the best corporate governance standards by developing and furthering:

- Responsible, accountable and value-based management;
- Effective oversight and executive bodies that act in the best interests of the Bank, seek to enhance shareholder value in a sustainable manner; and
- Appropriate information disclosure and transparency, as well as an effective system of risk management and internal control.

The Bank honors and recognizes all the general principles of good corporate governance:

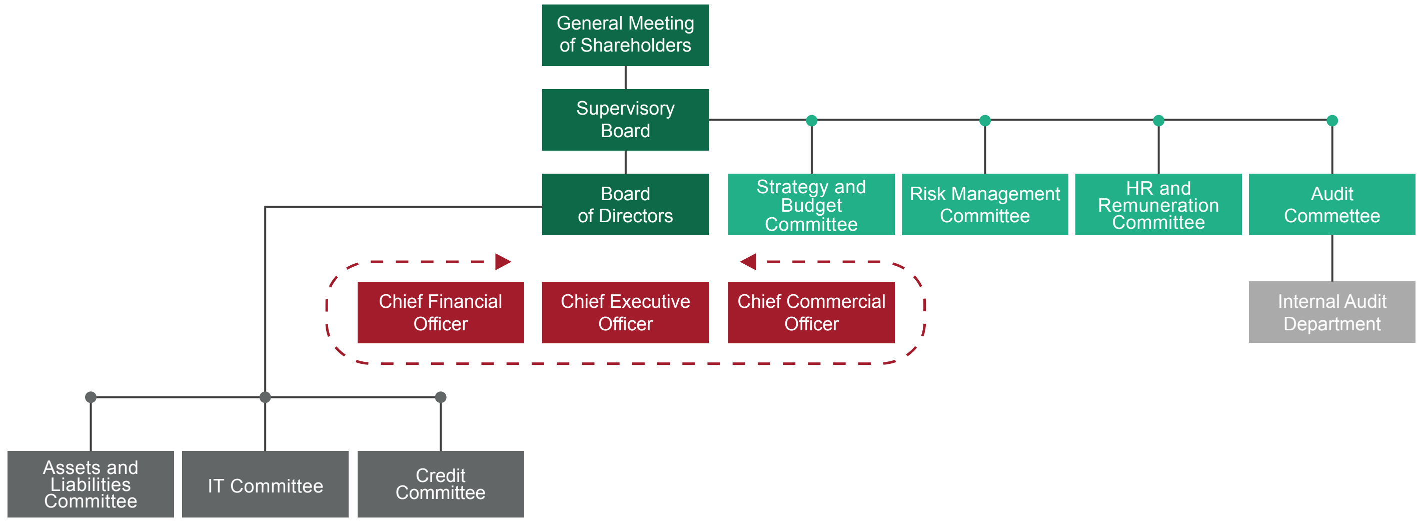
- Fairness: The Bank is committed to act in a fair and ethical manner towards all shareholders and stakeholders, as it believes that ethical conduct underpins good corporate governance.
- Accountability and Responsibility: The Supervisory Board of the Bank is accountable to the shareholders for the way in which it carries out its responsibilities. Similarly, the Board of Directors is responsible for the exercise of powers delegated to them and is accountable to the Supervisory Board for their achievements and performance.
- Transparency: The Bank is committed to providing accurate and understandable information to shareholders and other stakeholders on all material matters regarding the Bank, including its financial condition, performance, as well as ownership and governance structure in a manner easily accessible to interested parties, without giving away commercially sensitive information.

The members of the Supervisory Board and Board of Directors and all employees of the Bank are expected to act in accordance with all applicable laws and regulations and furthermore, comply with ethical standards of business conduct as defined by the Bank's Code of Ethics.

The documents is available on PASHA Bank's website at www.pashabank.ge

General Governance Structure

JSC PASHA Bank has the following governance structure:



PASHA Bank has a two-tier corporate governance structure, meaning that there is a Supervisory Board, composed solely of non-executive directors, and a Board of Directors composed solely of executive directors.

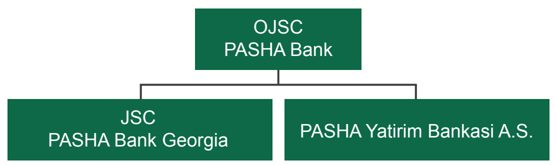
Shareholder Structure

Total authorized share capital of PASHA Bank amounts to GEL 103,000,000 (one hundred and three million Georgian Lari). The Bank is the subsidiary bank and its 100% shares are solely owned by OJSC PASHA Bank.
Ultimate beneficial owners of the company are Mrs. Leyla Aliyeva 45%, Mrs. Arzu Aliyeva 45% and Mr. Arif Pashayev 10%.

During the reporting period, there were no changes in the Bank's capital, Charter and the shareholder structure.
The information of the type of income received from PASHA Bank by the shareholder or beneficiary owner is provided below:

	Shareholder/beneficial owner	Type of income	Volume in GEL
1	OJSC PASHA Bank	Overdraft %, Guarantee / Accreditation fee, correspondent account service fee, interest accrued on interbank deposits	1823141.70
2	PASHA Holding LLC	Provided service	79231.09

Ownership structure is as follows:



General Meeting of Shareholders

The supreme governing body of the Bank is the General Meeting of Shareholders. The Bank holds Annual General Meetings within two months following the signing of the annual audited financial statements. Other general meetings are summoned if the interests of the Bank require so or if it is required by the Bank's Charter. The General Meetings are summoned by the Board of Directors, the Supervisory Board or the shareholder(s).
The General Meeting is held on the territory of Georgia or abroad, at a time and place that are the most convenient for shareholders. The General Meeting is called within the term of 20 calendar days after the Directors have sent notification to the shareholders. Nothing impedes shareholders from voting from abroad or by means of the power of attorney issued to another person.
In the invitation, the date, time, venue, agenda, project of resolution, and proposals regarding the amendments to the Charter, if any, is specified.
The Bank ensures that all valid proxy appointments received for the General Meetings are properly recorded.
The voting results and other relevant materials are distributed to the shareholders and to the ultimate shareholders.
The Supervisory Board ensures that the Supervisory Board members and all directors are made aware of their major shareholders' views, issues and concerns.

Issues Requiring Approval of the General Meeting of Shareholders

The General Meeting reviews and makes resolutions on the following issues
a) approval and amendment of the Bank's Charter;
b) approval of the Bank's annual audited financial statements;
c) reorganization of the Bank, which include mergers, divisions, transformations (change of organizational-legal form) and liquidation of the Bank;
d) full or partial cancellation of pre-emptive rights during the increase of the share capital of the Bank;
e) issuance of new shares, sale of shares by the existing shareholder(s) or other securities convertible into shares;
f) accepting or rejecting proposals of the Supervisory Board or the Board of Directors concerning the utilization (including distribution) of profit or to make decisions concerning the utilization of the net profit, if the said bodies fail to make an agreed proposal;
g) approval of reports by the Board of Directors and the Supervisory Board;
h) election and dismissal of members of the Supervisory Board, determining the question of the remuneration of its members and conclusion of contracts with them;
i) approval of the first composition of the Board of Directors of the Bank;
j) approval of the first composition of the Audit Committee of the Bank;
k) making decisions on the participation in court proceedings against the Board of Directors and Supervisory Board members;
l) adopting resolutions on issuance and sale of shares and other securities in accordance with the Bank's Charter and Georgian legislation;
m) making decisions on the acquisition, sale, transfer, exchange (or other transactions to similar effect) or encumbrance of the Bank's properties the value of which is more than 25% of the book value of the Bank;
n) deciding on other matters pursuant to effective Georgian legislation.

Annual General Meeting of Shareholders of 2017

In 2017, the shareholders of the Bank have been represented at the Annual General Meeting of Shareholders by Mr. Mir Jamal Pashayev, under duly notarized and legalized power of attorney (proxy).

The Annual General Meeting of Shareholders for the year 2017 was held on May 17, 2017.

Agenda of the Annual Meeting of Shareholders

1. Independent Auditors' Report
General Meeting of Shareholders has approved the annual audited financial statements together with independent auditor's report.
2. Resolution on the net profit of the year 2016 General Meeting of Shareholders has decided not to distribute as dividends the net profit of the year 2016 in the amount of 7,364,377.54 Georgian lari (as per NBG).
3. Election of the Supervisory Board Chairman General Meeting of Shareholders has discussed and approved Mr. Mir Jamal Pashayev's intention to step down from the position of the Supervisory Board Chairman and appointed him as member of the Supervisory Board. The decision effective from June 1, 2017.
4. Approval of the new composition of the Supervisory Board General Meeting of Shareholders has approved appointment of Mr. Farid Mammadov on the position of the Supervisory Board Chairman.
The decision effective from June 1, 2017.
The shareholder did not make any request for the inclusion of any item into the agenda of the General Meeting.

Shareholder Rights

The rights and responsibilities of the shareholders are determined by the Charter of PASHA Bank, by the Law of Georgia on Entrepreneurs (as amended from time to time), the Law of Georgia on Activities of Commercial Banks (as amended from time to time) and all other relevant laws and regulations, including the regulations issued by the National Bank of Georgia.
The Charter is available on PASHA Bank's website at www.pashabank.ge
The Bank's shareholders have the rights to
a) attend or be represented at the General Meeting and take part in the voting
b) be elected to the Supervisory Board
c) participate in the distribution of profit and receive pro rata share of dividends
d) dispose their shares in accordance with the Georgian legislation and the Bank's Charter
e) in case of liquidation of the Bank, receive pro rata share of the assets remaining after the payment of the claims of the creditors
f) have access to information concerning the economic activities of the Bank
g) request the directors of the Bank to specify issues in the agenda of the General Meeting, request an extraordinary General Meeting or add issues for consideration into the agenda of scheduled General Meeting
h) request special inspection of the Bank's economic activities and annual balance sheet if they believe in their reasonable judgment that material irregularities have taken place
i) enjoy pre-emptive right to subscribe for newly issued or existing shares of the Bank on a pro-rata basis in accordance with the terms and conditions of the Bank's Charter
j) refer to the local court or, at the agreement of the parties, private arbitration for the solution of a conflict between themselves and the Bank
k) other rights as stipulated by the Georgian legislation and the Bank's Charter.

The Supervisory Board

The Supervisory Board is responsible for the general oversight of the Bank and of the Board of Directors. Its members are elected by the shareholders. The Supervisory Board is led by the Chairman, it advises the Board of Directors and is involved in decision-making on all fundamental matters affecting the Bank. It is the key decision-making body of PASHA Bank, responsible to shareholders for creating and delivering sustainable shareholder value through providing entrepreneurial leadership and direction to the Bank. It determines the Bank's strategic objectives and policies, provides overall strategic direction within a framework of rewards, incentives and controls, demonstrates ethical leadership and promotes the collective vision of the Bank's purpose, values, culture and behaviors.

Members of the Supervisory Board act in a way that they consider, in good faith, will promote the success of the Bank for the benefit of the shareholders as a whole and, while doing so, taking into consideration the interests of other stakeholders as well.

According to the Article 7, Section 7.10 of PASHA Bank's Charter, the following activities shall be performed only by the Supervisory Board:

- Strategic supervision and control of the Bank;
- Reviewing and approving corporate strategy and strategic objectives;
- Reviewing and approving the annual budget and business plan;
- Initiation of new banking/commercial activities and termination or suspension of existing activities;
- Establishment and liquidation of new enterprises, branches;
- Acquisition and disposal of shares in other companies;
- Approval of the organizational structure;
- Approval of the Code of Ethics and whistleblowing procedures;
- Rendering resolutions for implementation of the decision of the General Meeting on admission of the Bank's shares and other securities to the stock market;
- Submit proposals for profit distribution to the General Meeting of Shareholders;
- Redemption of shares by the Bank as provided under the Georgian legislation;
- Perform strategic supervision of risk management activities;
- Approval of the risk appetite statement, conducting annual reviews;
- Approval of the business continuity plan;
- Authorization for conflicts or possible conflicts of interest and related party transactions within the limits established by the Bank;
- Approval of policies, standards and procedures in respect to conflicts of interest and related party transactions;
- Approval of structure, size and composition of the Board of Directors, including appointments and dismissal of its members;
- Determining rights and obligations of members of the Board of Directors, monitoring and supervising their activities, requesting reports from the Board of Directors;
- Approval of succession policy and succession planning for members of the Board of Directors;
- Concluding the labor agreements and determining remuneration packages for members of the Board of Directors;
- Approval of the regulatory framework for determining bonuses and/or additional benefits for employees, including for members of the Board of Directors of the Bank;
- Approval of structure, size and composition of the Supervisory Board committees, including appointments and removals of the Supervisory Board committee members; reviewing reports of the Supervisory Board committees;
- Election of the external auditors;
- Appointment and dismissal of trade representatives (procurators);
- Appointment and dismissal of the Corporate Secretary;
- Approval of transactions including but not limited to attraction of borrowings, granting lending and trade finance products, approval of loan restructurings, loan write-offs, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, implementation of equity investments in public and private companies in case the transaction is above the decision making and signatory authority limits of the Board of Directors;
- Approval of the decision making and authority limits of the Board of Directors;
- Securing borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;
- Approval of issuance of bonds;
- Approval and amendment of the Bank's statute, framework and policy type of documents;
- Determining and approving amount of minimum and maximum interest rates to be used with regard to credit resources and deposits;
- Determining and approving the terms and conditions to be used with regard to credit resources and deposits to the Bank's employees;
- Convening General Meetings, if deemed necessary for the interests of the Bank;
- Supervision and representation of the Bank in case of conflict between the members of the Board of Directors;
- Based on the decision of the General Meeting, handling of legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;
- Supervising implementation of measures in accordance with results of examinations carried out by the External and Internal Audits, as well as the National Bank of Georgia;
- Making a decision on such issues that are beyond the scope of the Board of Directors' powers;
- Perform any other duties as required by the General Meeting.

The Charter of the Bank has not changed in 2017. The duties and responsibilities listed in the Article 7, Section 7.10 have not been delegated.

In line with the best practice, the Bank plans to attract high caliber individuals to the position of Independent Members of the Supervisory Board. An Independent Member as per our Corporate Governance Policy is as follows:

Definition of Independent Member

All members of the Bank's Supervisory Board and the Supervisory Board committees should act independently when making decisions. It should not be permitted to take into consideration the private interests of a shareholder, customer, contractor, investor, or other related party when making business decisions. Members act independently if they effectively exercise their best judgment for the exclusive benefit of the Bank, judgment that is not clouded by real or perceived conflict of interest.

"Independent member" means a member, when he/she or his/her relatives, who are first and second legal heirs under the Civil Code of Georgia[1]:

1. Has not been employed by the Bank within the last five years other than as member of the Supervisory Board or Supervisory Board committees;
2. Does not receive (or has received) additional remuneration from the Bank other than fee for the membership of the Supervisory Boards and Supervisory Board committees, or is a member of the Bank's pension scheme, or participates in the Bank's share option scheme or a performance- related pay scheme;
3. Does not have a significant commercial relationship[2] with the Bank (or did not have such a relationship during the last three years). This relationship might be as a partner, shareholder, director or employee in another organization that has a significant commercial relationship with the Bank;
4. Is not related to an organization that is an advisor, consultant, supplier or significant customer to the Bank or to the Bank's related parties[3];
5. Does not have cross-directorships or significant links with other directors through involvement in other organization, including the Bank's related parties;
6. Is not related to a non-profit organization that receives significant funding from the Bank or from the Bank's related parties;
7. Does not have 5 percent or more of the Bank's shareholder capital;
8. Is not a director, board member, or a representative of an organization, which owns 5 percent or more of the Bank's shareholder capital;
9. Is not, nor in the past five years has been, related to a present or former auditor of the Bank or of a related party;
10. Has not served on the Supervisory Board for more than eight years since the date of his first election;
11. In addition, the Audit Committee members shall not be considered independent if they and/or their relatives, who are first and second legal heirs under the Civil Code of Georgia, have financial liability to the commercial bank[4].

