

Pillar 3 Annual Report, as of 31 December 2017

- **Introduction**

This document is based on the requirements of Basel III framework by Basel Committee on Banking Supervision of Basel Bank Supervision Committee's Pillar 3 Transparency and European Union's N575/2013 directive, which's relevant instructions are laid down by the National Bank of Georgia's Order N92/04 of 22 June 2017 "Regulation on Disclosure requirements for commercial banks within Pillar 3". The purpose of disclosure of information by commercial banks in the framework of Pillar 3 is to strengthen market discipline. The disclosure requirements established by this regulation enables market participants to access key information in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

- **Management's statement**

The Bank's Board of Directors confirms the accuracy of all the data and information outlined in the Pillar 3 report. The statement is prepared by "Zirat Bank Georgia" in full compliance with the internal control process agreed with the Supervisory Board. The present report meets the requirements of "Regulation on Disclosure requirements for commercial banks within Pillar 3" Order N92/04 of the President of the National Bank of Georgia and other rules and regulations established by the NBG.

Additional Information is located in files/addresses below:

<i>Document Name</i>	<i>Address</i>
<i>JSC “Ziraat Bank Georgia “ Audit Report 2017</i>	 Ziraat Bank Report 2017 ENG.pdf
<i>JSC “Ziraat Bank Turkey“ Annual Report 2017</i>	https://www.ziraatbank.com.tr/tr/yatirimci-iliskileri/finansal-bilgiler/yillik-faaliyet-raporlari
<i>JSC “Ziraat Bank Georgia “ Web address</i>	http://www.ziraatbank.ge/
<i>Education and Experience info. file of Management and Supervisory Board members</i>	 Administrators.xlsx

- **Basic Indicators of the Bank**

JSC “Ziraat Bank Georgia”

Ziraat Bank, the founder of the banking sector in Turkey and the driving force of country’s economy, has also been the pioneer and leader of transformation for more than 150 years. Parent bank Ziraat Bank Turkey was officially established on November 20, 1863 as a modern financial institution to undertake the functions of the Benefit Funds, and the Benefit Funds operating at that time were converted into bank branches and started their operations. The shares that made up the financial resource of the Benefit Funds until then were transferred to the Bank and the shares issued subsequently were allocated to the Bank’s capital. The Bank, thanks to its management structure based on well-established solid principles and to its experienced and trained staff, has always succeeded to overcome the difficulties it has faced. Ziraat Bank which has extended its services in order to become the bank of preference by everyone and all segments of population continues to develop its operations in line with the aim to add value to the country. Beside Turkey Ziraat Bank opened multiple branches and subsidiaries worldwide, in terms to improve trade and economic relations with other countries. Ziraat Bank is one of the largest and oldest banks in Turkey, 100% of the Bank’s capital is owned

by the Republic of Turkey. It has reached the status of a leading bank which has achieved giant strides forward with the knowledge it has acquired during century and a half of operations and has created added value for society, gaining acclaim for the quality of its services and products.

The cooperation between Turkey and Georgia in the field of trade and the need of provision of banking services to Turkish businessmen operating in Georgia became the basis for opening Ziraat Bank Tbilisi Branch in 1998, Batumi Service Center in 2013 and Marneuli Service Center in 2016. JSC “Ziraat Bank Georgia” has started its operations as subsidiary on May 1, 2017.

✓ **Mission, Vision, Goals**

The vision of JSC “Ziraat Bank Georgia” is to be a bank which is reliable and widespread all over the world and in Georgia, to offer the same quality service for everyone and every sector, the bank which sees its customers and human resources as its most valuable assets, the organization that continuously makes a difference and creates value in a way that befits its deep-rooted past and at the same time serves as a model for its competitors. As the mission, JSC “Ziraat Bank Georgia” is aiming to be a bank that understands customer needs and expectations, thereby offering them the best solutions and value recommendations from the most appropriate channel; a bank that brings to every segment of society a wide range of products and services in the fastest, most effective way through its extensive network of branches and alternative distribution channels; a bank that operates with profitability and productivity at global standards by recognizing its ethical values and social responsibility; a bank that holds customer satisfaction to be the most important value.

In respect with the vision and mission of parent bank, the vision of the Bank is to be universal, respected and to have high market value, which will provide reliable services and meet the needs of strategic sectors, to be the Bank that promises more from a bank at every stage and serves as a model for its competitors.

Main goal of the Bank is to offer to both public and private sectors diversified products, considering its evolving capacity and capital base. But for the period of first five years the main objective of the Bank is not only to maximize profits, but also to recover operating costs, the cost of capital employed and to maintain healthy financial ratios.

Considering the economic trends and increased capital base, the bank will increase investment in Georgian economy and satisfy the accelerated demand of customers in the rate of growth of resource base of the Bank.

Besides, government and NBG securities allow the Bank to manage the borrowing gap by placing in appropriate maturity instruments, from 3 months to 10 years period.

For the further period the Bank will also invest in commercial lending to legal entities, considering its experience with corporate lending, and offer competitive interest rates on loans in existing market situation.

Within the risk management strategy in the formation of assets, the Bank will seek to maintain sufficient level of liquidity, balanced structure of assets and liabilities by maturity to currency, to ensure the required level of diversification across industries and customers.

First of all the Bank will compete with peers in Georgia, and will strengthen its position and market share on market by offering convenient financial services.

Besides increased capital base, it will increase the resource base by attracting funds from new customers and stimulate the growth of funds on accounts of legal and physical persons by offering diverse choice of interest rate and maturity deposits.

The bank will strengthen its positions on Georgian financial market and participate in improving infrastructure, and develop the efficiency of network units.

By combining standard technologies with an individual approach to each client, the Bank is aimed to improve customer services, besides as from the past experience; the subjective approach to each and every customer creates the feeling of stability for each client that causes creation of highly loyal customer base.

In terms to develop client base, the goal of the Bank is to attract maximum possible number of clients by securing long-term mutually beneficial cooperation by improving the product range, and aims at building long-term relationships with clients.

✓ **Strategy, Strategic targets**

In terms to efficiently operate on Georgian market the bank offers a wide range of products and services in order to respond flexibly and effectively to the diverse needs of its clients and to address their specific financial risk. For instance, the loans are tailored to specific financial requirements of its clients, including project, corporate and trade transactions. Therefore, to imply above mentioned targets, the Bank has strategic goals over the next five years, which are mainly focused on asset quality, new product

development plans, derivative products, obtaining good credit rating, leveraging capital resources, proper and efficient risk management and of course applying AML and KYC regulations of NBG and international regulators.

For the 5 year period the Bank is planning to achieve a stable and rapid growth, which will be expressed mainly by the credit portfolio and affiliate chain increase, considering the risk associated with the rapid growth and mitigates them by means of the surplus regulatory capital and also the policies, procedures, and limits.

The Bank's strategic goals over the next five years will mainly focus on good asset quality, new product development, IT infrastructure development, enhancing the human resources and technical capabilities, adhere the prudent banking practices, improving and strengthening the risk management perspectives. Therefore, one of the most important goals is to maintain sufficient amount of the capital adequacy, which will enable the Bank to actively pursue with the banking activities according to the risk strategy.

The Bank will invest in different sectors and industries in terms to avoid the losses caused by industry crashes, therefore the diversified sector sourcing will allow the Bank to gain maximum possible profits with minimum possible losses. Also, considering the import/export data with Turkey or other countries, the Bank will finance different importer or exporter customers after proper analysis of its financial condition and statements.

The next strategic target is to develop new products convenient for Georgian financial market. Currently there is small market for different financial instruments available, but by developing the forwards and swap, the Bank will give the possibilities to customers to place their funds, or use diversified products and gain high revenues with low risks. Therefore, by offering different derivative products, the bank is guaranteeing itself to gain important available market share.

In terms to offer diversified products to customers and afterwards keep up with the financial conditions and prepare the reports, which will allow the management to review the quality of operating or financial investments, the Bank needs proper technical base. For this reason, the Bank will continue to invest in development of its IT infrastructure to maintain an effective integrated system in terms to secure the safety of database; the back-up system will be established in Istanbul, which will allow high storage and low data loss risk.

Furthermore, the Bank aims to open branches and service centers in different regions of Georgia in terms to capture high possible market share, by smartly choosing the

distributions channels. Potential service-center location points are Rustavi, Kutaisi, Tsereteli Street and Poti, taking into account their importance to Georgian economy.

✓ Financial Indicators of JSC “Ziraat Bank Georgia”

Based on Bank’s 2017 audited financial statements, financial data is as follows: the total assets of JSC Ziraat Bank Georgia amounted GEL 67,353,380 against GEL 93,650,135 in 2016, which resulted in a 39 % growth compared to the previous year. In addition, the bank's net credit portfolio grew by 20% compared to 2016 and totaled 17,917,715 GEL in 2017. Excluding exchange rate effect, the portfolio grew by 22%. It is worth mentioning that portfolio volume of hotels and tourism sectors, with the purpose of construction, is increased by up to GEL 2 ml compared to the previous year. The quality of portfolio held on Ziraat Bank Georgia’s balance sheet remains strong, with 1% NPL. Increase in investment in Treasury Bills of the Ministry of Finance of Georgia by GEL 11 million should also be mentioned. Total Investments in CD’s and Treasury Bills have increased by 56% which is mainly due to capital growth.

The Bank's Liabilities in 2017 is increased by 37% (62,813,109 GEL), compared with 2016 commitments (45,700,420 GEL). The increase is mainly due to the growth of customer accounts; particularly the current accounts of legal entities increased by 73%, compared with 2016 and amounted to GEL 32,230,817. Excluding exchange rate effect, the portfolio grew by 76%.

The Bank Owner's capital, increased by GEL 15 million compared to 2016 and reached GEL 30 ml. The capital growth is due to the regulatory requirements.

According to the audited financial statements of Ziraat Bank Georgia , net profit decreased by 27%, from 2,027,835 GEL to 1,479,036 GEL in 2017, while net interest income in 2017 is increased by 9% (net interest income is equal to GEL 2,803,056 in 2016 and GEL 3,058,388 in 2017 accordingly). The decline in profit in 2017 is mainly caused by a decrease in income from foreign currency transactions. From GEL 2,158,750 to GEL 1,799,643.

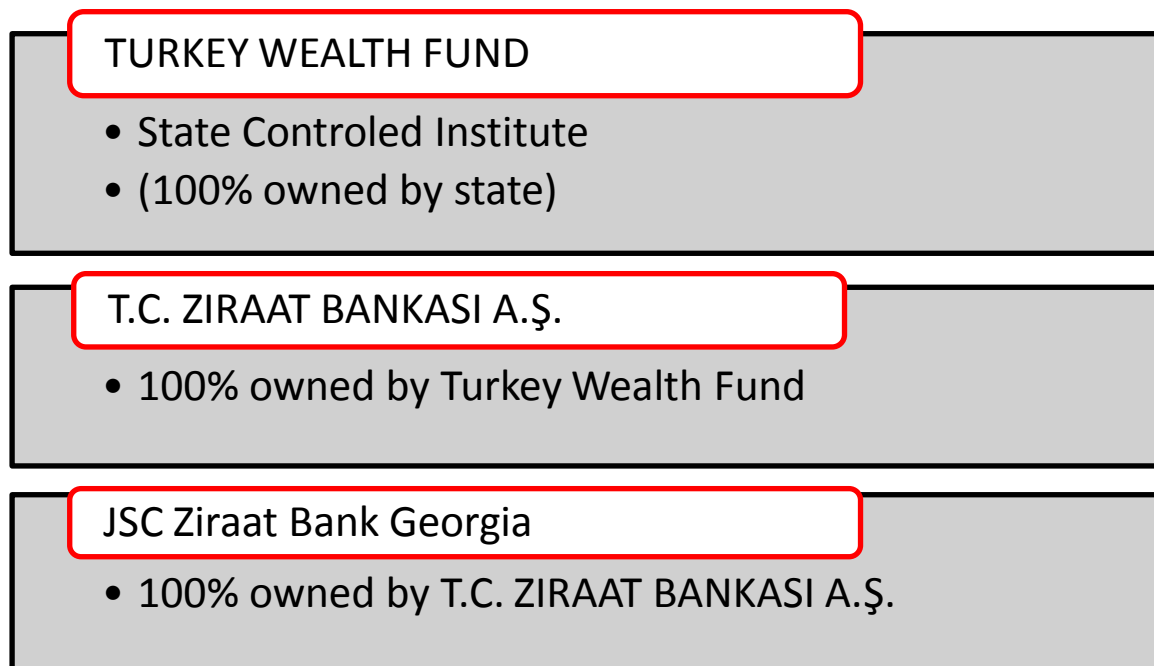
Bank's Financial Indicators chart below:

Key Financial Indicators*

	2016	2017
Gross Loans/ Total Assets	22.50 %	19.60 %
Gross Loans/ Client Accounts	34.10 %	29.80 %
Overdue Loans/ Total Loans	0.61%	0.70 %
LLR/Total Loans	69.09%	76.00%
Return on Assets (ROA)	2.77 %	2.00 %
Return on Equity (ROE)	9.68 %	6.80 %
Net Interest Margin	4.24 %	5.60 %
Cost to Income Ratio	64.00 %	66.80 %
Total Interest Income /Total Interest Expense	1317.00%	974.00%
Non-Interest Income/ Non Interest Expense	84.40 %	71.20 %
Total regulatory capital ratio (≥ 10.5 %)	42.04%	50.32%
Liquidity Ratio	96.70 %	104.93

**Note: * The financial indicators of the Bank are presented in accordance with the Pillar 3 Regulation, based on the audited data. It should be taken into consideration that the difference in profit-loss indicators in table above and analogical figures presented in the Pillar 3 Annual Report, is due to the Bank's reorganization (that took place in May 2017) Pillar 3 Annual Report figures are calculated according to the profit-loss data from 01 May to 31 December, while the audited data includes total 12 months' profit and loss figures.*

• **Bank Group Structure:**



Establisher	Owned share %	Address of Head Office	Field of Activity
T.C. ZIRAAT BANKASI A.Ş.	100%	Doganbey Attaturk Bulvar, N8.Ulus, Arkara	Banking Activity ID: 1148-48/7 Registration date: 12/06/1937

As from September 2017, 100% share owner of JSC Ziraat Bank Republic of Turkey is Turkey Wealth Fund, which is also 100% owned by State of Turkey and is an institute under the control of state. The aim of creation of the Turkey Wealth Fund is the enhancement and development of the value of strategic objects of Turkey and therefore provide attracting of investment resources to Turkish investment market.

(<http://turkiyevarlikfonu.com>).

Establisher	%	Address	Field of Activity	Shareholder	Supervisory Council
Turkey Wealth Fund	100%	Ankara Tel:+90 212 371 2200	Wealth Fund Management	Institute under the state control (state property)	Himmet Karadag - Chairman Kerem Alkin - Member Igin Bulut - Member Oral Erdogan -Member http://turkiyevarikfonu.com.tr/EN/YonetimKurulu/2/board-of-directors-

Shareholder Meeting of JSC Ziraat Bank Georgia consists of Supervisory Board of JSC Ziraat Bank Republic of Turkey.

Supervisory Council of T.C. ZIRAAT BANKASI A.Ş.

Name, Last Name	Position
Muharrem KARSLI	Chairman of Supervisory Council
Huseyin AYDIN	Supervisory Council Member, General Director of JSC Ziraat Bank Republic of Turkey
Yusuf DAGCAN	Supervisory Council Deputy Chairman
Metin OZDEMIR	Supervisory Council Member
Mustafa CETIN	Supervisory Council Member
Salik ALKAN	Supervisory Council Member
Feyzi CUTUR	Supervisory Council Member
Cemalletin BASLI	Supervisory Council Member
Mehmet Hamdi YILDIRIM	Supervisory Council Member
Information about the members of Supervisory Council of JSC Ziraat Bank Republic of Turkey is published on the following website: http://www.ziraat.com.tr/en/OurBank/AboutUs/Pages/BankManagement.aspx	

• Shareholders Issues

- ✓ According to the JSC Ziraat Bank Georgia Charter's Article 4, "Rights and Responsibilities of Shareholders" are defined by the following form:

A shareholder of the Bank may:

- a) Obtain exhaustive and timely information on the place, time and agenda of the General Meeting as well as sufficient information in connection with the issues to be discussed at the Meeting;
- b) Request explanation from the Executive Officers or the Supervisory Council on each item of the agenda of the General Meeting; also request any additional information that is reasonably necessary to make a decision on the issue. If a request for explanations is given in writing 10 days prior to the General Meeting, it shall be satisfied or discussed as one of the items of the agenda;
- c) Participate in the work of the General Meeting personally or through his representative, express ideas on the issues of consideration, put questions and put forward proposals;
- d) Participate in the management of the Bank by taking part in the General Meeting of Shareholders
- e) Purchase or/and transfer shares; receive dividends on the basis of the decision of the General Meeting of Shareholders;
- f) Request explanations from the Directors and the Supervisory Council on each item of the agenda of the General Meeting;
- g) Appeal against the resolution of the General Meeting (within two months upon drawing up the Minutes of the Meeting);
- h) Get acquainted with the annual, semi-annual and current reports of the Bank as well as with the information on important purchases and the securities beneficially owned by the management body;
- i) Receive oral and written explanations from the members of the management body on the past, current and future activities of and purchase and transfer of substantial assets by the management bodies of the Bank as well as on any issue within the scope of his interests. Any refusal to provide information or explanation can be given in case when it is prejudicial to the commercial interests of the Bank and the refusal is duly reasoned.
- j) To file an appeal against a third party on behalf and in favor of the Bank in order to satisfy the Bank's claim, if the Bank has not implemented its claim. Exercising of this right shall be carried out as set out under the Laws of Entrepreneurs of Georgia.

A holder of five or more percent of the shares of the Bank may also:

- a) Request special audit of business activities or the entire balance sheet; if the General Meeting dismisses the request, apply to the court with the same request. Audit shall be conducted by an expert chosen by the shareholder having the respective knowledge and experience. If any violations are uncovered, the expenses related to the special audit shall be borne by the Bank;
- b) Request, in accordance with the Bank's interests, the holding of the Extraordinary Meeting. The request shall be substantiated in writing. If the Executive Officers of the Bank do not convene the meeting within twenty days upon such request, the shareholder may apply to the court with the same request;
- c) Request that an item be included in the agenda of the meeting; in this respect, request the information and report of the Executive Officers and the Supervisory Council;
- d) Demand from the Management body a copy of transaction made on behalf of the Company and/or information on a transaction to be made on behalf of the Company.

A shareholder has no right to vote when the decision is related to signing a contract with him or approval of his report.

If a shareholder believes that his shareholding rights are violated for any reason, he may apply to the Supervisory Council. The Supervisory Council shall take measures to eliminate such violations or give a substantiated response to the shareholder in connection with his application.

In addition to the rights set forth above, the shareholders of the Bank have other rights as vested in them by the applicable laws and the internal regulations of the bank.

Ordinary shareholders exercise their rights (right to vote, right to receive information, right to convene the Extraordinary General Meeting) at the General Meetings.

GENERAL MEETING

The General Meeting may be regular and extraordinary. Regular meeting is held within 2 months from closing of the annual balance sheet. Decision on convening the Extraordinary Meeting shall be made by the Supervisory Council, of the Bank. The procedures related to convening the Meeting shall be carried out by the Board of Directors. The regular Meeting shall consider annual results (Annual Report, Business Report and proposal on distribution of profits) as well as other possible items of the agenda. The regular Meeting may be convened by the Board of Directors and the Supervisory Council.

The Extraordinary General Meeting shall be held by request of the majority of the members of the Board of Directors, the majority of the members of the Supervisory Council or any shareholder holding at least 5% of the Charter Capital. The request to convene the Extraordinary General Meeting shall formulate issue(s) of consideration as well as the requester’s way of formulation of the issue, and the written substantiation of the request if the latter is submitted by shareholders.

The Board of Directors has no right to refuse to convene the Extraordinary Meeting except where the procedures applicable to convening such a meeting are not maintained or shareholders, asking for the Extraordinary Meeting, do not have enough shares to request convening it.