1"I rank heir" - children (including adopted children), spouse and parents (including adoptive parents); "II rank heir" - siblings.
2 "Significant commercial relationships" shall be considered as relationships, which can have a noticeable financial impact on the Bank.
3 "Related party" - any person connected to the Bank such as administrators, shareholders, and their relatives who represent I and II rank relatives under the Civil Code of Georgia, or persons related to them by business interests and/or any entity that controls, is controlled or is under common control with the Bank (e.g. Bank's subsidiary, parent or sister organizations).
4 Per Article 16, paragraph 1 of the Law of Georgia on Commercial Bank Activities.

The Corporate Governance Policy is available on PASHA Bank's website at www.pashabank.ge

The Bank's Corporate Governance Policy sets the supervisory board membership criteria, according to which, the Supervisory Board seeks members with extensive experience and expertise and a reputation for integrity. Members of the Supervisory Board should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon contributions they can make to the Supervisory Board and their ability to represent the interests of shareholders. The Supervisory Board will also take into account diversity of a candidate's perspectives, background and other demographics. The Supervisory Board membership criteria and appointment process are regulated by the Bank's Standard on Appointment of Administrators. The latter is developed in compliance with the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks and sets requirements a candidate for the Supervisory Board Membership shall comply with. In assessing the collective suitability of the board, the following should be taken into account:

- A member of the Supervisory Board shall have the university education in one of the following fields: economics, finance, banking, business administration, audit, accounting or jurisprudence;
- A member of the Supervisory Board shall not be an administrator of other commercial bank registered in Georgia, except in case when he/she holds an administrator's position in a bank which is the subsidiary or the parent of the Bank;
- A member of the Supervisory Board shall not be a member of the Supervisory Board or the Board of Directors in more than 7 enterprises registered in Georgia;
- A member of the Supervisory Board shall not be the I or II rank relative of a member of the Board of Directors or the Supervisory Board of the Bank;
- A member of the Supervisory Board shall have the appropriate qualification and professional experience, the composition of the Supervisory Board should ensure a variety of mix of skills, knowledge and experience, which corresponds to the scale and complexity of the Bank's activities.

According to the Corporate Governance Policy, factors considered by the HR and Remuneration Committee and the Supervisory Board in its review of potential candidates include:

- Prominence in business, institutions or professions;
- Integrity, honesty and the ability to generate public confidence;
- Demonstrated sound and independent business judgment;
- Financial literacy and experience with financial institutions;
- Risk management experience;
- The professional experience required to contribute to the Supervisory Board committees;
- The ability to devote sufficient time to the Supervisory Board and committee work;
- Residency in and familiarity with the geographic regions where the Bank carries on business;
- The competencies and skills that the Supervisory Board considers each existing member should possess.

Board Effectiveness Review: Evaluation of the Supervisory Board Members. The Supervisory Board conducts annual effectiveness review in order to evaluate the performance of the Supervisory Board as whole, Supervisory Board committees and of its individual members. The Board periodically reviews its structure, size and composition as well as committees' structures and coordination. Annual evaluations are internally facilitated. The performance evaluation process takes the form of a detailed questionnaire supplemented by individual interviews with members of the Supervisory Board and Supervisory Board committees. The Chairman holds private meetings with members of the Supervisory Board to discuss the evaluation results and individual performance. Chairmen of Supervisory Board committees are responsible for the evaluation of their committees.

At least annually, the Supervisory Board reviews the Bank's corporate governance assessment report prepared by the Corporate Secretary and either separately or as part of these assessments, reviews the effectiveness of its own governance practices and procedures, determines where improvements are needed and makes any necessary changes.

The Board has engaged Institute of Corporate Secretaries and Administrators, The Governance Institute (ICSA) to conduct an externally facilitated corporate governance review for 2017. ICSA has been asked to assess the extent to which PASHA Bank complies with the corporate governance provisions of the UK Corporate Governance Code (the "Code"). In performing this task ICSA has reviewed the comments and information provided by the Corporate Secretary. In order to understand the context for the Code, it has provided some further background and explanation, summarized what it considered to be the main findings in the report, explained the scope and limitations of the report and provided conclusions from the exercise. It has been revealed that the Bank complies with largely procedural or structural provisions of the code, which are of true relevance to the Bank. However, they argued that having one or more truly 'independent' non-executive directors could be of considerable value in terms of diversity of opinions and constructive debate. The Supervisory Board will consider and decide (given its own particular stakeholders, requirements and constraints)

which of the model provisions of the Code is of value for adoption by it.

The Schedule of Matters Reserved for the Supervisory Board Decision can be found on page 25.

The Supervisory Board of PASHA Bank consists entirely of non-executive directors and includes: - Representatives of shareholders

- Executive directors from other banking strategic assets of the PASHA Holding

Each member to the Supervisory Board is elected by the General Meeting of Shareholders for the term of four years, but the authority is prolonged until calling of the next General Meeting. The General Meeting may at any time re-elect a Supervisory Board member before the expiry of the above term. At the same time, any member may resign at any time.

At the Annual General Meeting held on May 17, 2017, Mr. Mir Jamal Pashayev resigned from the position of the Chairman of the Supervisory Board and was elected as member of the Supervisory Board. At the same meeting, Mr. Farid Mammadov was elected as the member and the Chairman of the Supervisory Board, effective from June 1, 2017.

The Supervisory Board held 27 board meetings throughout 2017.

Supervisory Board
Members on 31 December 2017

Name - Surname	Position	Date of Election	Date of Reelection	Other positions	Meetings attended/ eligible to attend	
Farid Mammadov	Board Chairman	01.06.17		Risk Management Committee Member	13/15	87%
Mir Jamal Pashayev	Board Member	22.10.12	01.06.17	HR and Remuneration Committee Chairman	17/27	63%
Jalal Gasimov	Board Member	19.10.15		Strategy and Budget Committee Chairman Risk Management Committee Chairman HR and Remuneration Committee Member	24/26	92%
Cenk Eynehan	Board Member	17.09.15			26/27	96%
Taleh Kazimov	Board Member	17.09.15			21/27	78%

** Mr. Farid Mammadov was elected to the Supervisory Board from June 01, 2017. Some members were not eligible to attend some Board meetings as per the Bank's rules on managing conflict of interests*

Agenda of Supervisory Board Meetings of PASHA Bank in 2017
Corporate governance related items

1. Corporate Governance Self-Assessment Results
2. Election of the new Chairman of the Supervisory Board
3. New composition of the Audit Committee
4. New composition of the Risk Management Committee
5. New composition of the Board of Directors
6. Corporate Governance Policy; Information Disclosure Policy; Standard on Appointment of Administrators; the Bank Related Party Standard; Whistleblowing Procedure; Statute of Risk Management Committee; Statutes of ALCO, IT Committee and Credit Committee; Statutes of the Bank's Departments; Human Resources Policy; Fraud Management Policy; Document Retention Policy; Environmental Policy and PR and Marketing Policy
7. Decision making authority in regard to the sale of the credit asset
8. Appointment of the Head of the Internal Audit Department
9. Appointment of the Corporate Secretary
10. IFRSinterimcondensedfinancialresults
11. Recommend for approval by the General Meeting of Shareholders the annual audited financial statements

together with independent auditor's report
12. Submit proposals for dividend distribution to the General Meeting of Shareholders
13. Related party transactions
14. Bonus Calculation Methodology, Strategic KPIs, Template of Ranges for Calculating KPIs Achievement Level and Ranges of Calculating KPIs Achievement Level for the Board of Directors for the year 2017
15. Bonus Pool for the Board of Directors and the Support Function
16. Review of Whistleblowing Concerns Registry
17. Review of quarterly financial and other activities reports
18. ReviewofquarterlySupervisoryBoardcommitteereports
19. Review of quarterly reports on critical and high risk audit findings
20. Review of the Compliance Reports

Risk management related items

1. Risk Appetite Statement
2. Internal Currency Position Calculation Methodology
3. NBG Loan Loss Provisioning Methodology
4. Financial Institution Rating and Internal Assessment Limit Setting
5. Ratios and Terms Glossary
6. Loan Loss Provisioning Methodology
7. IFRS Accounting Policy
8. Credit Standard
9. Financial Instrument Structuring Standard
10. Internal Capital Assessment Framework
11. FI exposure limit structure
12. Market Risk Management Policy
13. IT Strategy
14. Other risk, IT and compliance related policies
15. Approval of the proposal of implementation of selected Disaster Recovery Architecture Concept, adoption of IT Disaster Recovery Site and standalone Staff Recovery Site, IT Equipment and Support Services provider
16. Crisis Management Plan
17. Disaster Recovery Plan
18. Review of the BCP Test Report

Strategic Planning and Budget

1. Macroeconomic and Market Assumptions of Georgia for 2018
2. Budget for 2018 of PASHA Bank
3. Review proposal for support in Phase II of strategy development project
4. Strategy 2018-2020 with competitive strategy, executive summary, financial model for the strategy and other operational matters, such as approval of credit facilities.

SUPERVISORY BOARD BIOGRAPHIES

Farid Mammadov
Chairman of the Supervisory Board

Farid Mammadov completed his undergraduate education in Political Science at the Baku Social Management and Political Science Institute and earned a master's degree in Political Science from the Academy of Public Administration under the President of the Republic of Azerbaijan.
Having started his banking career in 1999 as credit officer at the United Credit Bank CB, Farid Mammadov served as the Director of the Credits Department at the Bank of Baku OJSC from 2001 to 2010 and subsequently as the Deputy CEO. He started in 2012 to work as the Risk Director within PASHA Holding and served as a Member of the Board of Directors at PASHA Bank OJSC until June 2013 while maintaining his current duties. From this date until February 2017, he served as the Deputy CEO at the Capital Bank OJSC. Since February 2017, he has been serving as the Deputy CEO of PASHA Holding LLC and the Director of Business Group. His experience in banking and business management is 18 years.
Farid Mammadov is the Chairman of PASHA Bank Supervisory Board effective June 01, 2017. Mr. Mammadov is Member of the Risk Management Committee of PASHA Bank Georgia.

Mir Jamal Pashayev
Member of the Supervisory Board

Mir Jamal Pashayev graduated from the Physics Department at the Moscow State University in 1993, and went on to obtain his Master of Science in Engineering from the Un iversity of California in 1996, followed by a Master of Business Administration from the American University in Washington D.C. in 1998.
He joined the Mobil Corporation as a business project consultant to the company's Dallas and Washington offices in 1998 before arriving in Baku in 1999, where he took on the position of consultant to the Central Bank of Azerbaijan. He joined the European Bank of Reconstruction and Development (EBRD) as financial analyst in 2000, and was soon promoted to the position of banker on infrastructure projects. From 2005 to 2008, Mr. Pashayev was engaged in consulting activities for large-scale investment projects in the fields of infrastructure, telecommunications and financial services.
Mir Jamal Pashayev has been the Managing Director at PASHA Holding since 2006. He is also Chairman of the Supervisory Board of PASHA Insurance, PASHA Life Insurance and PASHA Bank Azerbaijan. Mir Jamal Pashayev is also Chairman of the HR and Remuneration Committee of PASHA Bank Georgia.

Jalal Gasimov

Member of the Supervisory Board

Jalal Gasımov completed his undergraduate degree in economics at the Azerbaijan Economy University, receiving his graduate degree in Economic Relations, at the Higher Diplomatic College of Azerbaijan, and an MBA at Warwick Business School, UK.
Mr. Gasimov started his banking career at İlkbank OSJC, Azerbaijan, in 1999. In 2002-2003 he held various positions with finance and private sector companies. He worked in Azpetrol Oil Company as a Finance Director in 2003-2004 and was the Deputy Chairman of the Board of Directors of Azpetrol Holding from 2004 to 2006. He joined the Moscow Office of McKinsey & Company and served as a Consultant in 2006-2007. He held top management duties; CEO in Bank of Baku, Finance Director in CRA Group Companies, and CEO and Chairman of the Executive Board in Unibank between 2007-2015, respectively. Jalal Gasimov joined PASHA Holding as the Head of the Banking Group and Deputy CEO in 2015 and where he has been named as the First Deputy CEO effective October 17, 2016. Mr. Gasimov is Chairman of the Supervisory Board of Kapital BANK OSJC and Chairman of the Supervisory Board of PASHA Bank Turkey.
Mr. Gasimov is also Chairman of the Risk Management Committee, Chairman of the Strategy and Budget Committee and Member of the HR and Remuneration Committee of PASHA Bank Georgia.

Taleh Kazimov

Member of the Supervisory Board

Mr. Taleh Kazimov has extensive professional experience in commercial and investment banking, loans and risks management. He was appointed as CEO and Chairman of PASHA Bank Executive Board on July 1, 2015.
Prior to this appointment, Mr. Kazimov served as the Chief Investment Officer of the Bank and a member of the Executive Board responsible for business development, FIs, corporate and SME banking. Mr. Kazimov joined PASHA Bank in 2007 as Risk Manager and then promoted to the position of the Bank's Treasury Director in 2009.
Mr. Kazimov began his career in financial sector in 2004 as a Leading specialist in Treasury Department at the Bank Standard and later as the Head of accounting management and budget planning. He later has been promoted to the Deputy Director of Corporate Loans Department. In 2006 he joined Ernst and Young as an auditor and from 2007 worked as a General Director of "FinEko" Informational Analytical Agency.
Mr. Taleh Kazimov holds a bachelor degree in Automation and Computer engineering from Azerbaijan Technical University. He also pursued MBA from Azerbaijan State Oil Academy and an MBA in Finance from Georgia State University. In addition, Mr. Kazimov successfully completed the executive educational programs of London Business School in 2010 and Harvard Business School in 2012.
Mr. Kazimov is a Member of Supervisory Boards for PASHA Bank Turkey and PASHA Bank Georgia. He was appointed as member of the Supervisory Board of PASHA Bank Georgia on September 17, 2015.

H. Cenk Eynehan

Member of the Supervisory Board

Hikmet Cenk Eynehan earned a two-year degree in economics from Erasmus University in the Netherlands, and Bachelor degree in management from Monroe College in the United States of America and completed Executive MBA program at Koç University, Istanbul.
He started his banking career in 1994 and served in various management and business development capacities at DHB Bank (Netherlands) N.V. until 2001. He continued his professional career in non- financial sector during 2002-2004 and he joined Şekerbank T.A.Ş. and held executive positions in various departments from 2005 until 2010. He was Deputy General Manager in charge of Corporate Marketing & Sales of Ekspo Factoring A.Ş. from 2011 until 2013.
Mr. Eynehan has been named as General Manager and Board Member of PASHA Yatırım Bankası A.Ş. effective August 2, 2013. He has 23 years of experience in banking and business administration. Mr. Eynehan was appointed a Member of the Supervisory Board of PASHA Bank Georgia on September 17, 2015.

The Supervisory Board Committees

The Supervisory Board has established the following committees under it - the Audit Committee, the Strategy and Budget Committee, the HR and Remuneration and the Risk Management committee.

The Audit Committee

The Audit Committee of PASHA Bank was established by and is accountable to the Supervisory Board. The committee is a governing body that establishes and controls internal audit function and monitors the Bank's activities according to the applicable legislation. The committee has the overall responsibility for overseeing the Bank's systems of internal controls by establishing internal audit function. The committee also communicates with the Bank's external auditor, reviews and comments Audited Annual IFRS Financial Statements and Interim Condensed Financial Statements.
By bringing a systematic approach to the evaluation and improvement of risk management, internal control and governance processes, the committee monitors whether structural units and employees of the Bank follow the requirements of acting legislation.
The committee assists the Supervisory Board and the Board of Directors in ensuring the existence and adequacy of an effective internal control system in the Bank.
The members are appointed for a term of maximum four years, with their re-election not restricted.
The committee meetings should be held at least once every three months (quarterly) and may be held more often if required. During 2017 the committee held 11 meetings.
The decisions of the committee are taken by a simple majority of votes of the members presented at the meeting. Each member has one vote. In case the votes are equal, the vote of the Chairman is considered as decisive vote. Heads of the departments, external auditors or other persons may be invited to the committee meetings, if necessary.

Members as of 31 December 2017

Name - Surname	Position	Date of Reelection	Meetings attended/ eligible to attend	
Parvin Ahadzade	Committee Chairman, former committee member	08.06.15	11/11	100%
Jamil Mammadov	Committee Member	17.10.14	10/11	91%
Ramil Heydarov	Committee Member	13.01.17	10/11	91%

The Risk Management Committee

The Risk Management Committee of PASHA Bank was established by the Supervisory Board in order to advise and assist the Supervisory Board in discharging its duties and responsibilities, to ensure that the processes and capabilities for identification, assessment, measurement, control, reporting and monitoring of risks are effective. The committee ensures that the business of the Bank is being managed within the risk guidelines set by the Supervisory Board and monitors the risk management system to ensure that it is effective and achieves its purpose. It provides information to the Supervisory Board on strategy formulation, requiring management to address risks within the Supervisory Board guidelines for risk appetite. The committee reviews the risk management policy and strategy, and the findings of the Internal Audit Department regarding risk management. Furthermore, the committee reviews the Bank's risk identification and assessment reports, the risk appetite and tolerance statement, the Business Contingency Plan and evaluates the effectiveness of mitigating strategies to address the material risks to the Bank. It reports to the Supervisory Board on any material change to the risk profile of the Bank.

The Risk Management Committee held 6 meetings in 2017, it reviewed and submitted for approval to the Supervisory Board the Risk Management Committee Statute, the Risk Appetite Statement, Business Impact Assessment, Crisis Management Plan, Disaster Recovery Plan, Loan Loss Provisioning Methodology, Ratios and Terms Glossary, Risk Reports, Penetration Test, Risk Maturity Diagnostic Model, FI exposures, Internal Capital Assessment Framework.

Members as of 31 December 2017

Name - Surname	Position	Date of Reelection	Meetings attended/ eligible to attend	
Jalal Gasimov	Committee Chairman	08.02.16	6/6	100%
Hayala Naghiyeva	Committee Member	08.02.16	4/6	67%
Kamala Nuriyeva	Committee Member	08.02.16	6/6	100%
Elman Eminov	Committee Member	08.02.16	6/6	100%
Farid Mammadov	Committee Member	02.10.17	0/1	0%

The Strategy and Budget Committee

The Strategy and Budget Committee of PASHA Bank was established by the Supervisory Board of the Bank in order to advise the Supervisory Board and assist in discharging its duties and responsibilities, providing assurance that the Business Plan of the Bank is prepared in accordance with the strategy formulation process approved by the Supervisory Board, and that the Annual Budget is prepared in accordance with the budgeting process approved by the Supervisory Board.

The Strategy and Budget Committee held 6 meetings in 2017, it reviewed reports on status of the Bank's key/strategic projects, analyzed key challenges of current strategic period and future prospects, reviewed financial performance, peer group analysis, KPIs and Budget Execution Reports, the committee reports to the Supervisory Board, Macroeconomic and Market Assumptions of Georgia for 2018 and the Budget for 2018.

Members as of 31 December 2017

Name - Surname	Position	Date of Reelection	Meetings attended/ eligible to attend	
Jalal Gasimov	Committee Chairman	08.02.16	6/6	100%
Hayala Naghiyeva	Committee Member	08.02.16	5/6	83%
Sarkan Aliyev	Committee Member	08.02.16	5/6	83%
Murad Ahmadov	Committee Member	08.02.16	6/6	100%
Turkhan Mahmudov	Committee Member	08.02.16	4/6	67%

The HR and Remuneration Committee

The HR and Remuneration Committee of JSC PASHA Bank Georgia was established by the Supervisory Board in order to advise the Supervisory Board on the remuneration policy for the Board of Directors and senior management of the Bank and suggest a target pool for the annual bonus. The committee reviews the remuneration policy, grading system, recruitment, retention and termination policies as well as proposals to the Supervisory Board with respect to approval of candidates to the position of Member of the Board of Directors. The committee, together with the Risk Management Committee, at least once a year reviews the remuneration process and evaluates the effectiveness of the remuneration system.

The HR and Remuneration Committee held 5 meetings in 2017, it reviewed HR activities reports, analysis of Emotional and Social Competency Inventory, Bonus Pool for the Bank's Board of Directors and the Support Function, HR Policy, Strategic KPIs (2018-2020) for the Board of Directors.

Members as of 31 December 2017

Name - Surname	Position	Date of Reelection	Meetings attended/ eligible to attend	
Mir Jamal Pashayev	Committee Chairman	08.02.16	5/5	100%
Jalal Gasimov	Committee Member	08.02.16	3/5	60%
Ayten Abbasli	Committee Member	08.02.16	5/5	100%

The Board of Directors

The day-to-day operational management of the Bank is carried out by full-time executives, members of the Board of Directors. The Bank's Board of Directors is made up of three directors - Chief Executive Officer, Chief Commercial Officer and Chief Financial Officer. The directors are appointed by the Supervisory Board for a fixed term, typically for four-years which may be renewed at the end of each four-year period. The position and scope of activity of each member of the Board of Directors has been determined upon appointment of the respective member.
According to the Bank's Charter and the Board of Directors Statute, the following activities shall be performed by the Board of Directors:
- Carry out the Bank's day-to-day business operations;
- Take all reasonable measures to have up to date information on the financial standing of the Bank and make informed decisions on any matter concerning the operations of the Bank; in co- operation with the other functional units of the Bank, the Board of Directors shall ensure maintenance of the Banks solvency and liquidity and shall also ensure that all measures required for this purpose are taken;
- Develop the corporate strategy, strategic objectives, business plan, annual budget and submit it to the Supervisory Board for approval;
- Present to the Supervisory Board and to the General Meeting of Shareholders audited financial statements together with Independent Auditors Report;
- Submit to the Supervisory Board for approval transactions that go beyond the scope of corporate strategy and strategic objectives, business plan and the budget (non-standard transactions);
- Report on delivery of performance against the corporate strategy and strategic objectives, business plan and budget to the Supervisory Board;
- Approve day-to-day operational banking activities including attraction of borrowings, granting lending and trade finance products, approval of loan restructuring, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, equity investments in public companies and sign respective agreements within its decision making and signatory authority limits as approved by the Supervisory Board in Decision Making and Signatory Authority Matrix;
- Approve all kinds of technical assistance, service and purchase agreements and know-how;
- Supervise units and/or departments of the Bank, ensuring that the Bank provides proper service to its customers;
- Solve the issues of the collateral seizure and take other appropriate measures to protect the Bank against losses;
- Take all reasonable measures to have up to date information on the financial standing of the Bank and make informed decisions on any matter concerning the operation of the Bank; in co-operation with the other governing bodies of the Bank, ensure maintenance of the Bank's solvency and liquidity and ensure that all measures required for this purpose are taken;

- Ensure existence of a proper system of risk control in the Bank in accordance with requirements of Georgian legislation;
- Prepare complete and accurate annual, semiannual, quarterly reports and other financial information;
- Prepare and submit proposals and draft resolutions, reports and any other information or documentation requested by or to be presented to the Supervisory Board or the General Meeting of Shareholders;
- Review information provided by internal or external auditors of the Bank, the Audit Committee as well as any expert and/or advisor engaged by the Bank, as well as reports submitted by the managers of the Bank and take appropriate decisions;
- Approve and amend internal regulatory documents of the Bank except those related to privileges of the Supervisory Board;
- Develop internal regulatory documents of the Bank and submit them for the approval to the Supervisory Board;
- Develop and submit for approval to the Supervisory Board the Code of Ethics including whistleblowing procedures;
- Develop and submit the organizational structure of the Bank for approval to the Supervisory Board;
- Approval of structure, size and composition of committees of the Board of Directors, including appointments and removals of the committee members; reviewing reports of the committees;
- Approve job descriptions for the managerial positions, work schedules, collective labor agreements;
- Decide on appointment, dismissal and remuneration of the employees of the Bank, except of members of the Board of Directors, determine any other matter related to the employees of the Bank;
- Recommend and submit for approval to the Supervisory Board the bonus pool for employees of the Bank, except of bonus amount to be disbursed to front-office function;
- Approve disbursement of bonus amount to front-office function;
- Monitor compliance with the legislation, internal normative documentation and implementation of resolutions of the General Meeting of Shareholders and the Supervisory Board;
- Execute and implement resolutions rendered by the Supervisory Board and the General Meeting of Shareholders;
- Perform any other duties imposed by the Supervisory Board and the General Meeting of Shareholders.

The Board of Directors is led by the Chairman of the Board of Directors, who at the same time serves as the CEO of PASHA Bank.
The decisions of the Board of Directors are adopted by a simple majority of votes.
Nomination Process. The Supervisory Board is responsible to develop and present for approval to the General Meeting of Shareholders a formal, rigorous and transparent procedure for the appointment of the directors. The procedure of identifying candidates shall be transparent, so that the shareholders would be able to see what type of person the Bank is looking for and why a particular individual has been appointed. The search for new members of the Board of Directors is conducted by the HR and Remuneration Committee of the Supervisory Board. The Chairman of the Supervisory Board and members of the HR and Remuneration Committee interview the candidates, before their appointments are recommended to the Supervisory Board for approval. The HR and Remuneration Committee is responsible for considering succession planning for the directors and conduct an annual review of succession planning and propose changes to the process as necessary.
The Board of Directors membership criteria and appointment process are regulated by the Bank's Standard on Appointment of Administrators. The Bank's directors appointment process is in compliance with banking regulations and contains similar criteria and limitations for membership of the Board of Directors.

Committees of the Board of Directors

According to the Board of Directors Statute, the Board of Directors may establish standing and/or ad hoc committees, which shall have the obligation of fulfilling the duties determined by the latter. The Board of Directors approves committee statutes, committee size and composition, including appointments and dismissals of the committee members.
The Board of Directors shall be collectively responsible for decisions made and activities implemented by the committees. The committee shall only exercise such powers that are explicitly attributed or delegated to it and its actions as a whole shall not exceed powers of the Board of Directors.
Periodically the Board of Directors shall receive a report from each committee of its deliberations and findings.
There are currently three committees supporting the Board of Directors:

Credit Committee

The committee was established to assists the Board of Directors in discharging its duties and responsibilities in specific areas of business activities, the committee monitors credit risk related issues, approves individual or group of credits, or other credit products within the delegated authorities, issues recommendations regarding individual or group of credit exposures, issues recommendations regarding credit risk management, monitors loan portfolio, trade finance portfolio, investment portfolio and collateral portfolio, manages problem loans and ensures the adequacy of loan loss allowances.
The committee has statute regulating its activities and containing provisions regarding the scope of authority, competencies, composition, working procedures, as well as its rights and responsibilities.
The committee is composed of five members and includes all executive directors of the Bank.

IT Committee

The committee was established to assists the Board of Directors in discharging its duties and responsibilities in specific areas of business activity, the committee develops the Bank's strategic development plan in terms of the development of the information technologies, defines the appropriateness of IT projects, discusses the impact of business decisions on those projects and monitors their implementation, discusses global problems of IT-based banking activities, discusses periodically the problems that arise in IT service business environment, the impact of IT-based initiatives put forward by the structural units and the application of new IT initiatives, monitors the information systems and other advanced automation in order to ensure their continuous operation, ensures and monitors IT systems fail- safety and data security in the Bank, ensures the development of the Bank's IT and information security policies, guidelines, rules and procedures, reviews periodically the Bank's IT strategy and its tactical plans.
The committee has statute regulating its activities and containing provisions on the scope of authority, competencies, composition, working procedures, as well as its rights and responsibilities.
The committee is composed of seven members and includes Chief Executive Officer of the Bank.

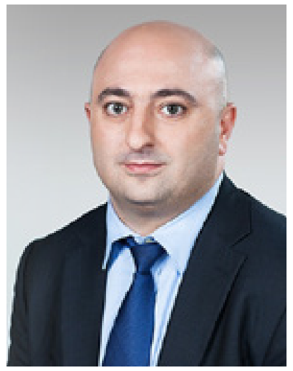
Assets and Liabilities Committee

The committee was established to assists the Board of Directors in discharging its duties and responsibilities in specific areas of business activity, the committee works to implement the practices of managing the Bank's assets and liabilities in terms of interest rate risks, liquidity risks and market risks. The assets and liabilities management of the Bank is based on policies, providing guidelines on risk appetite, revenue targets and rates of return, as well as risk management. The areas covered include capital ratios, liquidity, asset mix, rate settings for loans and deposits, and investment guidelines for the treasury portfolio. The key objectives of the committee include maintaining liquidity positions, capital ratios at the planned minimum, and ensuring safety of the deposit base, maintaining asset and liability mix generating satisfactory revenue stream to satisfy profitability targets.
The committee has a statute regulating its activities and containing provisions on the scope of authority, competencies, composition, working procedures, as well as its rights and responsibilities.
The committee is composed of five members and includes all executive directors of the Bank.

Shahin Mammadov

Chairman of the Board of Directors, CEO

Chairman of the Board of Directors, CEO
Shahin Mammadov majored in accounting at the Azerbaijan State Economic University and obtained a diploma in 2002. In 2004, he was awarded a Master's Degree from the same university and a Ph.D. in Economy in 2010.
Mr. Mammadov held the roles of accountant and deputy chief accountant at Kochbank Azerbaijan Ltd. from 2003. He joined Deloitte & Touche in 2005 as Associate Auditor and was subsequently promoted to Audit Manager. He acquired ACCA qualification in 2014.
In 2009, Mr. Mammadov was assigned to the position of Director of the Financial Management Department at PASHA Bank head office and in 2011 he became a member of the Executive Board. In 2013, he joined the Board of Directors of PASHA Bank Georgia supervising the business developmen function. Since July 2014, Mr. Mammadov has been the CEO and Chairman of the Board of Directors at PASHA Bank.



George Japaridze

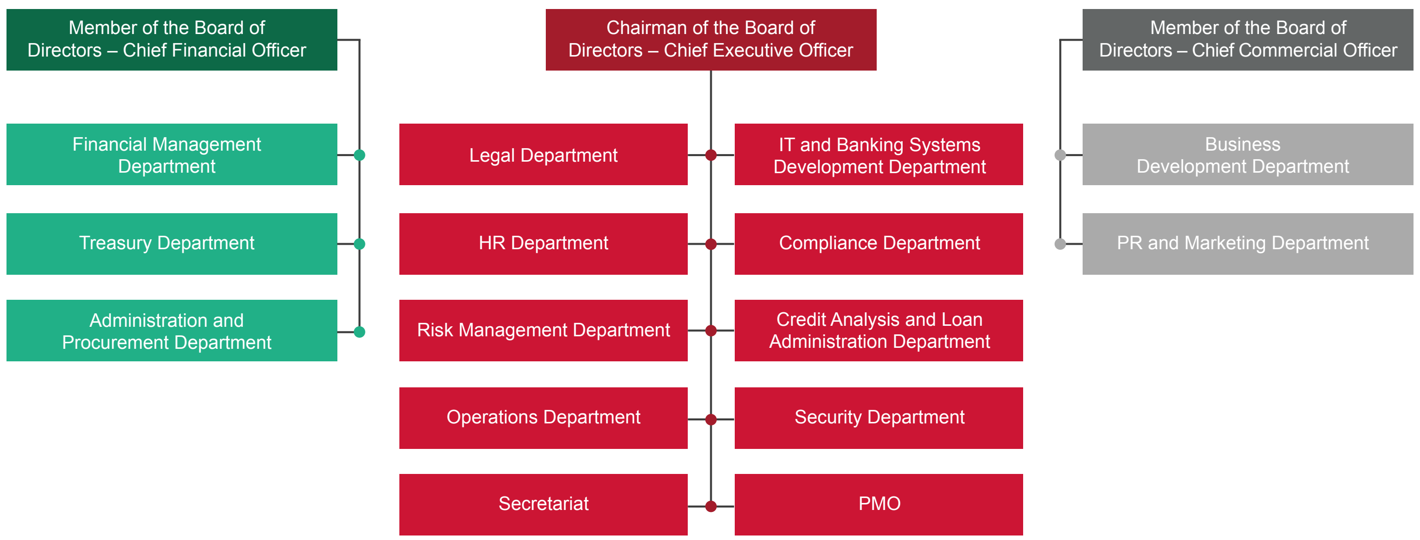
Member of the Board of Directors, CCO

George (Goga) Japaridze graduated from Tbilisi State University in 1996 with a Bachelor of Science degree in Biology. He went on to receive an MBA from Hofstra University's Zarb Business School in 2002. In 2016, he enrolled in and in 2017 graduated from Harvard Business School's Personal Leadership Development Executive Education Program.
Mr. Japaridze began his banking career in 2003 as an associate at Galt and Taggart Securities, the investment banking subsidiary of Bank of Georgia, before taking on the role of senior equity banker at Bank of Georgia in 2005. He held the position of principal banker at the EBRD's private equity facility from 2006 to 2011. He then moved to the role of Head of Corporate Banking at Bank Republic Société Générale Group.
Mr. Japaridze joined PASHA Bank as CCO in January 2014. Since April 2015, he also became a member of the Board of the Directors at PASHA Bank.