The General Meeting is convened at the legal address of the Bank or at any place on the territory of Georgia through publishing an announcement in a newspaper or sending an invitation to shareholders 20 days beforehand. The meeting can also be convened by other forms acceptable for the shareholders.

The invitation shall indicate the agenda of the meeting. Invitations to owners of minimum 1% of the Bank’s shares (in cases and in accordance with the rules stipulated in the legislation of Georgia) and owners of minimum 1% of equity shall be sent by ensured mail.

The Supervisory Council determines the registered day of the General Meeting, which shall not be earlier than 45 days prior to the date of convening the General Meeting and later than the announcement date of the Meeting. Only those shareholders are authorized to participate in the General Meeting who own shares at the registered day.

The announcement on convening the General Meeting shall include the following information:

- a) The date, time and place of convening the General Meeting;
- b) The time at which the registration of shareholders at the Meeting starts;
- c) Date of registered day;
- d) Indication whether the Meeting is regular or extraordinary;
- e) Agenda;
- f) Recommendations of the Board of Directors and Supervisory Council for making decision;
- g) Description of the procedure by which a shareholder may examine, within 10 days prior to holding the Meeting, his right to participate in the Meeting;
- h) Opportunity and procedure for obtaining the materials or documents related to the agenda of the Meeting;
- i) Information about candidates if the General Meeting is to elect a member to the Supervisory Council.

The General Meeting is duly authorized to make decisions if the holders of at least 50% of the voting Share Capital of the Bank are present or represented thereat. If the Meeting is not duly authorized to make decisions, the Chairman shall, within the term provided by law and by the same agenda, convene a new Meeting which shall be authorized to make decisions if the holders of at least 25% of the voting Share Capital of the Bank are present or represented thereat. If the Meeting is still not authorized to make decisions, the Chairman shall, within the term provided by law and by the same agenda, again convene a new Meeting which shall be authorized to make decisions irrespective of the number the present or represented holders of voting Charter Capital of the Bank.

The General Meeting shall be presided over by the Chairman of the Supervisory Council, or, if the latter fails – by his deputy and if the latter fails too – by one of the directors. In their absence the Chairman of the Meeting is elected by simple majority of votes

A shareholder may participate in the work of the General Meeting by his identification document and the Share Register presented at the Meeting. A shareholder may be represented by a written proxy.

The mandates and documents and evidencing the right to attend the Meeting shall be kept by the Bank within at least two months upon drawing up the Minutes of the Meeting (and if the Minutes of the Meeting are appealed against – until the final resolution of the dispute).

The minutes on the progress and decisions of the General Meeting shall be drawn up in Georgian and/or English and/or Turkish languages and shall be signed by the Chairman of the Meeting.

The General Meeting is authorized to:

- a) Amend the Charter, increase or decrease Share Capital and decide on winding up;
- b) Make a decision on merger, demerger or reorganization;
- c) Annul fully or in part the shareholders' pre-emption right to purchase shares in case of increase of the Share Capital also during emission of shares convertible into securities;
- d) Accept or dismiss the proposal of the Supervisory Council and the Board of Directors) on utilization of profit or when these bodies fail to come up with an agreed proposal – make a decision on utilization of net profit;
- e) Elect Members of the Supervisory Council or remove them therefrom at any time prior to the end of their term of authority;
- f) Approve the report of the Supervisory Council and of the Board of Directors;
- g) Make a decision on remuneration to the members of the Supervisory Council;
- h) Elect an auditor and;
- i) Make decisions on participation in judicial proceedings against the Supervisory Council and Board of Directors, and appoint a representative for these proceedings;
- j) Make decisions on the contracts related to acquisition, alienation or exchange of the assets of the Bank (or such related contracts) the value of which exceeds 50% of the

balance value of the assets of the Bank with the exception of those transactions which are implemented in the ordinary course of business;

k) Make decisions in respect of other cases provided by the laws of Georgia and/or by this charter.

- **The General Meeting may also consider any other issue that is important for the Bank.**

Making decisions at the General Meeting requires the consent of more than 50% of the attending shareholders having the voting rights, except the decisions set out in Subparagraphs “a”, “b” and “c” of Article 6.12 hereof the passing of which requires the consent of more than 75% of the attending shareholders having the voting rights.

Holding of the General Meeting shall not be necessary if one Shareholder holding more than 75% of the Bank’s shares adopts the decision with regard to the issues to be considered. The Decision shall be identical to the minutes of the General Meeting and shall be deemed as the decision of the General Meeting of Shareholders. Decision shall be rendered by such body of the majority shareholder which is authorized to render such decisions under the applicable law and constitutional documents of the majority shareholder. Decision shall be sent to the rest of the Shareholders (if any).

- **Corporate Governance**

Management Organs of the bank are: General Meeting of Shareholders of the Bank (“General Meeting”), Supervisory Council and Board of Directors.

- ✓ **Supervisory Council**

Members of Supervisory Council of JSC Ziraat Bank Georgia are:

Name, Last Name	Position
Huseyin AYDIN	Chairman of Supervisory Council
Yusuf DAGCAN	Deputy Chairman of Supervisory Council
Mehmet TURGUT	Supervisory Council Member

- The Supervisory Council oversees the activity of the Bank. It consists of at least three but not more than twenty-one members so that the number of the members must always be odd.
- Each member of the Supervisory Council is elected by the General Meeting for the term of four years but the authority may extend after expiration of this term until the regular General Meeting is held. They can be re-elected without limitation or may be removed there from at any time prior to the end of their term of authority.
- When the established number of the members of the Supervisory Council are elected, the General Meeting shall be furnished with the following information:
 - a) Identities of the shareholders who nominates the given candidate;
 - b) Biographical information of the candidate;
 - c) Relation of the candidate with the Bank and its large customers;
 - d) Any other information that may affect the candidate's fulfillment of his duties.
- Each member of the Supervisory Council may resign at any time. He/she may be re-elected by the General Meeting at any time. If a member of the Supervisory Council resigns from the Supervisory Council or is removed by the General Meeting before expiration of the election term, additional elections shall be held within no later than six months after the resign/removal of the member. The authority of the new member shall be valid until the expiration of the authority of the withdrawn member. Before electing a new member of Supervisory Council, the quorum for making a decision shall be calculated according to the number of the remaining members.
- The Supervisory Council shall elect the Chairman and Deputy Chairman of the Supervisory Council among its members.
- The meetings of the Supervisory Council are convened and the agenda of such meetings are determined by the Chairman of the Supervisory Council. The meeting of the Supervisory Council may also be convened by request of a member of the Supervisory Council, the Director or a 5% holder of the Share

Capital of the Bank. The meeting of the Supervisory Council shall be convened in writing at least 8 days beforehand by indicating a proposed agenda and may be held both in Georgia or outside, as prior provided by respective agenda.

- The meetings of the Supervisory Council shall be convened at least on a quarterly basis.
- The meetings of the Supervisory Council shall be conducted in Georgian and/or Turkish and/or English languages. The Supervisory Council shall be duly authorized to make decisions if at least half of the members of the Supervisory Council are present or represented thereat. If the Meeting is not authorized to make decisions, the Chairman (and during his absence, the Deputy Chairman) may convene, within at least eight days, a new meeting that shall be authorized to make decisions if at least 25% of its members are present thereat. If the Supervisory Council still does not have a decision-making authority, the Supervisory Council's authority is terminated and the Chairman shall convene the General Meeting.
- Minutes on the decisions of the meeting of the Supervisory Council shall be drawn up in Georgian and/or Turkish and/or English languages and shall be signed by the Chairman of the Meeting
- The objectives and competence of the Supervisory Council shall be as follows:
 - a) Control over the activity of the Board of Directors;
 - b) At any time request from the Board of Directors the Bank's performance report;
 - c) Control over and examine the financial documents of the Bank as well as the material objects of the Bank including the state of the Bank's securities and commodities, and assign its certain members or specific experts to do so;
 - d) Convene the Meeting of Shareholders if so required by the needs of the Bank;
 - e) Examine annual reports, proposal on utilization of profit and information on the Bank's standing and report the General Meeting thereon; The Supervisory Council shall indicate in the notice as to how and to what extent it has examined the Management of the Bank over the last business year, which particular part of the annual report or performance report it has examined and whether these examinations resulted in substantial changes in the final results;

f) Appoint and at any time discharge the members of the Board of Directors, and sign and terminate contracts with them; appoint and at any time discharge the members of audit committee.

g) Approve, the Bank's structure and Regulations in the cases envisaged by this Charter and/or law;

h) In performing contracts with the members of the Board of Directors represent the Bank, and by resolution of the General Meeting sue members of the Board of Directors on behalf of the Bank.

i) If the case involves the responsibility of any of Supervisory Council member, the Supervisory Council may sue its members without the resolution of the General Meeting of the Shareholders.

- Listed below are the activities that may be performed only by decision of the Supervisory Council:

a) Purchase or alienation of over 50% of the shares of a company;

b) Establishment and liquidation of branches;

c) Approving the annual budget and undertaking long-term obligations;

d) Make a decision on purchase, disposal or exchange (or any such interrelated transactions) of the Company's property the value of which is 10% of the balance value of the Company's property, if not otherwise provided for in the Charter. This shall not be extended to activities within ordinary course of business of the Company.

e) Obtaining loans and credits exceeding the limits set by the Supervisory Council if any;

f) Security of loans and credits if they do not belong to ordinary business activity. Such security in relation to the members of the Supervisory Council and the directors is not permitted;

g) Engaging in a new or terminating the current type of bank activity;

h) Determining the general principles of the business policy;

i) Determining the principles for participation of the managerial staff into profit and other similar relations and payment of pensions thereto and submit them to the General meeting;

j) Appointing and dismissing trade representative (procurist);

k) Making a decision on permitting the sale of the Bank’s shares and other security at the Stock Exchange if doing so incurs material additional costs to the Bank provided by law;

l) Determining and approving the internal policy and procedure for credit, investment, currency, assets and liabilities management, assets evaluation and classification, and for formation of the reserve against possible loss of assets;

m) Repurchasing the shares issued by the Bank in cases provided by law.

n) Defining and approving minimum and maximum interest rates to be applied by the bank to credit resources and deposits;

7.12 In addition, the Supervisory Council makes decisions in the cases provided by law, the sub-legislative acts of the National Bank of Georgia and the internal regulations of the Bank.

- The members of the Supervisory Council shall in good faith and with due diligence fulfill their duties. In particular, they shall care about the Bank and its stability in the same way as an ordinary reasonable person in similar capacity and under similar conditions would act with the belief that this action of theirs is the most beneficial for the Bank.

- The members of the Supervisory Council shall:

a) Regularly attend the meetings of the Supervisory Council and take an active part in discussing issues thereat;

b) If the case so requires, request that an item be added to the agenda and the meeting of the Supervisory Council be convened;

c) Not disclose the confidential information that they obtained during fulfilling their official duties;

d) Timely provide the shareholders with correct and exhaustive information on the activity and financial standing of the Bank;

e) Not use for personal gain the assets of the Bank or the information that they obtained during fulfilling their official duties;

f) Refrain from taking part in such contracts they may bring their interests in conflict with those of the Bank (conflict of interests);

g) In any case of conflict of interests, inform the Board of Directors and the members of the Supervisory Council in respect thereof and refrain from voting during making the respective decision.

- The supervisory council or the member thereof shall not be entitled to delegate their rights to the others without the consent of the General Meeting.
 - The member of the Supervisory Council may at the same time serve as a Director or in any responsible executive capacity of the Bank. The member of the Board of Directors may not hold majority of the seats in the Supervisory Council.
- ✓ **Policy and rules of defining the independence of the members and arguments for accepting each independent member as independent**

Members of Supervisory Council fully comply with the criteria for appropriate administrator.

Appendix N1. Administrators -Information about the education and work experience of members of council

Members of Supervisory Council have the same level of education, among the members there is a majority vote principle and there is no risk of a dominant member. Arising from the rights of the council, council members are actively involved in the functioning of the bank, regular meeting are held 4 times a year, and out of necessity, bank also arranges irregular meetings. In 2017, ten council meetings were held, and the absolute majority of the supervisory council members were present. The topic discussed during 2017 council meetings were related to issue under the competence of supervisory council. Namely, at the beginning of the year, the council discussed the budget of the bank and strategy, marginal interest rates for deposits and credit products.

In addition, decision was made regarding the purchase of real estate and movable property, including non-material assets (software maintenance), about opening a service-center, selection of partner companies and contractual agreement with these partners,

which provide the bank with external services. Supervisory council made a decision about specific loan, when the amount of the loan exceeds the competence of the council of directors, the charters of the divisions of the bank were discussed and approved, limits for the reserve and credit department were defined, employees were appointed on the administrative positions. Supervisory Council passes the proposition to the Shareholder meeting about the increase of the initial capital of the bank. Besides, on every meeting the supervisory council hears the reports of the directorate about the work performed and the projects implemented.

✓ COMMITTEES

Bank has committees which under the supervisory council and general directorate.

Credit Committee Rights and Responsibilities (Competence and Aims)

- Credit Committee fulfills the functions defined by the “Law of Georgia on Activities of Commercial Banks” and regulations issued by the Central Bank of Georgia.
- Credit committee is liable to issue a credit in the frames of rights granted by the supervisory council
- Credit committee is responsible to fulfill all the orders from the supervisory council regarding the loans.

Members of Credit Committee and the rules for conducting a committee meeting

- Committee should consist of minimum three members. Defining the members of the committee, their selection and removal is the competence of the supervisory council. In any case of the ending of the labor contract with the bank, the member of the committee is automatically removed from the committee.
- The decisions in the credit committee are made unanimously. In the case of the difficulty reaching a unanimous decision, the application is being reviewed by the supervisory organ. The meeting of the committee is chaired by the general director.
- Managers of structural unit are invited to the committee meetings. The decisions, according to the Civil Code of Georgia are made in the form of minutes.

- The secretary procedures of the meeting of committee are performed by the secretariat of the directorate.
- **Audit Committee**
- Audit committee performs the responsibilities defined by legislation and bank regulations
- Committee prepares the propositions about administrative and operational processes, also the development of evaluation mechanisms and their implementation
- Ensures that the control mechanism of the bank corresponds to the demands of legislation.
- Discusses and approves the quarterly report prepared by the internal audit, in the case of necessity offers recommendation to the supervisory council and the directorate council.
- Fulfills the tasks and orders defined in bank regulations

Members of Audit Committee and the rules for conducting a committee meeting

- “Law of Georgia on Activities of Commercial Banks” defines the criteria, which should be fulfilled by the members of the audit committee.
- Audit committee consists of two members selected by the supervisory council, for the period of four years. Supervisory council can withdraw the member of audit committee by the procedure set by the law.
- Meetings of the audit committee are held minimum once in every three months with the presence majority. Irregular meeting of the committee can be held on the demand of the supervisory council, any member of the audit committee, or the directorate council.
- Secretarial procedures for the audit committee meeting are held by the corporate secretariate.

- Risk Management and Information Technologies Committee

- Risk Management and Information Technologies Committee fulfills the functions defined by “Law of Georgia on Activities of Commercial Banks” and regulations issued by the Central Bank of Georgia.
- Committee is responsible to the supervisory council on the issues related to risks arising during bank’s work
- Committee defines the policy of risk management of the bank and accordingly prepare the plan.
- Committee ensures the necessary measures regarding the factors that negatively affect the capital adequacy of the bank and the risk profile.
- Ensures the compliance of information technology to work strategy.

Risk Management and Information Technologies Committee Members and the rules for conducting a committee meeting

- Committee consists of minimum three independent members. The number of the members is defined and the selection made by the supervisory council
- Meetings of the committee are held minimum once in every three months with the presence majority. Irregular meeting of the committee can be held on the demand of the supervisory council, audit committee, or the directorate council. The meeting is chaired by general director. The decisions are made by the absolute majority of the attendees. In case of the equal distribution of votes general director has the decision-making power.
- Secretarial procedures for the committee meeting are held by the department of information technology.

- Committee of Assets and Liabilities

Rights and responsibilities of the Committee of Assets and Liabilities

- Prepares the policy for managing Assets and Liabilities of the bank according to the existing legislation and the bank’s financial objectives.

- In the frames of policy and objectives of the bank manages the liquidity and market risks of the bank, manages financial assets, providing minimal risks and maximum profit.
- Oversees economic developments, existing financial policy, decrees and orders passed by regulatory organs, events and developments in financial sector. Evaluates the possible effect of the events and occurrences in the banking sector and the bank in particular, follows the bank ratings.
- In case of the necessity or review of the budget based on the events and occurrences in the market, redefines objectives for the bank, in the frames of the strategic objectives proposes recommendations to the supervisory council.
- Ensures the compliance of the liquidity and exchange operations to the legislation and internal regulations of the bank.

“Assets and Liabilities Committee” members and the rules for conducting a committee meeting

- Committee consists of minimum three independent members. The number of the members is defined and the selection made by the supervisory council. The members are selected among the supervisory council members and the heads of departments.
- In case of three members in the committee, the meetings are held with the presence of absolute majority. If the committee consists of more than three members, more than half members are enough for the meeting to be held, and the decision is made by the majority. The meeting is chaired by general director, in case of equal distribution of the votes, general director has the decision-making power.
- Committee meetings are held minimum once a month, irregular meeting can be called on the demand of one of the members of the committee, supervisory council, audit committee, and shareholder committee. Other heads of departments can be called for the meeting. Decisions according to the civil code of Georgia are recorded in the form of minutes.
- Departments of Budget, Accounting and Fund Management fulfills secretarial procedures for the Assets and Liabilities Committee.

✓ **Directorate Council**

Name, Last Name	Position
Mehmet UCAR	General Director
Haluk CENGİZ	Deputy General Director
Burcu EROL	Director

BOARD OF DIRECTORS

- The Board of Directors shall manage and represent the Bank. The Board of Directors shall be responsible for managing the Bank and performing its functions.
- The Board of Directors consists of at least three directors appointed by the Supervisory Council for the term of up to 4 years the after expiration of this term, the authority of the Directors shall be extended until the new Directors are appointed by the Supervisory Council. The Directors may be reappointed for the next term without limitation and removed by the Supervisory Council at any time prior to the end of term of their authority.
- The Board of Directors shall be presided over by the Chief Executive Officer (the “CEO”) appointed by the Supervisory Council.
- The Board of Directors shall be accountable before the Supervisory Council of the Bank.
- The competence of the Board of Directors includes making a decision on all the issues which, by law and this Charter, do not fall within the scope of competence of the General Meeting and the Supervisory Council. The Board of Directors discusses and makes a preliminary decision on all the issues which, by law and this Charter, require the consent of the Supervisory Council.
- The Chief Executive Officer (in his absence - Deputy Chief Executive Officer) manages the Bank at his sole discretion, controls the Executive Officers and

represents it in relation with the third persons. The members of the Board of Directors (the Deputy Chief Executive Officer and Directors) manage the structural units under their subordination (Departments). They are responsible for their orderly performance and implementation of the policy determined in accordance with the Bank’s strategy.

- Deputy Chief Executive Officer and Directors manages the units and their activities under his subordination in accordance with the Charter and the Regulations and represents the Bank in relation with the third persons in this area.
- Only those members of the Board of Directors may represent the Bank in relation with the third persons who are so registered in the Entrepreneurial Register, unless such members delegate their powers in accordance with applicable laws of Georgia. The Directors shall jointly, as well as separately, represent the Bank.
- The meetings of the Board of Directors are convened, decisions made and the management of the Bank carried out in accordance with the laws of Georgia, the Charter, Regulations and other regulatory acts of the Bank. Meeting of the Board of Directors may be held both in Georgia or outside, as prior provided by respective agenda.
- The meetings of the Board of Directors shall be held as necessary but at least on a monthly basis and be conducted in Georgian and/or Turkish and/or English languages. The meeting shall be convened by the Chief Executive Officer or on the initiative of one of its members.
- The Chief Executive Officer shall draw up the agenda of the meeting, prepare the necessary materials and preside over the meetings. The members of the Board of Directors may raise a question before the Chief Executive Officer on entering an item to the agenda.
- The meeting shall be authorized to make decisions if more than half of the members of the Board of Directors are present thereat. Decisions are made by a majority of votes present at the meeting. In case of a draw, the Chief Executive Officer (in his absence - Deputy Chief Executive Officer) shall have a casting vote.