Chingiz Abdullayev

Member of the Board of Directors, CFO

Chingiz Abdullayev obtained his Bachelor's degree in Business Administration from the Western University of Baku, Azerbaijan, in 1999, and a Master's degree in Finance from the State Economic University of Azerbaijan in 2005.
He started his career at Baku Stock Exchange as the Head of the Listing Division in 2000. In 2003, he joined the Assurance & Advisory Service of Deloitte and for the following 10 years worked at senior positions with KPMG Russia, Moore Stephens CIS and RSM Georgia with a major focus on financial institutions, energy, trade and other industry sectors.
Chingiz Abdullayev joined PASHA Bank in 2014 as Head of the Financial Management Department. Since January 13, 2016, Mr. Abdullayev has been CFO and a Member of the Board of Directors.
Reporting line to the members of the Board of Directors is shown on the chart below.



Internal Audit Department

The Internal Audit Department of PASHA Bank Georgia is responsible for providing a regular, independent, objective audit of the Bank's risk management, internal control and corporate governance processes. The main objective of the Department is to add value and ensure the improvement of the Bank operations.
The Internal Audit Department is independent of the Bank's management and is reportable directly to the Audit Committee.
The Internal Audit Department Statute, that was revised and approved on 13 October 2017, describes matters related to the Department's purpose, rights and duties, scope of activities, reporting and independence.
The Internal Audit Policies and Procedures Manual approved by the Audit Committee on 26 September 2014 defines a set of comprehensive policies, methodology, procedures and guidance for performing risk based and value added audits.
The Annual Audit Plan that is based on a documented risk assessment is reviewed and approved by Audit Committee. Audit findings are communicated to the Audit Committee on a monthly basis.
The department budget and compensation is determined by the Supervisory Board based on the proposal of the Audit Committee.
The Head of the Internal Audit Department is appointed by the Bank's Supervisory Board based on the nomination and consent of the Audit Committee. All other employees are appointed by the Head of the Department which is agreed with the Audit Committee.

Schedule of Matters Reserved for the Board Decision

Specific decision making limits are approved by the Supervisory Board and shown in the Bank's Decision Making and Signatory Authority Matrix

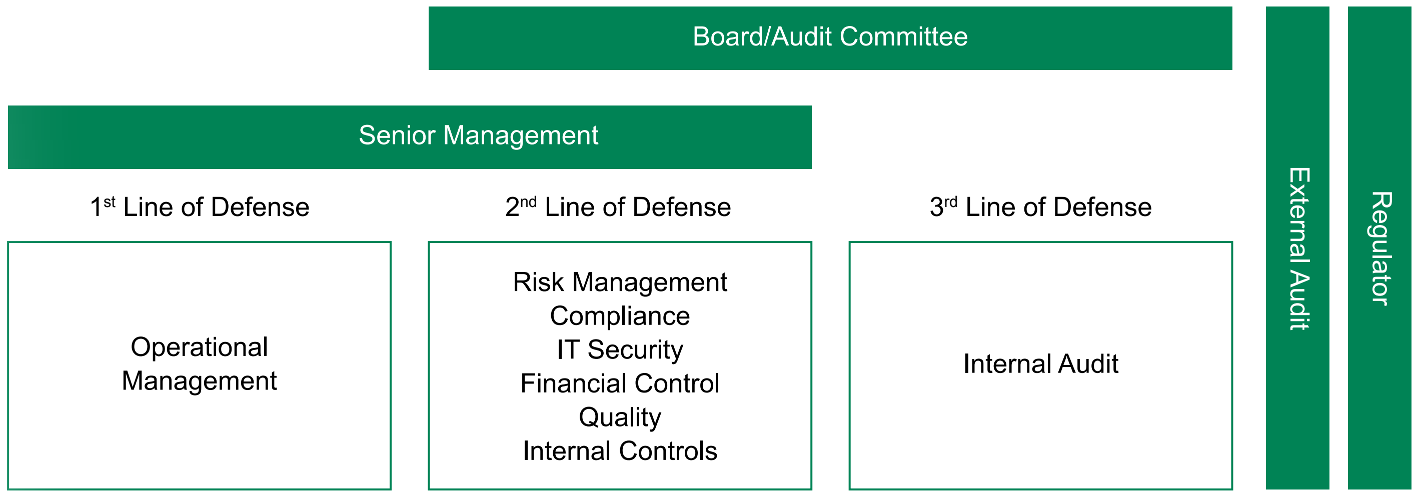
	Duties and Responsibilities	Quorum Required
1.	Strategic supervision and control of the Bank;	N/A
2.	Approval of the corporate strategy and strategic objectives, review of delivery of the strategy and performance against strategic objectives and operational plans;	simple majority
3.	Approval of the business plan, review of delivery of the performance against the business plan;	simple majority
4.	Approval of the annual budget, review of delivery of performance against the annual budget;	simple majority
5.	Initiation of new banking/commercial activities and termination or suspension of existing activities;	simple majority
6.	Establishment and liquidation of new enterprises, branches;	simple majority
7.	Acquisition and disposal of shares in other companies;	simple majority
8.	Approval of the organizational structure;	simple majority
9.	Approval of the Code of Ethics and whistleblowing procedures;	simple majority
10.	Rendering resolutions for implementation of the decision of the General Meeting of Shareholders on admission of the Bank's shares and other securities to the stock market;	simple majority
11.	Declaring an interim dividend and recommending a final dividend;	simple majority
12.	Redemption of shares by the Bank as provided under the Georgian legislation;	simple majority
13.	Perform strategic supervision of risk management activities;	N/A
14.	Approval of the risk appetite statement, conducting annual reviews;	simple majority
15.	Approval of the business continuity plan;	simple majority
16.	Authorization for conflicts or possible conflicts of interest and related party transactions;	simple majority
16.1.	Transactions with related legal entities;	simple majority
16.2.	Transactions with related persons;	simple majority
16.3.	Agreements with related legal entities;	simple majority
16.5.	Approval of cash covered credit products (including trade finance products) to the related party;	simple majority
17.	Approval of policies, standards and procedures in respect to conflicts of interest and related party transactions;	simple majority
18.	Approval of structure, size and composition of the Board of Directors, including appointments and dismissal of its members;	simple majority
19.	Determining rights and obligations of members of the Board of Directors, monitoring and supervising their activities, requesting reports from the Board of Directors;	simple majority
20.	Approval of succession policy and succession planning for members of the Board of Directors;	simple majority
21.	Conclude the labor agreements and determine remuneration packages for members of the Board of Directors;	simple majority
22.	Approval of the regulatory framework for determining bonuses and/or additional benefits for employees, including for members of the Board of Directors of the Bank;	simple majority
23.	Approval of structure, size and composition of the Supervisory Board committees, including appointments and removals of the Supervisory Board committee members; reviewing reports of the Supervisory Board committees;	simple majority
24.	Election of the external auditors;	simple majority
25.	Appointment and dismissal of trade representatives (procurators);	simple majority
26.	Appointment and dismissal of the Corporate Secretary;	simple majority
27.	Attraction of borrowings by the Bank;	simple majority
28.	Securing borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;	simple majority
29.	Granting lending and trade finance products (by amount; by maturity);	simple majority
30.	Sale of credit asset, irrespective of its amount, if: It is a collective sale (sale of more than one credit asset at once) of credit assets; The Bank incurs loss from the sale of credit asset and the sale is above the decision making limits of the Board of Directors;	simple majority

	Duties and Responsibilities	Quorum Required
31.	Approval of loan restructuring;	simple majority
32.	Approval of loan write-off;	simple majority
33.	Approval of acquisition and disposal of fixed assets and intangible assets;	simple majority
34.	Approval of issuance of bonds;	simple majority
35.	Approval of administrative expenses;	simple majority
36.	Approval of cash limits;	simple majority
37.	Implementation of equity investments in public companies;	simple majority
38.	Approval of any equity investments in private companies;	simple majority
39.	Approval and amendment of the Bank's statute, framework and policy type of documents;	simple majority
40.	Determining and approving amount of minimum and maximum interest rates to be used with regard to credit recourses and deposits;	simple majority
41.	Determining and approving the terms and conditions to be used with regard to credit recourses and deposits to the Bank's employees;	simple majority
42.	Convening General Meetings, if deemed necessary for the interests of the Bank;	simple majority
43.	Supervision and representation of the Bank in case of conflict between the members of the Board of Directors;	simple majority
44.	Based on the decision of the General Meeting, handling of legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;	simple majority
45.	Supervising implementation of measures in accordance with results of examinations carried out by the External and Internal Audits, as well as the National Bank of Georgia;	simple majority
46.	Making a decision on such issues that are beyond the scope of the Board of Directors' powers;	simple majority
47.	Perform any other duties as required by the General Meeting.	simple majority

RISK AND CONTROLS

The Bank is committed to develop sound, effective and complete risk management strategy and processes in order to assess and maintain on an on-going basis the amount, type and distribution of internal capital that the Bank considers adequate to cover the nature and level of the risks to which it is or might be exposed.
The strategy and processes are subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the the Bank's activities.
Risk management helps to identify, assess, and manage risks stemming from the Bank's strategy. The most significant causes of value destruction are embedded in the possibility that the strategy does not support the Bank's mission and vision, and the implications from the strategy.
Risk management enhances strategy selection. Choosing a strategy calls for structured decision-making that analyzes risks and aligns resources with the Bank's mission and vision.
Risk management strategy supports the Bank's mission and vision, and eliminates the possibility that the Bank may not realize its mission and vision, or may compromise its values, even if a strategy is successfully carried out.
Risk management considers the possibility that the strategy is not aligned with the Bank's mission and vision, or the implications from the strategy chosen. The Supervisory Board and the Board of Directors determine if the strategy works in tandem with the Bank's risk appetite, and how it will help drive the Bank to set objectives and ultimately allocate resources efficiently.
The risk management strategy is derived from the business strategy, all factors of the business strategy are taken into account for the purpose of risk profile analysis.
The Bank manages risks following the model of Three Lines of Defense that provides an effective way to enhance communications on risk management and control by clarifying essential roles and duties. Three Lines of Defense model enhances clarity regarding risks and controls and helps improve the effectiveness of risk management systems.
The Three Lines of Defense model distinguishes among three groups (or lines) involved in effective risk management:

- Functions that own and manage risks;
- Functions that oversee risks;
- Functions that provide independent assurance.



1st Line of Defense	2nd Line of Defense	3rd Line of Defense
The business lines and operations units execute the activities that create and prevent risk. The first line owns and manages risks and controls through policies, procedures, and monitoring processes within the daily operations that help prevent or mitigate risks.	The support functions in an organization including Finance, Security, Risk Management, Compliance and Legal support management by providing expertise, process improvements, and a second level of monitoring of business line and operations unit activities.	Internal Audit is a function that is separate and independent of the first and second lines of defense. It provides assurance to both senior management and the board of directors around organizational activities.
Works collaboratively with the second line to address improvements required to enhance controls and mitigate risks.	The second line is an oversight function operating under the direction of senior management.	The third line independently reviews all activities within the first and second lines of defense.
The first line reports to senior management.	In many organizations, the second line also reports to the audit committee and/or risk committee of the board.	The internal audit function's primarily reporting is to the audit committee of the board with administrative reporting to the CEO.

Risk Appetite

Risk Appetite setting process seeks to enhance risk management capabilities of the Bank to ensure better alignment of risk-taking with strategic objectives. Risk appetite objectives define the level of risk that the Bank is willing to accept, provide opportunities for maximization of the value within boundaries, establish systematic control of risks and enable timely mitigation.
The risk appetite statement (RAS) resides at the heart of an effective risk management program and is linked to the Bank's overall risk management philosophy and strategic

ambition. The objective of developing a clearly articulated RAS is to explicitly define the level and nature of the risks that the Bank is willing to take in order to pursue its articulated mission on behalf of its shareholders, subject to constraints imposed by shareholders, debt holders, regulators, and other stakeholders.
With RAS in place, the Bank can define specific tolerances around its performance, and in doing so, link its risk management processes to the overall management processes.
General principles of risk taking and risk management set out by the Bank are as follows:

- Prudent risk-taking with comprehensive risk assessment and control environment
- Application of best practices in line with the complexity and size of the Bank
- Direct risk management considerations into the business planning and project development activities
- Compliance with the requirements of NBG and guidelines from the Bank's shareholders.

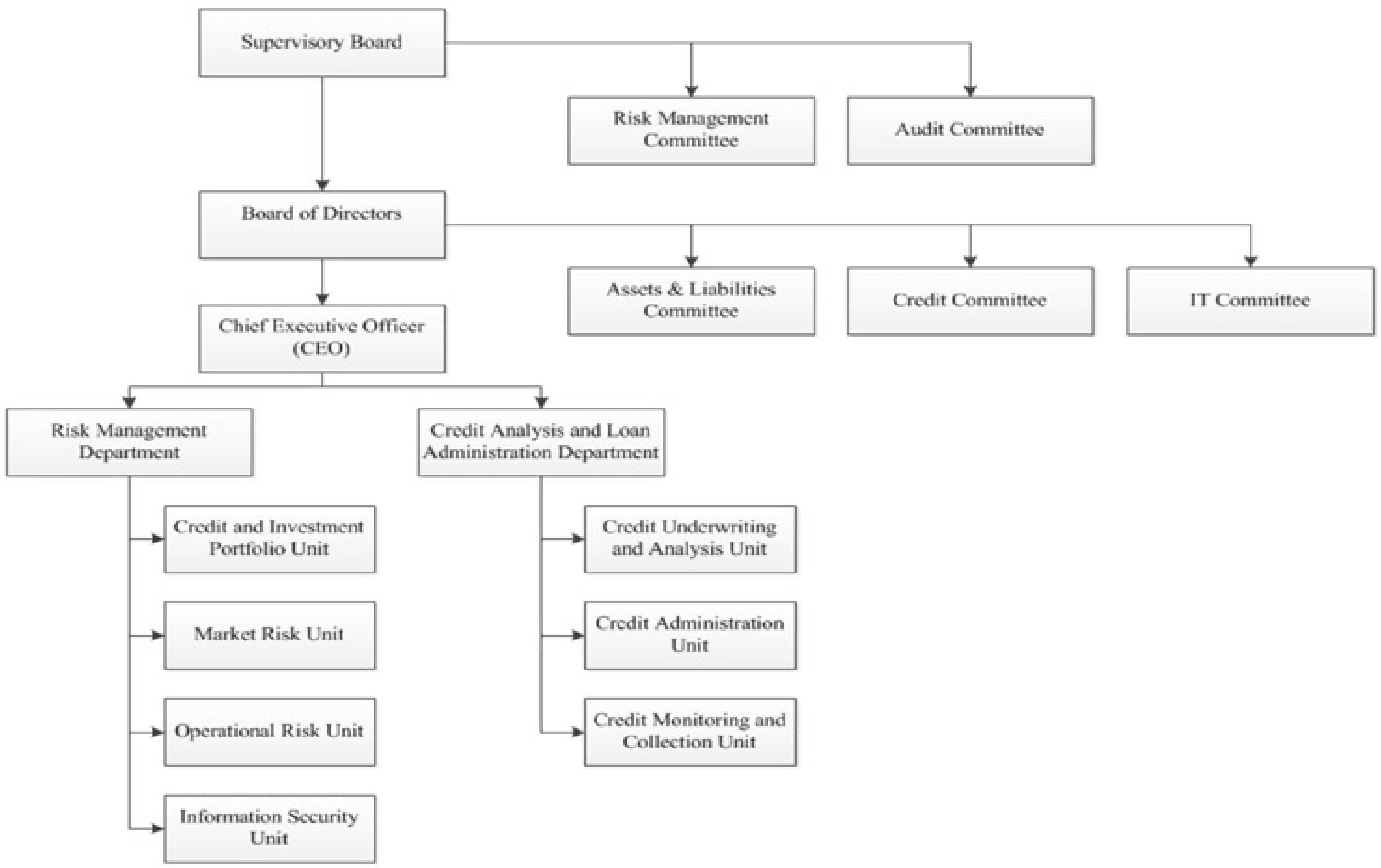
General principles of risk taking have to be reflected in all rules and policies and applied consistently throughout the Bank.
In order to set up objective criteria to measure the exposure to relevant risk factors, risk policies are represented by numerical targets/limits within the Bank's risk appetite framework.
The Bank develops the risk appetite framework based on its business and risk strategy.
RAS includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It shall also address more difficult to quantify risks such as reputation, money laundering and financing of terrorism risks, as well as business ethics and conduct.
Credit risk appetite is defined by the Credit Policy. The credit risk appetite represents the maximum credit risk level that the Bank is able and willing to accept in order to achieve its business objectives. It contains the following elements:

- Profitability is a key objective but credit standards must not be compromised in the pursuit of operating income. A well-balanced and high quality credit portfolio is of the highest priority
- Where borrowing is classed as prohibited, there is no appetite to pursue this type of business, and any exceptions in this category must be referred to the Supervisory Board.