- Minutes shall be drawn up both in Georgian and/or Turkish and/or English languages at the meeting of the Board of Directors and signed by the Chairman of the Meeting.
- The Deputy Chief Executive Officer and the Directors are accountable before the Chief Executive Officer and the Supervisory Council. The Chief Executive Officer is accountable before the Supervisory Council.
- The Chief Executive Officer, the Deputy Chief Executive Officer and/or the Directors shall notify the Supervisory Council on all the circumstances that may substantially affect the state of the Bank.
- The Chief Executive Officer, the Deputy Chief Executive Officer and/or the Directors shall in good faith and with due diligence run the activities of the Bank, namely care in the same way as an ordinary reasonable person in similar capacity and under similar conditions would act with the belief that this action of theirs is the most beneficial for the Bank.
- **The members of the Board of Directors shall:**
 - a) Regularly attend the meetings of the Board of Directors and take an active part in discussing issues thereat;
 - b) If the case so requires, request that an item be added to the agenda and the meeting of the Board of Directors be convened;
 - c) Not disclose the confidential information that they obtained during fulfilling their duties;
 - d) Not exploit the assets of the Bank or the information that they obtained during fulfilling their duties;
 - e) Refrain from taking part in such contracts they may bring their interests in conflict with those of the Bank (conflict of interests);
 - f) In any case of conflict of interests, inform the Board of Directors and the members of the Supervisory Council in respect thereof and refrain from voting during making the respective decision;

- g) Forthwith provide a member of the Supervisory Council with information requested by the latter;
- h) Fulfill other duties as provided by law, the Charter and internal regulatory acts of the Bank as well as the decisions of the General Meeting and the Supervisory Council of the Bank.

Directorate Council consists of:

1. General Director
2. Deputy General Director, responsible for functioning of the reserve and operations departments
3. Director, responsible for functioning of the marketing and credit departments

- **Risk Management**

- ✓ **Risk Strategy**

The risk strategy of JSC "Ziraat Bank Georgia" derives from the Bank's business strategy, which includes the period until 2019 and determines the growth rate of the Bank, desired financial results, priority lending areas, the Bank's internal structure and design. The Bank's business strategy is enhanced by appropriate internal policies and procedures.

For the aforementioned period, the Bank is planning to achieve a stable and rapid growth, which will be mainly expressed by the credit portfolio increase. The Bank is aware of risks associated with the rapid growth and mitigates them by the surplus regulatory capital and the policies, procedures and limits.

JSC "Ziraat Bank Georgia" has been operating in the market since 1998, from 2001 to May 1, 2017 under a branch status, and with the present name since May 1, 2017 up to present; the Bank is mainly focused on providing services for Turkish and Georgian companies that maintain business contacts with Turkey. However, the credit portfolio structure of the Bank significantly changed and became more diversified in 2017. Specifically, in comparison with 2016, funding of the loan portfolio for real estate management, construction activities, recovery, production and trade of building materials, consumer goods, hotels and tourism, general production, healthcare and telecommunications has increased.

JSC "Ziraat Bank Georgia" provides loans for retail customers for consumer and other purposes, as well as legal clients. In accordance with the Bank's risk strategy, the lending policy is based on an in-depth analysis of a borrower's credit capabilities and rigorous selection criteria which are monitored and strictly implemented by the relevant structural units.

The risk strategy is acknowledged by all levels of the Bank's relevant structural units and in addition to the business strategy, it is included in the Bank's risk management policy. It is important that the Bank's risk strategy is implemented by the Bank's Directorate and the relevant bodies responsible for risks, and the process is supervised by the Supervisory Board. **Risk Management Framework**

- Risk owners

Risk management in the Bank is implemented at different levels. Each risk management process involves a relevant responsible body. The list and responsibilities of the structural units which participate in the risk management process at micro level are provided in Structure and Organization of Risk Management chapter. It is significant that each risk category is managed at various levels in the Bank. The first level includes the structural units that are owners of a particular risk, the Committee reviews large-scale and significant risks, which are eventually transferred to the Directorate and Supervisory Board, which manage risks at macro level.

- Risk Classification

JSC "Ziraat Bank Georgia" classifies risks according to two main categories, namely, financial and non-financial risks; the description of each risk is provided below:

- Financial Risk

Financial risks are caused by the change of the structure, volume and quality of assets and liabilities and are mainly the risks arising from the Bank's activities during the process of implementing the Bank's strategic plan. The Bank considers this risk as an important determinant of the financial performance/results. Financial risks are divided into two main directions:

- Market risk: liquidity, interest rate, foreign currency and price fluctuation risks; each category includes several subcategories, and according to the size and complexity of the Bank, fully covers the market risk, which may affect its activities.
- Credit risk is defined as a default risk and is reviewed in two aspects: a borrower's credit risk - which may arise due to a borrower's insolvency; and a counterparty's credit risk - which may occur due to the failure of a counterparty to pay its liabilities to the Bank.

- Non-financial risk

Non-financial risks are those qualitative risks that make it impossible to determine the volume of financial loss caused by thereof. The Bank constantly controls the risk and the risk management process is in line with both the requirements of the National Bank of Georgia and international practice, also, it is noteworthy that the management process of

the aforementioned risk is in compliance with the size and complexity of the Bank's operations. The most important category within non-financial risks is an operational risk, the management process of which includes identification, monitoring and management of internal processes, human factor, information technologies and legal and regulatory risks. In addition to the above, the Bank also recognizes and manages reputational, strategic and external risks.

- **Risk management process**

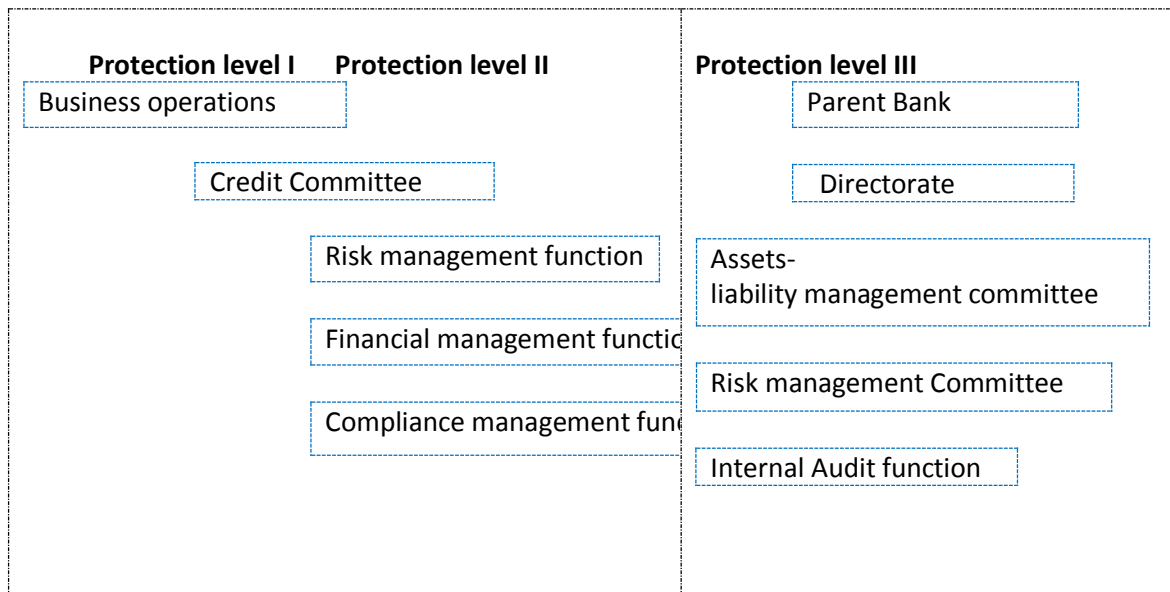
As it was mentioned in the first chapter of this document, the Bank operates within the risk levels determined by the Parent bank. According to the risk level and the strategic business plan determined at the strategic level, the Bank has developed the internal processes, which are used for risk management, as it represents a fundamental part of the Bank's activities and is an integral part of the planning process. Therefore, risk management is integrated into all levels of the Bank activities. The main goal of the Bank's risk management process is to plan an optimum combination of risks and profitability, ensure the financial strength and promote the sustainable business growth. Risk management process is divided into five main stages:

- **Identification:** to identify risks based on the Bank's strategy, establish tolerance to them and determine risk owners;
- **Assessment:** to develop the process, reporting and assessment methodology standards;
- **Control:** to monitor the adherence to operations and risk limits, control of loss and early reporting thereof;
- **Reporting:** to interpret and report on consequences of risk taking, sensitivity and main risk indicators;
- **Management:** to review and control all directions of the Bank's risks, identify the optimum balance of risk level and profitability, control risk management practices, ensure the compliance with the business environment and strategic plans.

- **Structure and organization of risk management**

Risks are managed and controlled at all levels of the Bank, and the responsibilities for each risk are acknowledged and controlled within each management unit. Risk management levels are given in the table #1:

Table #1– Risk management levels



The first level includes the level of the following structural units:

- The Lending Unit provides credit activities within the established credit policy;
- Treasury Operations Management Unit performs treasury operations related to market risks, including liquidity, foreign currency and interest rate risks;
- The main responsibility of the Credit Committee is to assess client's financial status and solvency, review loan decision making and credit recovery practices. It is noteworthy that the Credit Department represents the first and the second levels simultaneously, since it is composed of both, business representatives (first level), and representative of other structures depending on risks and loan amount (second level);

The second level includes the level of the following structural units:

- The Risk Management Unit, which is responsible for summarizing risks and is in charge of both financial and non-financial risks; the structural unit, alongside with other risks, manages, assesses and analyzes credit, market and operational risks with regards to their compliance with the Bank's business strategy, also the Bank's risk profile is monitored within the timeframe i.e. whether the Bank's risk profile differs from the same periods of previous years.
- Finance Management functional unit plans financial transactions, manages the Bank's liquidity and is actively involved in assets-liability management committee activities.
- The Compliance Functional Unit ensures the compliance with AML / CFT and other regulations of the National Bank of Georgia.