List below demonstrates sample statement provided by RAS of PASHA Bank:

- Capital/solvency – the Bank will operate with a sufficient and comfortable capital base, not only to fulfill regulatory requirements, but to protect the Bank against potential shocks without hindering the growth potential. The Bank will regularly run stress tests to ensure its capital remains adequate.
- Profitability/earnings volatility – the Bank aims to maximize its risk-return profile over a long-term period and ensure stability in earnings over the years. Therefore, for consolidated earnings the Bank will target unexpected earnings variance to be a reasonable portion of total earnings variance.
- Liquidity – the Bank will ensure abundant levels of liquidity to survive a severe 12-month market-wide liquidity stress event, and promote diversified and stable funding sources.
- Credit risk – the Bank aims to keep a well-diversified loan portfolio that delivers positive net income at a consolidated level even during severe but realistic stress events. To do so, the Bank maintains consistent underwriting standards depending on its risk appetite not market opportunities; the Bank applies appropriate concentration limits and invests in and runs tight monitoring systems.
- Market risk – the Bank will ensure to keep its Value at Risk at a desired level, including the VaR under stress scenarios. The Bank will keep its currency position under review at all times to be able to hedge against potential devaluations.
- Operational risk – the Bank strives to minimize all potential losses stemming from operations, information technology and human resources. To achieve this goal, the Bank tracks operational risk at key process level and ensures transparency at top-management.
- Regulatory risk – the Bank will ensure that the number of open regulatory findings and number of new legal matters will be maintained on an acceptable level.
- Reputational risk – the Bank has zero tolerance for headline risk associated with unacceptable business practices, privacy breaches and internal fraud.

Organizational Structure of Risk Management function



The main roles and responsibilities for key stakeholders in the Bank's Risk Management Process are as follows:

Supervisory Board

- Approve the Bank's risk appetite and tolerance statement and risk management policies
- Perform risk oversight to incorporate consideration of risk into strategic decision-making and to address risk interactions across business units.

Board of Directors

- Assume overall responsibility and accountability for risk management function
- Ensure a proper balance between risk and return consistent with the Bank's risk appetite
- Make available the necessary resources to meet the risk management objectives and targets
- Maintain commitment to improving risk management performance.

Risk Management Committee

- Review risk management policies, risk governance model, risk tolerances, impact and likelihood scales, and heat map risk rating boundaries
- Accept the risk assessments, issue directives for risk treatment to maintain risk levels within defined tolerance thresholds, and accept risk treatment options
- Ensure that appropriate processes and capabilities are in place to identify, assess, measure, manage, monitor, and report risks.

Risk Function

- Develop, implement and administer the risk management (RM) program. This entails developing and maintaining RM policies, identifying key risks to be reported at the corporate level, coordinating risk management processes and procedures, tools, and information systems, risk analysis and risk treatment with risk owners, calculating the overall integrated risk portfolio, reporting on corporate risks and the risk portfolio to the Risk Management Committee, monitoring adherence to the risk management program, and improving the risk management capability of the enterprise through communication and training
- Establish RM communication at all levels. Gather data and develop risk reports for the Risk Management Committee and others as directed by the Risk Committee
- Provide professional advice on RM. Provide advice and direction on current and developing RM practices, make recommendations, and implement mandated improvements
- Analyze RM metrics and report performance. Quantify and prioritize risks, validate decision-making analytics, assumptions and methodologies, report risks and ensure that information presented for decision-making and reporting is complete and correct
- Deploy and maintain quantitative tools and models that assist in estimating the likelihood and severity of risk events such as an event tree model
- Facilitate the identification, measurement, monitoring and reporting of risks
- Design/revise risk appetite statement in coherence with Group RAS
- Cascade RAS down to different levels in the organization (i.e. define "playing field" for units)
- Continuously review/report limit status/breaches and take proactive measures to avoid RAS breaches
  In case of RAS breaches, propose and execute mitigation plan
- Ensure incentives across the Bank are in line with RAS
- Ensure alignment of risk appetite, strategy and capital allocation within the Bank (including budgeting and business planning cycles)
- Assess risk culture at different levels of the Bank.

Risk Owners

Risk owners are those individuals with accountability for the business activity bearing an assigned risk. Risk owners oversee the line staff performing business and risk management activities and have sufficient authority to enforce policies and procedures and authorize the expenditure of funds to handle risks within their span of control. Risk owners will have the ultimate responsibility to report back to the RM function on the status of the risk and has the authority and ability to make necessary changes. Additionally,

- Provide subject matter expertise for assigned risks to the RM function
- Set direction and monitor the effectiveness of the risk management processes for assigned risks
- Support RM function to establish standards, tools and methods for managing, treating, monitoring and reporting of assigned risk.

Risk types, management and capital allocation

Credit Risk

Credit risk refers to the threat of losses that impacts the Bank's profitability and capital position and arises due from non-performance of contractual obligations by the counterparties (or from performance that is not compliant with contract conditions, i.e. from failures to fulfill (balance sheet or off-balance sheet) liabilities to the Bank).

The Credit Policy and the Credit Standard of the Bank regulates lending process and contains the credit risk management principles and actions to mitigate risks inherent to lending activities.
The primary objectives of the Credit Policy are to:

- Protect the Bank from possible losses from credit activities;
- Define basic principles of planning and organizing credit activities and building desired loan portfolio;
- Ensure safe and efficient allocation of the Bank's capital and other funds.

The Bank follows the key principles listed below in order to realize its credit policy objectives:

- Segregation of duties: responsibilities must be strictly divided between the back office and the front office;
- Four-eye principle and the principle of prevention of conflict of interests shall be adhered to at all stages of the credit cycle;
- Risk-awareness during the credit assessment processes and later during the management of exposures to avoid unnecessary impairments and losses;
- Operating with a robust and professional risk management approach and control environment as a basis of solid risk taking and proper risk management.

The primary objectives and key principles of the Credit Policy are achieved through the following course of actions:

- Developing efficient credit policies and procedures;
- Providing appropriate instructions and trainings to relevant employees;
- Building long term relationships with customers;
- Increasing and diversifying the customer base;
- Ensuring competitive credit terms and fair pricing;
- Ensuring efficiency of the decision-making process;
- Ensuring effective credit risk management;
- Monitoring of external factors, which can affect credit decision or portfolio quality;
- Managing the optimal risk and return ratio of credit products, managing liquidity risk, currency risk and maturity risk premium;
- Improving and optimizing credit portfolio quality and structure;
- Ensuring the adequate level of LLP;
- Ensuring compliance of the credit process with Georgian legislation and regulations of the National Bank of Georgia.

In all case of risk taking, creditworthiness of the customer shall be assessed and monitored during the lifetime of the credit exposure according to the Credit Policy.
Portfolio quality reports are regularly prepared by Credit Analysis and Loan Administration Department and presented to the Board of Directors.
The capital requirement for credit risk is calculated by the Bank under Basel II requirements, using the standardized approach. For the expected losses, the Bank calculates provisions and classifies assets based on IFRS.
Although the Bank considers credit risk as the most material and most important risk type, currently, due to the lack of data, using advanced methodologies for calculation of the credit risk capital requirement would be an excessive exercise for the Bank.
The Bank uses internal and external rating providers for credit risk assessment, such as Moody's, Fitch and S&P.

Foreign Exchange Induced Credit Risk

Credit risk arising due to the movements of foreign currency exchange rates that would deteriorate the creditworthiness of the customer (for instance, if assets, liabilities and income are denominated in different currencies).

Individual assessment of the customers is carried out according to the Credit Policy. Furthermore the limits outlined by the regulator are applied and sensitivity analysis is conducted.

Exposures in foreign currency have to be assigned into a special segment under the Basel II credit risk capital calculation based on CAR.
In addition to the capital requirement calculated under Basel II, the Bank calculates the effect of exceptional but possible movement on the FX rates to the credit portfolio by using scenario analysis.
The capital requirement for FX induced credit risk equals the Pillar 1 calculation + the result of the scenario analysis.

Counterparty credit risk

Counterparty risk is the subset of the credit risk and is mainly estimated for credit derivatives (i.e. futures, forwards, swaps, options, and other off-balance sheet liabilities originating from other similar contracts), according to CAR Article 50. The counterparty risk is the risk that the counterparty to a transaction would default before the final settlement of the transaction's cash flows.
The Bank operates counterparty limit system for treasury deals with the Bank's partners (banks, financial institutions) as defined by the Board of Directors. Limits are reviewed at least on an yearly basis and in any case when relevant information about the counterparty is identified.
Capital requirement under Pillar 1 is calculated under credit risk, based on the exposure calculation logic defined by CAR (original exposure method), the Bank uses the same approach under Pillar 2.

Country risk

Country risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country (government) but not by the lender/investor.
Due to the business strategy of the Bank (serving companies of certain neighboring countries (eg. Azerbaijan, Turkey) with trade finance and other services), the Bank is exposed to country risk.
Under Pillar 1 capital calculations, no capital requirement has to be calculated to cover country risk. Under Pillar 2, additional capital is calculated according to respective methodology:
The positions that contain country risk are grouped by the countries, and at a higher level they are grouped by external rating categories of sovereigns;
If the sum of positions of risks grouped by the external rating categories exceeds established limits, then the Bank increases the requirements of the capital by the excessive amount over the limit;
The weight of exposure to countries is set by international rating agencies.

Operational risk

Operational risk is defined as the Bank's exposure to potential losses that may impact its profitability and capital position. Operational risk may derive from inadequate internal processes or systems, external events, inadequate employee performance or from breaching of or non-compliance with statutory provisions, contracts and internal regulations. Operational risk includes legal risk, but excludes reputational and strategic risk.
Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from inadequate information system, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems that may result in unexpected losses. Operational risk exists in all products and business activities of the Bank.
The objective of operational risk management is to find the extent of the Bank's operational risk exposure, understand its drivers, allocate capital and identify trends internally and externally that would help predicting it. It is important for the Bank to try to prevent fraud, maintain the integrity of internal control, and reduce errors in transactions.

Internal control is usually embedded in the Bank's day-to-day activities and is designed to ensure, to the extent possible, that the Bank activities are efficient and effective, information is reliable, timely and complete and the Bank is compliant with applicable laws and regulations. Failure to understand and manage operational risk may increase the likelihood that some risks will go unrecognized and uncontrolled.
The Bank conducts adequate operational risk assessment procedures before it launches any new product, activity, process or system, as well as before it outsources core banking and IT systems related activities. The aim of the operational risk management is to identify, assess, monitor, control and mitigate operational risks and to support effective reporting of risks and emerging risk issues.
The Bank mitigates operational risks by defining, documenting and updating the relevant business processes. Furthermore, the Bank mitigates operational risks by following strict rules for the assignment of duties and responsibilities among and within the functions, and a system of internal controls and supervision.
The Bank has in place Operational Risk Management Policy, Operational Risk Management Procedure and Operational Risk Assessment Methodology.
The Bank uses tools for operational risk identification and assessment, such as the Data Loss Collection, Audit Findings, Risk Control Self-assessment, Key Risk Indicators, etc. for timely identification and mitigation of risks.
Capital requirement under ICAAP is calculated using the Basic Indicator Approach which is used also for the calculation of Pillar 1 capital.

Market risk

Market risk is the current or prospective risk of losses on on-balance sheet and off-balance sheet positions arising from adverse movements in market prices.
The Bank considers only the risk position of the trading book portfolio.
Market risk management framework was developed based on the Group wide methodologies.
According to the Georgian regulations, no capital charge has to be calculated for the trading book positions of the Bank. Under the ICAAP framework, the Bank needs to assess its exposures to market risk and calculate capital requirement accordingly.

Market risk - Foreign exchange risk

Foreign exchange risk arises from open or imperfectly hedged positions in a particular currency as a result of unexpected movements in the level of exchange rates.
FX position is continuously calculated during the day using transactions having effect on the FX positions. The Bank manages FX positions within the approved internal and regulatory limits.
According to Capital Adequacy Ratio and Georgian Regulation Setting, Calculating and Maintaining Overall Open Foreign Exchange Position Limit of Commercial Banks, FX risk has to be managed by limit systems, not by the capital.
Under the Pillar 2 capital calculation, the Bank decided to calculate capital requirement for FX positions based on Value at Risk (VaR) methodology, using 99,9% confidence level, 10 days holding period and multiplier based on Basel II.

Interest rate risk of the banking book

Interest rate risk means the risk of financial losses (damages) resulting from adverse movement of interest rates.
Market risk management framework was originally developed based on the methodologies applied by the Group.
Interest rate risk of the banking book is assessed on a monthly basis. Interest rate gap reports positions and gaps by repricing periods for each relevant currency. A limit system is defined by ALCO for the gaps of each repricing period. Furthermore duration gap method is used for sensitivity analysis and for the calculation of

capital requirement under ICAAP.
Under Pillar 1, CAR does not require from the Bank to calculate capital requirement for covering the interest rate risk of the banking book. Under the Pillar 2, the Bank decided to use the approach described in the Basel II framework. This method builds on the duration gap approach and quantifies the effect of 200 basis points parallel shift of the interest rate curve on the net interest income of the Bank. The appropriateness of 200 basis points is back tested on a regular basis. When the shock on the interest rate risk shows a potential decrease of the Bank's economic value in excess of 20% of its solvency capital, the Bank covers the limit breach with capital.

Business risk

Business risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating environment or erroneous corporate decisions, inadequate implementation of decisions or poor reactions to changes in the competitive environment.
The Bank considers strategic planning and budgeting processes as a crucial part of risk management. The Bank has developed detailed processes and regulation on the budgeting processes which ensures the meticulous budgeting according to the business strategy of the Bank and also describes the processes to regularly monitor and review the budget.
For business risk, regulatory capital requirement is not calculated. As the risk is defined to be material, the Bank calculates capital requirements to cover business risk under ICAAP. As the Bank has limited historical data to go by, a simplified methodology measuring the deviations from the budget has been developed.