The third level of risk management manages the Bank's large- scale risks and develops risk strategies. The third level includes the level of the following structural units:

- Internal Audit Service assesses risk management process adequacy and efficiency and from time to time submits reports to the top management of the Bank.
- Assets-Liability Management Committee carries out risk management at the organization level, analyzes financial risks, participates in limits approval process and reviews the Bank's balance positions with the view to attracting financial sources, also monitors the Bank's interest rate policy.
- Risk Management Committee: monitors risks facing the Bank, ensures compliance of risk tolerance level and its management process with the Bank strategy, and assesses the efficiency of the internal control and risk management.
- Directorate: ensures appropriate distribution of responsibilities, compliance of the risk combinations undertaken by the Bank with the strategy developed by the Parent Bank and manages the Bank's daily activities.
- Supervisory Board: determines the Bank's risk strategy and the business strategy, approves risk control scheme and reviews the Bank's activities in terms of risks and financial outcomes.

- Risk management framework overview

JSC "Ziraat Bank Georgia" monitors risks and mitigates them on a daily basis; risks and risk levels facing the Bank are in line with the Bank's risks strategy and business strategy. The Bank's risk management framework is in compliance with the complexity and size of the Bank; the Bank's business strategy ensures its sustainable growth in the coming years, which is mainly conditioned by the loan portfolio growth. The Bank's management is aware that in the process of achieving the above mentioned goal, the Bank may face materialization of those risks that currently remain beyond the risk management framework. Thus, the Bank is ready to develop a methodology to identify and manage "new" risks in the growth process. Currently, risk management at Ziraat Bank Georgia is introduced and implemented within all management units, the responsibilities and authorities of particular risk owners are defined and reporting process of the top risk management level is determined.

✓ Risk appetite

- Interested parties/ Stakeholders

The business strategy of JSC "Ziraat Bank Georgia", which is determined by the Supervisory Board, is the key factor of the Bank's risk strategy and risk appetite. Risk appetite is determined by the Parent Bank in accordance with the Bank's risk management framework and requirements of the Georgian legislation.

The daily management and supervision of the Bank in terms of risk appetite is implemented by the Bank's Directorate, which, based on the information received from relevant risk owning units, determines how close the Bank is to the established limits, and determines any additional volume of risks to be taken in any direction.

Risk appetite is a guide for each level manager of the Bank and helps them act in accordance with the risk strategy. Risk appetite is expressed in limits, which allows every management unit to analyze and evaluate in advance their own performance in decision-making process, namely, whether a particular decision corresponds to the Bank's risk-taking desire.

Risk appetite helps interested parties avoid high risks which are unacceptable to the Bank, and also identify high risks at the initial stage of their occurrence, which enables the Bank to timely prevent unexpected risks and manage any existing ones.

The Bank's risk appetite is designed for the Directorate, all level managers, employees, rating companies and other interested parties to help them understand the Bank's attitude to risk taking in general and learn about the maximum acceptable level of each risk by means of the provided limits.

- Factors which determine risk appetite

As noted above, the main determinant of the Bank's risk appetite is its business strategy, which also includes the Bank's risk strategy, which in turn represents one of the sources of the Bank's risk appetite. Besides, when determining a risk appetite, internal and external factors, current situation and future anticipations of the Bank are taken into account. The factors which may impact the determination of the risk appetite are as follows:

- Current capital status of Ziraat Bank Georgia;
- Current risk profile and current limits established for the management;
- Current economic situation in Georgia and the Bank's expectations / forecasts thereupon;
- Competitive environment within the sector and the Bank's expectations regarding the banking sector development;
- Events and risks which occurred in the Bank during previous periods and experience of their control;
- The Capital Adequacy Requirements established by the National Bank of Georgia;
- Minimum covenants required by the National Bank of Georgia;
- The Internal Capital Adequacy Assessment Process required by the National Bank of Georgia.

- Risk appetite statement

Ziraat Bank Georgia believes that the risk appetite shall be acknowledged and understood by each management unit of the Bank and it must be always in conformity with the Bank's business

strategy and derive from the Bank's risk strategy. The Bank's risk appetite includes all material risks which the Bank is facing or may face in the nearest future. It establishes qualitative and quantitative restrictions and ensures compliance with the requirements of the National Bank of Georgia and the Supervisory Board. The Bank's risk appetite is aimed at ensuring an adequate risk management and reviewing possible losses and negative outcomes both in normal and stressful environments. Quantitative restrictions provide desired financial indicators of the Bank and calculate risks undertaken during the process of their achievement, while qualitative restrictions and measurements ensure the identification and management of any risks that cannot be directly measured quantitatively based on the Bank's business strategy. The basic elements of the risk appetite are as follows:

- The plan of capital and financial results, including the management compensation;
- Maximum level established for each risk;
- Maximum level of total existing risks, which the Bank is ready to undertake in order to achieve financial goals;
- Quantitative expression of maximum risk level;
- Qualitative expression of the maximum risk level for those risk groups that are impossible to measure quantitatively;
- For each business direction, compliance of risk limits with the Bank's risk appetite and strategy;
- A review of any possible potential activities and circumstances, which may increase certain risks against the Bank and cause its approximation to the limits which are not provided in the risk appetite.

✓ **Roles and responsibilities**

Functionally, management of the risk appetite in the Bank is carried out by different levels of management and control. The management levels and their responsibilities are given in this article.

- **Parent Bank**
- Approves the risk appetite, and ensures its compliance with the Bank's business strategy and its derivation from the Bank risk strategy;
- Sets reporting obligations for the Directorate with regards to implementation of the Bank's risk appetite limits and overall risk-taking level;
- Establishes the limits within which the Bank shall meet given financial indicators;
- Assesses and monitors the adherence to limits;
- Reviews violated risk limits (if any), develops a remedy plan and assigns responsible persons to implement the plan;

- Assesses the management team, the effectiveness of their daily activities in terms of risk management, financial results achievement and limits established under the risk appetite;
- Makes any necessary amendments to the risk appetite;
- Ensures whether the informational systems and the information technologies of the Bank management are in compliance with the Bank's risk appetite;
- **Directorate**
 - Ensures the integrity of the risk appetite and its awareness by all levels of the Bank's management;
 - Ensures the implementation of the risk appetite and allocates relevant resources.
 - Provides external and internal communication on the issues related to the risk appetite framework and integrates them within the Bank's risk management culture;
 - Integrates the risk appetite in the Bank, reports to the Parent Bank and ensures the compliance of its practice with the business strategy;
- **Risk Management Department**
 - Supports the risk appetite;
 - Monitors risk levels, their compliance with the risk appetite and reports to the Directorate;
 - Notifies the Directorate and / or the Risk Management Committee on violation of any risk category limits or approaching to the limits;
- **Risk Management Committee**
 - In accordance with the Bank's risk appetite, determines sub-limits of specific risks and their owners and monitors thereof;
 - Supervises acceptable levels of risks in different directions;
 - Reviews results of the previous periods in terms of risk taking and its management, assesses the compliance of the Bank's risk management process with its risk appetite and strategic plans;
 - Makes important decisions to avoid risks;
 - Analyzes the risk appetite compliance with the Bank's business strategy and risk strategy;
- **Internal Audit Service**
 - Evaluates the implementation of the risk appetite framework at the Bank level;
 - Monitors the fulfillment of limits established under the risk appetite;
 - Checks the internal control environment;

- Evaluates the risk appetite;

✓ Limits

The limits of Ziraat Bank Georgia are determined according to its risk appetite, risk strategy and business strategy. The Bank's limits are in line with the requirements of the National Bank of Georgia and are consolidated in the limits policy developed by the Risk Management Committee and the Credit Committee in agreement with the Parent Bank.

Table 1 – Limits within the risk appetite

Description of Ratio	Limits
Primary capital ratio	$\geq 10\%$
Regulatory capital ratio	$\geq 13\%$
One insider ratio	$\leq 5\%$
All insiders ratio	$\leq 20\%$
One outsider ratio	$\leq 15\%$
Ratio of interdependent borrowers	$\leq 20\%$
Large loans ratio	$\leq 200\%$
Balance loans ratio	$\leq 25\%$
Average liquidity ratio	$\geq 32\%$
Share investment ratio	$\leq 40\%$
Property investment ratio	$\leq 40\%$
Consolidated common open foreign currency ratio	$- 20\% \leq X \leq 20\%$

- **Material risk determination and calculation methodology**

- ✓ **Credit Risk**

Credit risk is the most important risk in the banking and financial sector of Georgia in terms of its volume and significance. For credit risk mitigation, Ziraat Bank Georgia uses both the internal policies and procedures and sound assessment of customer loan securities. In addition, the Bank holds the sufficient capital to cover any potential loss caused by such risk not to hinder its operations and damage the reputation. For the capital adequacy purposes, the Bank carries out the credit risk calculation in accordance with the standardized approach provided in the "Regulation on Minimum Capital Adequacy Requirements for Commercial Banks". The Bank has submitted the methodology to the National Bank of Georgia and carries out reporting in line with the "Policy on Identification and Classification of Risk Positions". Moreover, the Bank applies the credit ratings of external institutions for credit assessment as agreed with the National Bank of Georgia.

- ✓ **Balance elements**

As mentioned above, the Bank, when assessing credit risk, uses the standardized approach and the "Policy on Identification and Classification of Assets", within which balance elements are classified after their identification. It is important that according to the Bank's approach and the regulatory requirements, identified assets initially are checked against higher-risk categories, which, in accordance with the regulations and capital adequacy reports, may belong to high-risk supervisory category and overdue loans. Unless an asset falls within either of the two categories, then it must be assigned to other classes. The Bank, during the reporting process, actively uses credit ratings of external institutions of credit assessment and based on these ratings, assigns a risk weight to requirements to commercial banks. It is important that in order to calculate the volume of the required capital for the credit risk, the Bank uses the same methodology in Pillar 1 and Pillar 2, and there is only one difference in this regard in the Internal Capital Adequacy Assessment Process. In accordance with the "Regulation on Minimum Capital Adequacy Requirements for Commercial Banks" and the Bank's "Policy on Identification and Classification of Risk Positions", funds in foreign currency in the National Bank of Georgia are assigned 100% risk weight based on the Basel original document and the credit rating of the country. However, based on the historical experience and the vision of Ziraat Bank Georgia, the funds in the National Bank of Georgia are not credit risk holders irrespective of the currency in which they are denominated, accordingly, for the purposes of Pillar 2, the funds in the National Bank of Georgia, both in the national and foreign currencies, are weighted by 0%, respectively. The results of the calculation are provided in the capital calculation chapter of this document.

- ✓ **Off-balance elements**

Ziraat Bank Georgia carries out credit risk calculation of off-balance elements in accordance with the "Policy on Identification and Classification of Risk Positions" submitted and approved by the

National Bank of Georgia. The groups of significant off-balance obligations, which the Bank undertakes, are the following:

- Performance guarantee
- Advance guarantee
- Customs guarantee

for which the factors of credit conversion are 100%, 50% and 20%, respectively. In addition, the Bank has outstanding parts of the issued loans which it assigns 50% credit conversion factor pursuant to the recommendation of the National Bank of Georgia.

✓ **Credit risk associated with counterparty**

Currently Ziraat Bank Georgia has no contracts, swaps and forwards related to foreign currency or interest rate, accordingly, the tools available for the Bank do not include credit risk of counterparties, as stipulated in the capital adequacy and reporting requirements. Despite the absence of credit risks associated with counterparties at this stage, the methodology of the risk assessment is described in the Policy of Identification and Classification of Risk Positions and if any, the Bank will immediately and easily identify and classify them.

✓ **Currency Induced Credit Risk (CICR)**

The Bank carries out identification and classification of currency induced credit risks pursuant to the Policy of Identification and Classification of Risk Positions of JSC "Ziraat Bank Georgia" approved by the National Bank of Georgia.

✓ **Market risk**

Market risk, which is another significant risk within the banking-financial sector, is perceived by Ziraat Bank Georgia as a possible loss due to interest rate and foreign exchange fluctuations. Due to the lack of active stock market in the country, the simple business model and operations of the Bank, interest risk is not taken into account when calculating the capital adequacy ratio under Pillar 1. Pillar 1 considers only foreign currency risk, which in turn, is limited to consolidated open foreign currency risk position. For this risk, the Bank holds a relevant amount of the capital to avoid any problems in case of the need to cover the potential losses caused by this risk. In addition, the Bank on a daily basis controls the consolidated open foreign exchange position indicators in accordance with the risk appetite and NBG requirements with regards to limits. The calculation of the market risk under Pillar 2 includes interest rate as well as foreign currency risks. Their calculation is done as follows:

- Foreign currency risk: is calculated as in Pillar 1 and is limited to the consolidated open foreign currency position.
- Interest rate risk when calculating the minimum capital under Pillar 2 is determined by 2% of interest rate risk position of the Bank's 1-year interest rate

gap, provided that the Bank covers the total loss caused by such change with its capital.

✓ **Operational risk**

Operational risk is another important risk that Ziraat Bank Georgia considers as material. Its identification, calculation and management methodology is provided in the Bank's risk management documents. It is noteworthy that calculation of this risk under the standardized approach plays an important role when assessing the capital adequacy.

The capital adequacy indicators are calculated by means of the basic indicator method; the methodology is provided in the "Regulation on Minimum Capital Adequacy Requirements for Commercial Banks" and the instructions provided by the National Bank of Georgia. Ziraat Bank Georgia has submitted a statement to the National Bank of Georgia on application of the basic indicator method and has received an official consent from the regulator thereupon.

The calculation of the operational risk is identical for the Pillar 1 and Pillar 2 purposes. The calculation results are provided in the respective chapter of this document.

✓ **Country risk**

Ziraat Bank Georgia focuses an important part of its operations on Turkish citizens and legal entities incorporated under the jurisdiction of Turkey and/or other legal entities and individuals who are engaged in business activities in the territory and / or the jurisdiction of Turkey. The format of the Bank contains the country risk, since it is a bank established by a Turkish bank in Georgia. Any deterioration of the political situation in Turkey that may affect the economic conditions, tension between the Turkish and Georgian diplomatic relations, increase in customs rates or introduction of quotas may significantly affect the financial status of the Bank's customers, which in turn, may have a negative impact on profitability of the Branch. As the likelihood of the above risk occurrence is insignificant, and the exact or approximate consequences thereof are impossible to measure, Ziraat Bank Georgia, in order to cover any potential loss caused by this risk, will additionally hold 1% of the risk weighted risk positions.

✓ **Group risk**

JSC "Ziraat Bank Georgia" is a member of the Turkish group JSC "Ziraat Bank". A relevant unit of the Parent Bank performs the duty of the Supervisory Board and the Bank's strategy is determined by the Parent Bank. Financial and non-financial information of the Bank is consolidated by the Parent Bank. The financial stability of the Bank, the volume of its capital, long-term and short-term funding of the Bank is determined by the Mother Bank and it is important to note that the credit rating of the Mother Bank is BB+ according to FITCH and Ba2 under Moody's rating, which is better than the sovereign rating of Georgia. Ziraat Bank Georgia may confront some financial challenges if the Parent Bank faces any financial issues, however, given the fact that Ziraat Bank Georgia assigns zero credit risk to the funds deposited in the National Bank of Georgia, JSC "Ziraat Bank" (Parent Bank) is also a zero credit risk holder. In addition, if we

consider the business volume of the Bank, which is so insignificant compared to the Parent Bank, in the event of any financial issues, the Mother Bank may not take advantage of the financial well-being of the Bank to improve its own financial situation. Based on the above arguments, Ziraat Bank Georgia assigns zero risk to the ownership risk.

✓ **Business (strategy) risk**

Ziraat Bank Georgia deems any risk as a business (strategy) risk if it is associated with income or capital reduction, which may be caused by incorrect planning, wrong strategy, incompliance of the business model with the environment and wrong business decisions. The Bank carries out both quantitative and qualitative monitoring of the risk and controls how close the actual data of deviation are to the budget, which allows the Bank to determine whether or not the Bank has achieved the financial objectives. In addition, the Bank reviews its positions qualitatively and checks whether its activities comply with its strategies and plans. The Bank calculates the risk by means of variable margin volatility approach based on the VaR model.

Business risk for the Bank is any risk caused by the change in profit which is due to the structure of revenue and expenditure. The risk is measured as follows:

- Profit and loss components of the performed and budgeted data are identified and the following factors are determined: Gross income (GI); personal costs (PC); other operating costs (OO).
- The factors are analyzed within the historical context (comparison of actual and budgeted data);
- Historical volatility of actual and budgeted revenues and comparative differences of expenditure are calculated;
- Internal capital is calculated by taking into account 99% trust level, provided that actual and budgeted data margin are given in "normal distribution."

The table below shows the summary of the results.

Results obtained through business risk calculation

Trust level:	99.00%
Trust multiplier:	2.33
Business margin comparative VaR	34.96%
VaR	568,110
Capital % to cover profit loss	50%
ICAAP capital	284,055
Risk weighted assets	2,705,286

✓ Concentration risk

Concentration risk is calculated in two directions: First, nominal concentration, which is calculated from 100 top borrowers risk positions by means of HHI (Hirfindel-Hiershman Index) and second, sectoral concentration calculated according to the sectors nominated by the National Bank of Georgia based on sectors existing in each business sector pursuant to the sector reports. The calculation also involves retail loans and each retail product type from the reports is considered as a sector (consumer loans, mortgage loans).

In case of the sectoral concentration, the indicator of Ziraat Bank Georgia does not exceed the minimum limit (12%) and amounts to 7.5%, which corresponds to 0% capital multiplier. The capital multiplier is multiplied to the capital amount required for credit risk positions in Pillar 1. These risk positions are requirements to commercial banks, requirements to corporate customers, requirements to retail clients, off-balance elements and credit risk elements deriving from exchange rate fluctuation).

In case of nominal concentration, HHI value is 1,43%, which is between the 5th and 6th steps (1.2% to 2.4%).

The calculation is done as follows:

- 1) Firstly, requirements to the Bank's top 100 borrowers are analyzed and separated from TOP 100 reports in a work friendly format; balance sheet as well as off-balance sheet liabilities are fully considered as customer indebtedness.
- 2) Following the data separation, the Bank calculates each borrower's (with a security) group share within the requirements for 100 largest borrowers-depositories.
- 3) After the share calculation, in accordance with the NBG instruction, Hirfindel-Hiershman Index is calculated. The result is 1,43.
- 4) Pursuant to the instruction, the table below determines the corresponding multiplier of 1,43:

Table 2 - Hirfindel-Hiershman Index for nominal concentration

Nominal Concentration (HHI)	Capital Multiplier
0.10	0.00%
0.15	1.70%
0.30	7.40%
0.60	15.40%
1.20	26.60%
2.40	60.20%
4.80	129.00%
9.60	247.90%
≥42.80	1071.20%

As the indicator is less than 2,4 but higher than 1,2, the multiplier between 26,60% and 60.20% shall be taken;

5) At the final stage, in order to calculate the capital multiplier, a linear interpolation method is used, based on which the result is 33%.

✓ **Liquidity risk**

Liquidity risk is one of the most significant risks for the Bank. If such circumstance occurs, the Bank will be forced to attract funds at an accelerated pace, which in turn, will lead to high costs on the received funds. This will affect the Bank's profitability and its reputation and credibility level. Liquidity risk belongs to the risk category which is impossible to secure with the capital, even though the riskiness of the Bank's financial structure (the so-called leverage) helps to simplify and reduce the costs of the process of attracting additional resources. Nevertheless, mitigation of liquidity risk is carried out pursuant to the Bank's procedures, policies, limits and daily management, which are in line with the Bank's risk appetite, risk strategy and business strategy. The Bank controls the liquidity risk on a daily basis and reports on its liquidity position to the National Bank of Georgia in the LCR format. The reports correspond to the requirements of Basel 3. Currently¹, the Bank's liquid assets exceed its total liabilities and the liquidity ratio is 65%, while according to the requirements of the National Bank Georgia, the figure should be at least 30%. In addition, it is noteworthy that the Bank does not have or plan to accept any long-term credit liabilities and/or subordinated obligations, and accordingly, the Bank does not calculate relevantly Net Stable Funding Ratio (NSFR).