Credit concentration risk

The concentration of credit risks is interpreted as a distribution of exposures to customers and trading partners where potential default by a relatively small group of counterparties or large individual counterparties is driven by a common underlying cause and may jeopardize the "business-as-usual" operation of the Bank.
The Bank controls concentration risk via limit system. The total amount of loans and other exposures with direct and indirect exposures (e.g. via guarantees) are reduced by way of credit risk mitigation techniques based on credit risk capital calculation rules.
The Bank regularly monitors the concentration of the portfolio by calculating the HHI index for the whole portfolio of the Bank, using gross exposures.
Creation of capital reserves for concentration risk is not required under Pillar 1 calculations. Under Pillar 2 calculations, the Bank quantifies the impact of two different stress scenarios that include credit quality worsening of certain top customers. Capital requirement is estimated in line with a more severe scenario.

Residual risk

Residual risk is the risk of the large-scale devaluation or limited enforceability of collaterals behind credit exposures.
The CAR enables Bank to use risk mitigation techniques to reduce the capital requirement of credit risks. While institutions mitigate these risks by way of collaterals, these collaterals can pose risks in and themselves (legal, documentation and liquidity risks).
The Bank has established processes to ensure the enforceability and proper valuation of the collaterals used during the lending processes. Credit Policy and Collateral Management Procedure contain the requirements which are in line with the rules of CAR:
Residual risk is managed by processes, no capital allocation method is defined by the Bank.

Settlement risk

Settlement risk is the risk that a transaction executed is not settled as expected through a settlement system. Settlement risk comprises credit risk and liquidity risk elements.
The credit institution bears the risk that while it fulfills its contractual obligations (payment or delivery), the counterparty fails or defaults to do so. Finally, it may lead to the non-performance in further securities transactions of that party.
In order to minimize potential losses due to settlement risk, the Bank aims to settle transactions via central counterparties based on delivery versus payment principles. The exposure to this risk is also limited through internal FI limits.
Based on the Georgian regulations (CAR) Pillar 1 capital is not calculated to cover settlement risk. Under Pillar 2, due to the low number of transactions exposed to settlement risk, no capital charge is calculated.

Liquidity risk

Liquidity risk is defined as the risk of inability of the Bank to honor its financial obligations. Liquidity risk comprises of both funding liquidity and market liquidity risk:

- Funding liquidity risk appears when the Bank cannot fulfill its obligations because of inability to obtain new funding.
- Market liquidity risk appears when the Bank is not able to sell its assets easily at the market price without avoiding losses because of illiquid market.

The major tools for measuring liquidity risk are identification of liquidity positions and stress testing; Liquidity positions are identified on the monthly basis via standardized reporting packages for the regulator, ALCO and Risk Management Committee.
Stress testing is based on the Bank's cash inflows and cash outflows during the 6 month survival horizon. The target liquidity requirement is then estimated by applying the stress scenario on the expected cash inflows and outflows and the liquidity buffer.
The stress testing scenarios are based on the assumptions such as:

- Rapid deterioration of the economic environment, causing disruptions in the expected cash inflows from the Bank's loan portfolio;
- Inaccessibility of the funding market for new funding transactions and termination of all callable funding transactions;
- Adverse changes in foreign exchange rates.

Presence of liquidity risk in short time intervals is considered to be more dangerous for the Bank's operations, because shorter a term is, less time the Bank has to make management decisions to adjust to the situation. The longer the time interval, the more controllable liquidity is considered to be, because the Bank has more time to take corrective measures. Therefore, the limits on short-term cumulative liquidity gaps shall usually be more conservative than those for longer terms.
The ever-changing financial markets have a direct impact on the availability of funding sources for the Bank. Therefore, even with constant monitoring of liquidity and funding sources, the Bank recognizes that unforeseen events (for example, changing economic or market conditions, deteriorating loan portfolio quality, or any other situation beyond the control of the Bank) may potentially lead to a short- or

long- term crisis situation. Despite the low probability of a significant liquidity crisis, the Bank shall assess the potential risk and prepare a clear action plan for liquidity crises. To mitigate the funding liquidity risk, the Bank establishes high quality liquidity buffer, which may be used to meet payment obligations while continuing normal banking activities without obtaining new funding. The Bank additionally ensures that its funding is diversified and that the maturity profile does not create significant gaps.
The liquidity limits are critical in the maintenance of adequate levels of liquidity and cushion of high quality liquid assets. These limits allow withstanding the range of stress events, including those involving loss of funding sources. The types of limits imposed by the regulator and approved by the governing bodies of the Bank.
The market liquidity risk is mitigated by having a liquidity buffer consisting of high-quality financial assets that under stressed market conditions maintain its market value. The Bank has access to NBG refinancing facilities to maintain its liquidity in GEL.
The Bank has been developing sound practices to manage liquidity risks which are laid down in the Liquidity Management Policy and Liquidity Management Procedure. Liquidity reports are regularly introduced to ALCO.

Strategic risk

Strategic risks are those that arise from the fundamental decisions that executives take concerning the Bank's objectives. Essentially, strategic risks are the risks of failing to achieve these business objectives.
Strategic risk is managed via operating proper internal governance system. In order to minimize potential losses due to strategic risk, the Bank established framework of internal governance system.
Strategic risk is only managed by processes, no capital is allocated.

Reputational risk

Reputational risk is the current or prospective indirect risk to earnings and capital arising from adverse perception of the image of the Bank on the part of customers, counterparties, shareholders, investors, regulators and other stakeholders. It is manifested in the fact that the external opinion on the Bank is less favorable than desired.
Reputational risk is managed by respective processes and organizational units of the Bank. Reputational risk is only managed by processes, no capital is allocated.

Group risk

Group risk is defined as possible losses due to the fact that the Bank is operating as a member of group, as a subsidiary company or mother company. The Bank has no subsidiary, therefore only the risk of operating as a member of a financial group has to be assessed. The main assessment factor is to identify those dependencies, where change in level of parent company support might cause problems at the Bank. This assessment is based on expert judgment, and its result is manifested in the areas where the risk is managed.
The Bank has identified two major sources of group risk, which are managed with proper processes defined by the parent company and negotiated with the Bank:

- Group governance risk: the parent company operates a holding level governance system which ensures that the Bank receives methodological support from the mother company.
- Own funds supply: planning of own funds and analysis of the possible ways of capital increase are part of the budgeting process, including own funds supply from parent company.

As the risk currently is not material, no capital is allocated.

Macroeconomic risk

Macroeconomic risk is the current or prospective risk of losses on on-balance sheet and off-balance sheet positions arising from adverse movements in macroeconomic conditions, such as fall in GDP growth rates, decline in real estate prices, volatility in foreign exchange rates etc.
As macroeconomic risks are external risks that are beyond the Bank's control, the only tool for its management is stress tests based capital and liquidity planning. The Bank performs macroeconomic risks related stress tests based on methodological guideline (the Guideline) communicated to the Bank by the regulator.
For the purposes of internal capital assessment the Bank applies transaction level stress tests assessing the effect of FX, concentration and interest induced credit risks. The enterprise level macroeconomic stress testing is used for capital planning purposes.

Regulatory risk

Regulatory risk is defined as the risk stemming from the changing regulatory environment. It incorporates either the amendment of an existing or the enactment of a new national or international law/regulation.
In order to mitigate regulatory risk the Bank is permanently monitoring not only the legislation but the prospective changes as well. A crucial point of the process is that the respective departments, managers and employees affected by the changing legislation are informed by the Legal Department. Senior management regularly receives executive summaries about recent regulatory modifications.
The Bank makes sure that existing and even significant prospective (if they are likely to be enacted) regulations are reflected in its strategy. To prepare for those significant legislative changes the Bank applies several techniques: impact study, scenario analysis, action plans or even the modification of the business plan.
The Bank conducts regular revision of its internal regulations and ensures that they are compatible with the external regulatory environment.
Regulatory risk is only managed by processes, no capital is allocated.

Risk mitigation strategy

Techniques to mitigate risk are largely dependent on the type of risk that shall be reduced. Among others, the Bank uses the following types of mitigation techniques:

- Audits - Regular audits from Internal Audit department may identify problems such as accounting errors or security vulnerabilities before they become larger problems.
- Segregation of duties: responsibilities are strictly divided between the relevant positions.
- Four-eye principle and the principle of prevention of conflict of interests are adhered to at all levels of the business processes.
- Operating with a robust and professional risk management approach and control environment as a basis of solid risk taking and proper risk management.
- Backup – the Bank is backing up business information in multiple secure physical locations.
- Business Continuity Plan – bank has developed the plan to continue with normal operations in the face of extraordinary events such as natural disasters or security incidents.
- Control - control risk through internal processes or actions that reduce the likelihood of undesirable events.
- Diversification - the process of allocating of capital and resources in diverse areas to reduce risk and volatility.
- Due Diligence - the process of investigation before committing to something such as a contract or strategy. Basic due diligence such as checking the financial, environmental, corporate social responsibility and management practices of a potential partner is a basic step in risk management.
- Communication – regularly communicating a risk factor to line managers serves to reduce it.

- Performance Management - Setting risk reduction goals as part of performance management.
- Policies - Policies designed to reduce risk of misconduct.
- Standards - Establishing standards to guide business practices and decision making.
- Training - Training for employees designed to increase professionalism and skills.

Risk reporting

In order to ensure the timing, quality and informative value of the decision-making process, the Bank's risk management function reports to the Risk Management Committee of the Supervisory Board on a monthly basis. Report includes loan portfolio report, corporate investment portfolio report, trading book report, related party transactions, off-balance sheet portfolio, collateral portfolio, non-performing loans and write off report, credit concentrations, deposit portfolio report, FI exposures, liquidity and maturity analysis, market risk analysis, operational risk analysis, incident management, capital adequacy report, etc. On a quarterly basis, the Risk Management Committee reports to the Supervisory Board on the Bank's risk management activities and the way the committee had discharged its duties and responsibilities.

Risk management function reports to the Board of Directors on a regular basis. These reports include reviews of Credit Committee activities, internal loss data base reports, etc.

Stress Tests and Scenario Analysis

Scenario analysis is an exercise that uses the expert opinions of business and risk managers to identify plausible enterprise loss scenarios to estimate unexpected losses. Generally speaking scenarios are a forward looking assessment of key risks or "potential future events" that attempt to derive a reasoned assessment of likelihood, in terms of frequency, and severity of plausible losses.

Stress test framework aims to assess the impact of extraordinary but possible events on the own capital or liquidity of the Bank. The Bank elaborated its ICAAP framework in a way which already contains sensitivity analysis and scenario analysis to measure the exposure to the risks defined to be relevant.

The Bank performs macroeconomic risks related stress tests based on methodological guideline (the Guideline) communicated to the Bank by NBG. According to the Guideline, stress tests must be performed on the overall Bank level (enterprise level stress) and transaction level (enterprise level stress).

The transaction level tests assess the creditworthiness of the Bank's borrowers in the result of the changing external factors. The following risks are managed via stress testing on the enterprise risk level:

- Foreign exchange induced credit risk;
- Interest rate risk of the banking book;
- Foreign exchange rate risk;
- Concentration risk;
- Interest rate risk;
- Regulatory risk;
- Systematic risk.

The enterprise level stress tests are used by the Bank in the course of its capital and liquidity planning by assessing the effect of various macroeconomic scenarios on the Bank's overall financial performance indicators such as profitability, asset quality, funding base and liquidity.

Annex #1 to Pillar 3 Annual Report is also available on the website of PASHA Bank:
http://www.pashabank.ge/en/about-us/financial-reports

Table 1 **Key metrics**

N		4Q2017	3Q2017	2Q2017	1Q2017	4Q2016
	Regulatory capital (amounts, GEL)					
	Based on Basel III framework					
1	Common Equity Tier 1 (CET1)	99,202,514	99,530,552	97,950,858	100,442,868	99,145,519
2	Tier 1	99,202,514	99,530,552	97,950,858	100,442,868	99,145,519
3	Total regulatory capital	102,158,275	102,360,399	100,680,956	102,811,058	101,195,469
	Risk-weighted assets (amounts, GEL)					
4	Risk-weighted assets (RWA) (Based on Basel III framework)	283,322,298	308,422,862	293,837,247	273,623,517	296,917,120
5	Risk-weighted assets (RWA) (Based on Basel I frameworks)	261,847,871	246,660,834	241,479,749	211,667,430	218,135,980
	Capital ratios as a percentage of RWA					
	Based on Basel III framework					
6	Common equity Tier 1 ratio (≥ 7.0 %)	35.01%	32.27%	33.02%	35.51%	37.72%
7	Tier 1 ratio (≥ 8.5 %)	35.01%	32.27%	33.02%	35.51%	37.72%
8	Total regulatory capital ratio (≥ 10.5 %)	36.06%	33.19%	33.94%	36.38%	38.50%
	Based on Basel I framework					
9	Common equity Tier 1 ratio (≥ 6.4 %)	36.36%	38.68%	39.55%	45.05%	42.08%
10	Total regulatory capital ratio (≥ 9.6 %)	39.01%	41.50%	41.69%	46.84%	46.39%
	Income					
11	Total Interest Income /Average Annual Assets	7.28%	7.56%	7.52%	7.17%	7.97%
12	Total Interest Expense / Average Annual Assets	1.58%	1.64%	1.78%	1.73%	2.37%
13	Earnings from Operations / Average Annual Assets	1.63%	2.20%	2.01%	2.10%	2.03%
14	Net Interest Margin	5.70%	5.92%	5.74%	5.44%	5.60%
15	Return on Average Assets (ROAA)	1.57%	2.19%	1.91%	2.11%	2.58%
16	Return on Average Equity (ROAE)	3.86%	5.32%	4.77%	5.58%	7.54%
	Asset Quality					
17	Non Performed Loans / Total Loans	0.06%	0.06%	0.06%	0.06%	0.07%
18	LLR/Total Loans	2.22%	2.23%	2.29%	2.50%	2.59%
19	FX Loans/Total Loans	48.27%	48.51%	40.42%	25.88%	29.86%
20	FX Assets/Total Assets	54.82%	56.74%	49.22%	41.40%	51.22%
21	Loan Growth-YTD	16.37%	16.45%	26.45%	12.78%	-12.39%
	Liquidity					
22	Liquid Assets/Total Assets	23.74%	17.58%	11.80%	12.48%	15.94%
23	FX Liabilities/Total Liabilities	87.87%	93.61%	88.61%	70.26%	76.17%
24	Current & Demand Deposits/Total Assets	7.07%	3.90%	3.60%	2.36%	4.46%
	Liquidity Coverage Ratio**					
25	Total HQLA	66,612,789				
26	Net cash outflow	38,281,363				
27	LCR ratio (%)	174.01%				

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

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

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

Table 2 **Balance Sheet** *in Lari*

N	Assets	Reporting Period			Respective period of the previous year		
		GEL	FX	Total	GEL	FX	Total
1	Cash	178,397	494,665	673,062	144,068	512,214	656,282
2	Due from NBG	697,035	28,820,074	29,517,108	630,018	30,720,168	31,350,186
3	Due from Banks	21,367,329	39,885,754	61,253,083	7,565,019	50,693,214	58,258,233
4	Dealing Securities	0	0	0	0	0	0
5	Investment Securities	34,665,992	25,922,000	60,587,992	57,494,807	33,422,544	90,917,352
6.1	Loans	57,824,052	53,946,137	111,770,189	67,365,399	28,682,346	96,047,745
6.2	Less: Loan Loss Reserves	-1,155,042	-1,324,554	-2,479,596	-1,418,280	-1,068,139	-2,486,419
6	Net Loans	56,669,010	52,621,583	109,290,593	65,947,119	27,614,208	93,561,326
7	Accrued Interest and Dividends Receivable	879,272	1,375,072	2,254,344	1,435,161	811,102	2,246,263
8	Other Real Estate Owned & Repossessed Assets	0	0	0	0	0	0
9	Equity Investments	0	0	0	0	0	0
10	Fixed Assets and Intangible Assets	3,027,479	0	3,027,479	3,167,755	0	3,167,755
11	Other Assets	5,408,649	2,769	5,411,417	553,551	1,790	555,341
12	**Total assets**	122,893,162	149,121,916	272,015,078	136,937,498	143,775,239	280,712,737
	Liabilities						
13	Due to Banks	7,028,232	95,921,315	102,949,547	10,505,982	89,847,319	100,353,301
14	Current (Accounts) Deposits	8,101,552	11,132,135	19,233,686	1,821,499	10,710,592	12,532,091
15	Demand Deposits	0	0	0	0	0	0
16	Time Deposits	238,896	38,423,875	38,662,770	868,048	32,267,639	33,135,688
17	Own Debt Securities	0	0	0	0	0	0
18	Borrowings	3,000,000	8,677	3,008,677	28,000,000	3,004,448	31,004,448
19	Accrued Interest and Dividends Payable	10,916	717,561	728,477	65,334	614,471	679,805
20	Other Liabilities	1,856,545	362,765	2,219,310	1,515,394	286,643	1,802,037
21	Subordinated Debentures	0	0	0	0	0	0
22	**Total liabilities**	20,236,140	146,566,328	166,802,468	42,776,257	136,731,112	179,507,369
	Equity Capital						
23	Common Stock	103,000,000	0	103,000,000	103,000,000	0	103,000,000
24	Preferred Stock	0	0	0	0	0	0
25	Less: Repurchased Shares	0	0	0	0	0	0
26	Share Premium	0	0	0	0	0	0
27	General Reserves	0	0	0	0	0	0
28	Retained Earnings	2,212,610	0	2,212,610	-1,794,632	0	-1,794,632
29	Asset Revaluation Reserves	0	0	0	0	0	0
30	**Total Equity Capital**	105,212,610	0	105,212,610	101,205,368	0	101,205,368
31	**Total liabilities and Equity Capital**	125,448,750	146,566,328	272,015,078	143,981,625	136,731,112	280,712,737

Table 3 **Income statement** *in Lari*

N		Reporting Period			Respective period of the previous year		
N		GEL	FX	Total	GEL	FX	Total
	Interest Income						
1	Interest Income from Bank's "Nostro" and Deposit Accounts	1,083,575	1,116,496	2,200,070	219,769	1,933,401	2,153,169
2	Interest Income from Loans	8,185,555	2,648,122	10,833,677	9,625,697	2,313,981	11,939,678
2.1	from the Interbank Loans	184,685	1	184,686			0
2.2	from the Retail or Service Sector Loans	3,891,414	1,716,930	5,608,344	5,148,901	1,692,473	6,841,375
2.3	from the Energy Sector Loans	1,266,066	392,010	1,658,076	2,435,463		2,435,463
2.4	from the Agriculture and Forestry Sector Loans			0			0
2.5	from the Construction Sector Loans	359,852	4,637	364,489	5,394	79,178	84,572
2.6	from the Mining and Mineral Processing Sector Loans		178,332	178,332		33,633	33,633
2.7	from the Transportation or Communications Sector Loans	505,559		505,559			0
2.8	from Individuals Loans	44,313	2,899	47,212	25,791	85,910	111,701
2.9	from Other Sectors Loans	1,933,667	353,313	2,286,980	2,010,148	422,787	2,432,935
3	Fees/penalties income from loans to customers	132,411	34,016	166,427	172,677	182,507	355,184
4	Interest and Discount Income from Securities	3,966,123	1,410,985	5,377,108	6,607,559	1,682,169	8,289,728
5	Other Interest Income			0			0
6	**Total Interest Income**	13,367,664	5,209,618	18,577,283	16,625,701	6,112,057	22,737,759
	Interest Expense						
7	Interest Paid on Demand Deposits	128,332	25,366	153,698	85,156	83,545	168,701
8	Interest Paid on Time Deposits	41,557	691,568	733,125	125,337	490,246	615,583
9	Interest Paid on Banks Deposits	442,047	1,989,929	2,431,976	1,436,473	2,025,721	3,462,193
10	Interest Paid on Own Debt Securities			0			0
11	Interest Paid on Other Borrowings	559,847	88,651	648,498	2,317,844	169,140	2,486,984
12	Other Interest Expenses	45,151	20,366	65,517	12,979	22,633	35,613
13	**Total Interest Expense**	1,216,933	2,815,881	4,032,814	3,977,790	2,791,285	6,769,074
14	**Net Interest Income**	12,150,731	2,393,737	14,544,469	12,647,912	3,320,773	15,968,684
	Non-Interest Income						
15	Net Fee and Commission Income	-84,365	38,433	-45,932	-67,028	38,564	-28,464
15.1	Fee and Commission Income	22,638	125,091	147,729	31,645	117,409	149,054
15.2	Fee and Commission Expense	107,003	86,658	193,661	98,673	78,845	177,518
16	Dividend Income			0			0
17	Gain (Loss) from Dealing Securities			0			0
18	Gain (Loss) from Investment Securities		-26,592	-26,592			0
19	Gain (Loss) from Foreign Exchange Trading	1,190,250	0	1,190,250	1,146,384	0	1,146,384
20	Gain (Loss) from Foreign Exchange Translation	401,684	0	401,684	-199,823	0	-199,823
21	Gain (Loss) on Sales of Fixed Assets	60,820		60,820	-2,441		-2,441
22	Non-Interest Income from other Banking Operations	504,174	256,620	760,794	236,353	232,535	468,888
23	Other Non-Interest Income	2,336		2,336			0
24	**Total Non-Interest Income**	2,074,898	268,461	2,343,359	1,113,445	271,099	1,384,545
	Non-Interest Expenses						
25	Non-Interest Expenses from other Banking Operations	1,884,979	113,654	1,998,633	1,551,557	92,949	1,644,506
26	Bank Development, Consultation and Marketing Expenses	2,984,861		2,984,861	2,281,211		2,281,211
27	Personnel Expenses	5,305,606	0	5,305,606	5,030,839	0	5,030,839
28	Operating Costs of Fixed Assets	6,408	0	6,408	8,799	0	8,799
29	Depreciation Expense	1,351,208	0	1,351,208	2,097,508	0	2,097,508
30	Other Non-Interest Expenses	648,398		648,398	690,028		690,028
31	**Total Non-Interest Expenses**	12,181,459	113,654	12,295,113	11,659,942	92,949	11,752,891
32	**Net Non-Interest Income**	-10,106,561	154,806	-9,951,755	-10,546,497	178,150	-10,368,347
33	**Net Income before Provisions**	2,044,170	2,548,543	4,592,714	2,101,415	3,498,923	5,600,338
34	Loan Loss Reserve	-6,823	0	-6,823	-1,577,198	0	-1,577,198
35	Provision for Possible Losses on Investments and Securities		0	0		0	0
36	Provision for Possible Losses on Other Assets	592,295	0	592,295	-186,842	0	-186,842
37	**Total Provisions for Possible Losses**	585,472	0	585,472	-1,764,040	0	-1,764,040
38	**Net Income before Taxes and Extraordinary Items**	1,458,698	2,548,543	4,007,242	3,865,455	3,498,923	7,364,378
39	Taxation		0	0		0	0
40	**Net Income after Taxation**	1,458,698	2,548,543	4,007,242	3,865,455	3,498,923	7,364,378
41	Extraordinary Items		0	0		0	0
42	**Net Income**	1,458,698	2,548,543	4,007,242	3,865,455	3,498,923	7,364,378

Table 4 *in Lari*

N	On-balance sheet items per standardized regulatory report	Reporting Period			Respective period of the previous year		
		GEL	FX	Total	GEL	FX	Total
1	**Contingent Liabilities and Commitments**	30,012,339	17,390,717	47,403,056	4,468,723	14,112,388	18,581,111
1.1	Guarantees Issued	8,941,078	13,625,215	22,566,293	4,259,687	8,765,852	13,025,539
1.2	Letters of credit Issued		1,477,554	1,477,554		317,616	317,616
1.3	Undrawn loan commitments	21,071,260	2,287,948	23,359,208	209,036	5,028,920	5,237,956
1.4	Other Contingent Liabilities			0			0
2	**Guarantees received as security for liabilities of the bank**			0		276,369	276,369
3	**Assets pledged as security for liabilities of the bank**	0	0	0	0	0	0
3.1	Financial assets of the bank			0			0
3.2	Non-financial assets of the bank			0			0
4	Guaratees received as security for receivables of the bank	49,545,425	62,756,373	112,301,798	67,361,659	30,933,834	98,295,493
4.1	Surety, joint liability	29,910,864	30,479,433	60,390,297	60,486,260	12,512,929	72,999,189
4.2	Guarantees	19,634,561	32,276,940	51,911,502	6,875,399	18,420,905	25,296,304
5	**Assets pledged as security for receivables of the bank**	61,947,561	77,980,410	139,927,971	87,579,761	85,094,219	172,673,980
5.1	Cash	71,896	31,905,756	31,977,651	268,048	26,711,506	26,979,554
5.2	Precious metals and stones			0			0
5.3	Real Estate:	46,266,176	14,284,348	60,550,524	42,186,000	24,643,924	66,829,924
5.3.1	*Residential Property*	33,000	357,205	390,205	0	138,957	138,957
5.3.2	*Commercial Property*	4,233,176	4,249,490	8,482,667	186,000	12,956,979	13,142,979
5.3.3	*Complex Real Estate*			0			0
5.3.4	*Land Parcel*	0	4,478,992	4,478,992	0	8,734,440	8,734,440
5.3.5	*Other*	42,000,000	5,198,660	47,198,660	42,000,000	2,813,548	44,813,548
5.4	Movable Property	10,000,000	24,887,355	34,887,355	16,000,000	30,245,013	46,245,013
5.5	Shares Pledged	3,329,662	0	3,329,662	28,079,662	0	28,079,662
5.6	Securities	0	2,053,022	2,053,022	1,046,051	3,493,776	4,539,827
5.7	Other	2,279,827	4,849,929	7,129,756	0	0	0
6	**Derivatives**	2,654,500	2,592,200	5,246,700	0	0	0
6.1	Receivables through FX contracts (except options)	2,654,500		2,654,500			0
6.2	Payables through FX contracts (except options)		2,592,200	2,592,200			0
6.3	Principal of interest rate contracts (except options)			0			0
6.4	Options sold			0			0
6.5	Options purchased			0			0
6.6	Nominal value of potential receivables through other derivatives			0			0
6.7	Nominal value of potential payables through other derivatives			0			0
7	**Receivables not recognized on-balance**	5,607	8,390,087	8,395,694	3,197	7,653,663	7,656,860
7.1	Principal of receivables derecognized during last 3 month			0			0
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	0	223,932	223,932	3,197	226,511	229,708
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	0	6,666,474	6,666,474	0	6,806,891	6,806,891
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	5,607	1,723,613	1,729,219	3,197	846,771	849,968
8	**Non-cancelable operating lease**	0	0	0	0	0	0
8.1	Through indefinit term agreement			0			0
8.2	Within one year			0			0
8.3	From 1 to 2 years			0			0
8.4	From 2 to 3 years			0			0
8.5	From 3 to 4 years			0			0
8.6	From 4 to 5 years			0			0
8.7	More than 5 years			0			0
9	**Capital expenditure commitment**			0			0

Table 5 **Risk Weighted Assets** *in Lari*

N		4Q2017	3Q2017
1	Risk Weighted Assets for Credit Risk	262,893,951	281,977,320
1.1	Balance sheet items	246,424,681	233,003,768
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)		
1.2	Off-balance sheet items	16,416,181	12,451,190
1.3	Currency induced credit risk*		36,522,363
1.4	Counterparty credit risk	53,090	0
2	Risk Weighted Assets for Market Risk	1,748,243	7,765,438
3	Risk Weighted Assets for Operational Risk	18,680,104	18,680,104
4	**Total Risk Weighted Assets**	283,322,298	308,422,862

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

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

	Members of Supervisory Board	
1	Mir Jamal Pashayev	
2	Taleh Kazimov	
3	Jalal Gasimov	
4	Hikmet Cenk Eynehan	
5	Farid Mammadov	
6		
7		
8		
9		
10		
	Members of Board of Directors	
1	Chingiz Abdullayev	
2	George Japaridze	
3	Shahin Mammadov	
4		
5		
6		
7		
8		
9		
10		
	List of Shareholders owning 1% and more of issued capital, indicating Shares	
1	PASHA Bank OJSC	100%
	List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares	
1	Mr. Arif Pashayev	10.00%
2	Mrs. Arzu Aliyeva	45.00%
3	Mrs. Leyla Aliyeva	45.00%

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

		a	b	c
			Carrying values of items	
	Account name of standardazed supervisory balance sheet item	**Carrying values as reported in published stand-alone financial statements per local accounting rules**	**Not subject to capital requirements or subject to deduction from capital**	**Subject to credit risk weighting**
1	Cash	673,062		673,062
2	Due from NBG	29,517,108		29,517,108
3	Due from Banks	61,253,083		61,253,083
4	Dealing Securities	0		0
5	Investment Securities	60,587,992		60,587,992
6.1	Loans	111,770,189		111,770,189
6.2	*Less: Loan Loss Reserves*	-2,479,596		-2,479,596
6	Net Loans	109,290,593		109,290,593
7	Accrued Interest and Dividends Receivable	2,254,344		2,254,344
8	Other Real Estate Owned & Repossessed Assets	0		0
9	Equity Investments	0		0
10	Fixed Assets and Intangible Assets	3,027,479	2,121,796	905,683
11	Other Assets	5,411,417		5,411,417
	Total exposures subject to credit risk weighting before adjustments	272,015,078	2,121,796	269,893,282

Table 8 **Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts** *in Lari*

1	**Total carrying value of balance sheet items subject to credit risk weighting before adjustments**	269,893,282
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	47,403,056
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	2,654,500
3	**Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes**	319,950,838
4	Effect of provisioning rules used for capital adequacy purposes	2,474,884
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	-30,986,875
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	-2,601,410
6	Effect of other adjustments	
7	**Total exposures subject to credit risk weighting**	288,837,437

Table 9 **Regulatory capital**

N		in Lari
1	**Common Equity Tier 1 capital before regulatory adjustments**	105,212,610
2	Common shares that comply with the criteria for Common Equity Tier 1	103,000,000
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	
4	Accumulated other comprehensive income	
5	Other disclosed reserves	
6	Retained earnings (loss)	2,212,610
7	**Regulatory Adjustments of Common Equity Tier 1 capital**	6,010,096
8	Revaluation reserves on assets	
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	
10	Intangible assets	2,121,796
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	3,888,300
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**	99,202,514
24	**Additional tier 1 capital before regulatory adjustments**	0
25	Instruments that comply with the criteria for Additional tier 1 capital	0
26	Including:instruments classified as equity under the relevant accounting standards	
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	
29	**Regulatory Adjustments of Additional Tier 1 capital**	0
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**	0
36	**Tier 2 capital before regulatory adjustments**	2,955,761
37	Instruments that comply with the criteria for Tier 2 capital	
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	2,955,761
40	**Regulatory Adjustments of Tier 2 Capital**	0
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**	2,955,761

Table 9.1 Capital Adequacy Requirements

	Minimum Requirements	Ratios	Amounts (GEL)
1	Pillar 1 Requirements		
1.1	Minimum CET1 Requirement	≥4,5%	
1.2	Minimum Tier 1 Requirement	≥6%	
1.3	Minimum Regulatory Capital Requirement	≥8%	
2	Combined Buffer		
2.1	Capital Conservation Buffer	≥2,5%	
2.2	Countercyclical Buffer	≥0%	
2.3	Systemic Risk Buffer	≥0%	
3	Pillar 2 Requirements*	≥0%	
3.1	CET1 Pillar 2 Requirement		
3.2	Tier 1 Pillar2 Requirement		
3.3	Regulatory capital Pillar 2 Requirement		
	Existing Ratios/Amounts	Ratios	Amounts (GEL)
4	CET1	0%	
5	Tier 1	0%	
6	Total regulatory Capital	0%	

Table 10 **Reconcilation of balance sheet to regulatory capital** *in Lari*

N	On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per local accounting rules	linkage to capital table
1	Cash	673061.9878	
2	Due from NBG	29517108.24	
3	Due from Banks	61253082.77	
4	Dealing Securities	0	
5	Investment Securities	60587991.62	
6.1	Loans	111770189.3	
6.1.1	*Of which reserve Loan*	3888300	*table 9 (Capital), N17*
6.2	*Less: Loan Loss Reserves*	-2479595.932	
6.2.1	*Of which loan loss general resserve*	2474884.261	*table 9 (Capital), N39*
6	Net Loans	109,290,593	
7	Accrued Interest and Dividends Receivable	2254343.78	
8	Other Real Estate Owned & Repossessed Assets	0	
9	Equity Investments	0	
9.1	*Of which above 10% equity holdings in financial institutions*		
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	3027479.42	
10.1	*Of which intangible assets*	2121796.17	*table 9 (Capital), N10*
11	Other Assets	5411417.175	
12	**Total assets**	**272,015,078**	
13	Due to Banks	102949547.2	
14	Current (Accounts) Deposits	19233686.49	
15	Demand Deposits	0	
16	Time Deposits	38662770.34	
17	Own Debt Securities	0	
18	Borrowings	3008677.093	
19	Accrued Interest and Dividends Payable	728477.2895	
20	Other Liabilities	2219309.883	
20.1	*Of which off balance sheet items general reserve*	480876.9524	*table 9 (Capital), N39*
21	Subordinated Debentures	0	
21.1	*Of which tier II capital qualifying instruments*		
22	**Total liabilities**	**166,802,468**	
23	Common Stock	103,000,000	table 9 (Capital), N 2
24	Preferred Stock	0	
25	Less: Repurchased Shares	0	
26	Share Premium	0	
27	General Reserves	0	
28	Retained Earnings	2,212,610	table 9 (Capital), N 6
29	Asset Revaluation Reserves	0	
30	**Total Equity Capital**	**105,212,610**	

Table 11

Credit Risk Weighted Exposures
(On-balance items and off-balance items after credit conversion factor)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Risk weights / Exposure classes	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
1	Claims or contingent claims on central governments or central banks	1,871,305		0		0		0		0		28,820,115		0		0		28,820,115
2	Claims or contingent claims on regional governments or local authorities	0		0		0		0		0		0		0		0		-
3	Claims or contingent claims on public sector entities	0		0		0		0		0		0		0		0		-
4	Claims or contingent claims on multilateral development banks	0		0		0		0		0		0		0		0		-
5	Claims or contingent claims on international organizations/institutions	0		0		0		0		0		0		0		0		-
6	Claims or contingent claims on commercial banks	0		6,473,634		0		36,148,801		0		69,626,976	5000	0		0		89,001,104
7	Claims or contingent claims on corporates	0		0		0		0		0		126,606,491	16303629.5	0		0		142,910,120
8	Retail claims or contingent retail claims	0		0		0		0		583,247		0	107551.078	0		0		544,986
9	Claims or contingent claims secured by mortgages on residential property	0		0		0		0		0		0		0		0		-
10	Past due items	0		0		0		0		0		0		0		0		-
11	Items belonging to regulatory high-risk categories	0		0		0		0		0		0		0		0		-
12	Short-term claims on commercial banks and corporates	0		0		0		0		0		0		0		0		-
13	Claims in the form of collective investment undertakings ('CIU')	0		0		0		0		0		0		0		0		-
14	Other items	673,062		0		0		0		0		1,564,536		0		0		1,564,536
	Total	2,544,367	0	6,473,634	0	0	0	36,148,801	0	583,247	0	226,618,118	16,416,181	0	0	0	0	262840861.1

Table 12

Credit Risk Mitigation

in Lari

		Funded Credit Protection										Unfunded Credit Protection									
		On-balance sheet netting	Cash on deposit with, or cash assimilated instruments	Debt securities issued by central governments or central banks, regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by other entities, which securities have a credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates.	Debt securities with a short-term credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures	Equities or convertible bonds that are included in a main index	Standard gold bullion or equivalent	Debt securities without credit rating issued by commercial banks	Units in collective investment undertakings	Central governments or central banks	Regional governments or local authorities	Multilateral development banks	International organizations / institutions	Public sector entities	Commercial banks	Other corporate entities that have a credit assessment, which has been determined by NBG to be associated with credit quality step 2 or above under the rules for the risk weighting of exposures to corporates	**Total Credit Risk Mitigation - On-balance sheet**	**Total Credit Risk Mitigation - Off-balance sheet**	**Total Credit Risk Mitigation**
1	Claims or contingent claims on central governments or central banks																				0
2	Claims or contingent claims on regional governments or local authorities																				0
3	Claims or contingent claims on public sector entities																				0
4	Claims or contingent claims on multilateral development banks																				0
5	Claims or contingent claims on international organizations/institutions																				0
6	Claims or contingent claims on commercial banks																				0
7	Claims or contingent claims on corporates																				0
8	Retail claims or contingent retail claims																				0
9	Claims or contingent claims secured by mortgages on residential property																				0
10	Past due items																				0
11	Items belonging to regulatory high-risk categories																				0
12	Short-term claims on commercial banks and corporates																				0
13	Claims in the form of collective investment undertakings																				0
14	Other items																				0
	Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 13

Standardized approach - Effect of credit risk mitigation

		a	b	c	d	e	f
			Off-balance sheet exposures				
	Asset Classes	On-balance sheet exposures	Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF	RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density f=e/(a+c)
1	Claims or contingent claims on central governments or central banks	30,691,419			28,820,115	28,820,115	94%
2	Claims or contingent claims on regional governments or local authorities	0			0	0	0%
3	Claims or contingent claims on public sector entities	0			0	0	0%
4	Claims or contingent claims on multilateral development banks	0			0	0	0%
5	Claims or contingent claims on international organizations/institutions	0			0	0	0%
6	Claims or contingent claims on commercial banks	112,249,411	5,000	5,000	89,001,104	89,001,104	79%
7	Claims or contingent claims on corporates	126,606,491	46,860,300	16,303,629	142,910,120	142,910,120	100%
8	Retail claims or contingent retail claims	583,247	537,755	107,551	544,986	544,986	79%
9	Claims or contingent claims secured by mortgages on residential property	0			0	0	0%
10	Past due items	0			0	0	0%
11	Items belonging to regulatory high-risk categories	0			0	0	0%
12	Short-term claims on commercial banks and corporates	0			0	0	0%
13	Claims in the form of collective investment undertakings ('CIU')	0			0	0	0%
14	Other items	2,237,598			1,564,536	1,564,536	70%
	Total	272,368,166	47,403,056	16,416,181	262,840,861	262,840,861	91%

Table 14	Liquidity Coverage Ratio									
		Total unweighted value (daily average**)			Total weighted values according to NBG's			Total weighted values according to Basel		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
High-quality liquid assets										
1	Total HQLA				20,934,265	45,678,524	66,612,789	5,561,567	29,302,889	34,864,456
Cash outflows										
2	Retail deposits	155350.53	10748013.04	10903363.57	52140.89825	5079470.953	5131611.851	10750.362	1070895.595	1081645.957
3	Unsecured wholesale funding	15213328.39	134737989.2	149951317.6	10325351.38	30596972.3	40922323.67	9705830.101	29465874.28	39171704.38
4	Secured wholesale funding	0	0	0	0	0	0	0	0	0
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	30012338.62	20141168.14	50153506.76	9168748.901	4875997.141	14044746.04	2553214.181	3708462.286	6261676.467
6	Other contractual funding obligations	0	0	0	0	0	0	0	0	0
7	Other contingent funding obligations	1682682.65	778270.41	2460953.06	1589072.68	13339.97	1602412.65	1589072.68	13339.97	1602412.65
8	TOTAL CASH OUTFLOWS	47063700.19	166405440.8	213469141	21135313.86	40565780.36	61701094.22	13858867.32	34258572.13	48117439.45
Cash inflows										
9	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0	0
10	Inflows from fully performing exposures	78402864.01	90170195.28	168573059.3	8640651.88	10139778.94	18780430.82	24013349.82	35770472.38	59783822.2
11	Other cash inflows	33097344.97	31201140.95	64298485.92	298852.19	4340448.44	4639300.63	298852.19	4340448.44	4639300.63
12	TOTAL CASH INFLOWS	111500209	121371336.2	232871545.2	8939504.07	14480227.38	23419731.45	24312202.01	40110920.82	64423122.83
					Total value according to NBG's methodology*			Total value according to Basel methodology (with		
13	Total HQLA				20934265.28	45678524.06	66612789.34	5561567.34	29302888.68	34864456.02
14	Net cash outflow				12195809.79	26085552.98	38281362.77	3464716.831	8564643.032	12029359.86
15	Liquidity coverage ratio (%)				171.65%	175.11%	174.01%	160.52%	342.14%	289.83%

* Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.
** Instead of daily average, values are given for the last day of reporting period

Table 15	Counterparty credit risk												
		a	b	c	d	e	f	g	h	i	j	k	l
		Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
1	**FX contracts**	2,654,500		53,090									
1.1	Maturity less than 1 year	2,654,500	2.0%	53,090	0	0	0	0	0	53,090	0	0	
1.2	Maturity from 1 year up to 2 years	0	5.0%	0	0	0	0	0	0	0	0	0	
1.3	Maturity from 2 years up to 3 years	0	8.0%	0	0	0	0	0	0	0	0	0	
1.4	Maturity from 3 years up to 4 years	0	11.0%	0	0	0	0	0	0	0	0	0	
1.5	Maturity from 4 years up to 5 years	0	14.0%	0	0	0	0	0	0	0	0	0	
1.6	Maturity over 5 years	0											
2	**Interest rate contracts**	0		0									
2.1	Maturity less than 1 year	0	0.5%	0	0	0	0	0	0	0	0	0	
2.2	Maturity from 1 year up to 2 years	0	1.0%	0	0	0	0	0	0	0	0	0	
2.3	Maturity from 2 years up to 3 years	0	2.0%	0	0	0	0	0	0	0	0	0	
2.4	Maturity from 3 years up to 4 years	0	3.0%	0	0	0	0	0	0	0	0	0	
2.5	Maturity from 4 years up to 5 years	0	4.0%	0	0	0	0	0	0	0	0	0	
2.6	Maturity over 5 years	0			0	0	0	0	0	0	0	0	
	Total	2,654,500		53,090									

Annex #2 to Pillar 3 Annual Report is also available on the website of PASHA Bank:
http://www.pashabank.ge/en/about-us/financial-reports

Table 20 Differences between accounting and regulatory scopes of consolidation

a	b	c	d	e	f													
					Reconciliation with standardized regulatory reporting format													
					1	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12
Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Notes	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
Cash and cash equivalents	43,908,291	43,908,291	43,908,291		673,062	714,083	42,495,983			1,418		1,418	23,745					43,908,291
Amounts due from credit institutions	51,444,646	51,444,646	51,444,646			28,803,025	18,757,100			3,500,000		3,500,000	384,521					51,444,646
Loans to customers	111,678,530	111,678,530	110,896,548							108,268,772	-2,479,596	105,789,176	426,749				4,680,623	110,896,548
Investment securities	62,032,892	62,032,892	61,991,527						60,587,992				1,403,535					61,991,527
Property and equipment	905,683.25	905,683.25	905,683													905,683		905,683
Intangible assets	2,121,796	2,121,796	2,121,796													2,121,796		2,121,796
Deferred income tax assets	0	0	0															0
Other assets	708587	708587	746,587										15,793				730,794	746,587
																		0
Total assets	272,800,425	272,800,425	272,015,078	0	673,062	29,517,108	61,253,083	0	60,587,992	111,770,189	-2,479,596	109,290,593	2,254,344	0	0	3,027,479	5,411,417	272,015,078

a	b	c	d	e	f									
					Reconciliation with standardized regulatory reporting format									
					13	14	15	16	17	18	19	20	21	22
Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	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
Amounts due to credit institutions	106,401,753	106,401,753	106,401,753		102,949,547					3,008,677	443,529			106,401,753
Amounts due to customers	58,181,405	58,181,405	58,598,455			19,233,686		38,662,770			284,948	417,050		58,598,455
Provisions for guarantees and letters of credit	135,136	135,136	486,835									486,835		486,835
Other liabilities	1,277,425	1,277,425	1,315,425									1,315,425		1,315,425
														0
														0
														0
														0
														0
														0
Total liabilities	165,995,720	165,995,720	166,802,468	0	102,949,547	19,233,686	0	38,662,770	0	3,008,677	728,477	2,219,310	0	166,802,468

a	b	c	d	e	f							
					Reconciliation with standardized regulatory reporting format							
					23	24	25	26	27	28	29	30
Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital
Share capital	103,000,000	103,000,000	103,000,000		103,000,000							103,000,000
Retained earnings	3,804,706	3,804,706	2,212,610							2,212,610		2,212,610
Other reserves												0
												0
												0
												0
												0
												0
Total equity	106,804,706	106,804,706	105,212,610	0	103,000,000	0	0	0	0	2,212,610	0	105,212,610

Table 21 **Consolidation by entities**

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	

Table 22 **Information about historical operational losses**

		T	T-1	T-2
1	Total amount of losses	0	2,391	201
2	Total amount of losses, exceeding GEL 10,000			
3	Number of events with losses exceeding GEL 10,000			
4	Total amount of 5 biggest losses	0	2,391	201

Table 23 **Operational risks - basic indicator approach**

		a	b	c	d	e
		T-2016	T-2015	T-2014	Average of sums of net interest and net non-interest income during last three years	
1	Net interest income	15,968,684	13,493,865	7,042,866		
2	Total Non-Interest Income	1,384,545	1,125,530	-294,849		
3	less: income (loss) from selling property	-2,441	0	-505,136		
4	**Total income (1+2-3)**	17,355,670	14,619,395	7,253,153	13,076,073	24,517,636

Table 24 **Remuneration awarded during the reporting period**

			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	Number of employees			
2		Total fixed remuneration (3+5+7)	1,000,693	97,071	0
3		Of which cash-based	920,332	97,071	
4		Of which: deferred			
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms	80,361		
8		Of which deferred			
9	Variable remuneration	Number of employees	3		
10		Total variable remuneration (11+13+15)	432,666	0	0
11		Of which cash-based	373,546		
12		Of which: deferred			
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms	59,121		
16		Of which deferred			
17	**Total remuneration**		1,433,359	97,071	0

Table 25

Special payments

		Board of Directors	Supervisory Board	Other material risk takers
Guaranteed bonuses	Number of employees			
	Total amount			
Sign-on awards	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			
Severance payments	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			

Table 26 **Information about deferred and retained remuneration**

		a	b	c	d	e
		Total amount of outstanding deferred remuneration	Of which Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of reduction during the year due to ex post explicit adjustments	Total amount of reduction during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Board of Directors	0	0	0	0	0
2	Cash					
3	Shares					
4	Share-linked instruments					
5	Other					
6	Supervisory Board	0	0	0	0	0
7	Cash					
8	Shares					
9	Share-linked instruments					
10	Other					
11	Other material risk takers	0	0	0	0	0
12	Cash					
13	Shares					
14	Share-linked instruments					
15	Other					
16	Total	0	0	0	0	0

Table 27 **Shares owned by senior management**

		a	b	c	d	e	f	g	h	I	j	k	l	m
		Amount of shares at the beginning			Changes during the reporting period							Amount of shares at the end of the reporting period		
		Unvested	Vested	Total (a+b)	Awarded during the period		Vesting	Reduction during the period		Other Changes		Unvested (a+d-f-g)	Vested (b+e+f-h+i-j)	Total(k+l)
					Of which: Unvested	Of which: Vested		Unvested	Vested	Purchase	Sell			
	Senior management													
1	Total amount:	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1				0								0	0	0
1.2				0								0	0	0
1.3				0								0	0	0
1.4				0								0	0	0
1.5				0								0	0	0
1.6				0								0	0	0
.....				0								0	0	0
	Other material risk takers													
2	Total amount:											0	0	0

PASHA Bank
New heights. Together.