✓ **Stress tests buffers**

In order to determine the minimum capital within Pillar 2, Ziraat Bank Georgia conducts stress tests in compliance with the methodology guidelines provided by the National Bank of Georgia in 2014. In accordance with the instruction on the calculation of capital requirement under Pillar II, additional capital buffers are created for stress tests which apply only to the entire regulatory capital. The quantitative results of the stress tests are as follows.

Table – Stress tests results

Stress test parameters	Anticipated loss	Anticipated loss without intersection
GDP reduction	825,885	825,885
National currency devaluation (SME)	1,488,597	1,156,601
National currency devaluation (Individuals)	192,555	192,555
Reduction in real property price by 30%(fixed assets)	1,131,865	1,131,865
Reduction in real property price by 30% (pledge)	183,331	183,331

¹ 30 September 2017

Reduction in interest rate by 4% (interest rate revenues)	62,682	62,682
Reduction in number of employees 5%	433,844	433,844
Reduction in employee revenues 10%	327,081	129,373
Total anticipated loss		4,116,134

The above table shows that in order to cover possible losses, the Bank shall hold the capital with additional 4,1 million GEL compared with the minimum capital requirement. The instruction is also used to calculate the buffer percentage ratio which must be included in the capital. To this end, any possible loss occurred during the stress test scenarios is divided into the risk-weighted risk positions calculated within Pillar 1. The detailed analysis of the stress test is given in the Chapter 6 of the document.

✓ **Stress test methodology**

- **Stress Test Methodology Overview**

Ziraat Bank Georgia uses the "Stress test methodology guide" provided by the National Bank of Georgia in 2014 as the stress test methodology, under which the stress scenarios which the Bank should take into account are as follows:

- Gross domestic product reduction by 5%;
- Commodity price reduction (commodity - gold, etc);
- National currency devaluation by 20%;
- Real property price reduction by 20%;
- Interest rate increase:
 - +4 % in the national currency;
 - +2 % in foreign currency.
- Reduction in the number of employees by 5%;
- Reduction in employees income by 10%;

The Bank uses these parameters and conducts stress tests in compliance with them only for the stress scenarios that are relevant to the Bank based on its asset structure and activities.

- **Gross Domestic Product Reduction**

For this stress scenario, the Bank uses income reduction matrix of various business sectors provided in the stress test methodology guide. For legal entities, individual assessment is carried out because of their small number. The procedure of the stress test is as follows:

- Information on the loans given to legal entities is retrieved from the database and transferred to the user-friendly format.
 - Amount of income and scope of activity is determined for each loan.
 - Current Debt Service Ratio on loans is calculated and stress EBITDA/payment is calculated after the application of revenue reduction to the sectors, after which in accordance with the limits provided in the Bank's "Loan issuance procedure", those loans are identified whose EBITDA/payment has gone over the established limit. For legal entities, the maximum acceptable level is 1. The stress test has shown that in case of GDP reduction by 5%, considering the sector reduction matrix, the Bank may face the loss in the amount of 825 000 GEL, provided that all loans which violate the established EBITDA/payment limit are recognized as a loss.
- Commodity Price Reduction

The parameter of this stress test is not relevant to JSC "Ziraat Bank Georgia" as the Bank is not engaged in pawnshop business and therefore, has no gold secured loans. Moreover, the Bank does not own the amount of commodity, the depreciation of which may cause any material reduction in its balance position or income.

- National Currency Devaluation

Ziraat Bank Georgia applies this stress test to the whole portfolio, both legal entities and individuals. The stress test methodology and results are provided below.

- Legal entities

As noted above, Ziraat Bank Georgia applies this stress test parameter to its entire portfolio. The currency devaluation is considered by 20%. First, the information on a borrower legal entity is transferred from the database to the user-friendly format. It is important that the revenues of legal entities are completely denominated in the national currency. Following this, borrowers' monthly payments to income ratio is calculated (EBITDA/payment).

As the income of all borrower legal entities of the Bank exceeds 1500 US Dollar equivalent, the acceptable EBITDA/payment limit is 1. The identification of all borrowers, who may incur damage to the Bank, is performed by comparison of the monthly payment for the received loans and the customer income after 20% currency devaluation. After the stress test, the EBITDA/payment is compared to the limit 1 established by the Bank, and all risk positions under the risk (the principal amount+ accrued penalty + accrued interest - reserve), which violate the limit, are recognized as a loss. And this amount of the loss for the particular stress parameters is the required additional capital of the Bank. The possible loss for legal entities accounted for 1,5 million GEL, however, it is important that many of these loans are those which were recognized as loss after the GDP reduction. The Bank believes that for the accuracy of the possible loss calculated under these two stress scenarios, the intersection i.e. recovery of repeated loans is required and pursuant to this argument, the Bank may recognize 1,15 million GEL as a possible loss.

- Individuals

Ziraat Bank Georgia, in order to carry out a foreign currency stress for individuals, has selected all the loans to individuals from the portfolio. After obtaining the information from the database and its transfer to the user-friendly format, the Bank calculated the current PTI for the loans, and then, a monthly payment on the loans was adjusted in case of currency devaluation. The stress PTI was calculated for the obtained results and compared to the limits established by the Bank. For these indicators the Bank has the limits determined in the “Loans issuance procedure” and the limits are as follows:

- If a customer's monthly salary is up to 750 US dollars (or equivalent), the monthly payment shall not exceed 45% of the net salary;
- If a customer's monthly salary is 750 US dollars to 1500 US Dollars(or equivalent), the monthly payment shall not exceed 50% of the net salary;
- If a customer's monthly salary is 1501 US dollars(or equivalent) or more, the monthly payment shall not exceed 55% of the net salary;

- In exceptional cases, if a customer's monthly net salary is 1,000 US dollars (or equivalent) or more, based on the Credit Committee decision, the above mentioned rate may increase up to 60%.

For those loans violating the established limits, the reserve level would deteriorate by two units/steps. However, the conducted stress tests showed that the limit was violated for several loans and the possible loss accounted for 192 000 GEL.

- Real Property Price Reduction

The Bank took into account the real property price reduction as the stress test parameter, although applied 30% reduction as the stress parameter, instead of 20% devaluation as provided in the NBG instruction. The Bank conducted the stress in two directions - individually for all existing loans in the portfolio secured by real property and for its own fixed assets. The stress test methodology is described below:

- Real property secured loans

As it was mentioned above, the Bank analyzed all the loans in its portfolio which are secured by real property. After the recovery of relevant information from the database, collaterals/securities were compared to the requirement to customers. It is noteworthy that, as of the current date, all the loans issued by the Bank are in compliance with the limits provided in the "Loans issuance procedure", according to which the value of a real property shall be at least 1,3 times higher than the loan total value (LTV) for individuals and 1,4 higher for legal entities. During the next phase of the stress test, the Bank reduced the value of all collaterals by 30% and re-calculated LTV for the loans with the price less than 1,3 and 1,4 respectively, and increased the reserve by one unit. Eventually, based on the calculation, the Bank recognized 183 000 GEL as a possible loss. Fixed assets

Ziraat Bank Georgia applies 30% real property price reduction to its fixed assets, as in the occurrence of such event, its capital may be affected by the loss caused by the assets revaluation. In order to consider this stress test scenario, 30% of the Bank's total fixed assets will be recognized as a loss, and the result amounted to 1,13 million GEL.

- Interest Rate Reduction

JSC "Ziraat Bank Georgia" considers the risk caused by interest rate fluctuations when calculating the capital in Pillar 2. Consequently, the stress scenario does not apply to its interest gap. It is important to note that the Bank's balance sheet contains no items, which are linked to variable interest rate, therefore, only change of 400 basic units of the fixed interest rate is used as the stress parameter. Under the given scenario, the Bank makes an assumption that its interest income may decrease by 400 basic units, and reduces its interest income provided in its profit and loss statement as of September 30 by 4%. The Branch recognizes this amount as a possible reduction of income and deems it relevant to hold the same amount of the capital for such event. The stress test showed that the reduction in the fixed interest rate by 400 basic units may lead to a loss of 62 000 GEL.

- Reduction in the Number of Employees

When conducting stress tests, Ziraat Bank Georgia considers the reduction in the number of employees by 5%, as one of the parameters. In order to calculate the loss from the above scenario, the total loan portfolio, which is issued to individuals, is taken into account. Within the stress tests, the Bank makes an assumption that in the occurrence of such event, 5% of the loans issued to individuals may become inoperative and therefore, recognizes 5% of the total risk positions of such loans as a loss. The calculations have shown that the Bank's possible loss may amount to 433 000 GEL.

- Reduction in Employees' Income

Ziraat Bank Georgia considers 10% cut in employee's salaries as one of the parameters in the stress tests. When analyzing expected loss, the Bank applies individual approach and analyses all the loans in the portfolio with the given methodology. As it was noted above, the Bank, in order to analyze the income reduction of physical customers, calculates current PTI of loans and PTI after the stress. If the Bank limits for loans provided in the "Loans issuance procedure" are violated, the loan reserves are increased by two units. Following this, the current average weighted reserves are calculated as of the current date and in the stress case. The stress test analysis showed that 10% decrease in income causes 55%, 50% and 45% limits violation in the case of 51 loans. Consequently, the Bank should hold the additional capital in the amount of 327 000 GEL in order to cover the risk of the individual borrower income reduction by 10%. However, it is important that many of these loans are the same as the loss recognized for national currency devaluation. The Bank believes that for the accuracy of the potential loss, it is necessary to recover intersection i.e. repeated loans. With this argument, the Bank recognizes 129 000 GEL as a possible loss.

• Remuneration Policy

The quantitative data related to the remuneration practice is given in annual Pillar 3 reports. As for the qualitative information, the material risk takers whose compensation is given in Pillar 3 report are: Material Risk carrying personnel, given in Pillar 3 reports are as follows: Supervisory board members are: Huseyin AYDIN (Supervisory Council Member, General Director of T.C. ZIRAAT BANKASI A.Ş. Yusuf DAGCAN (Supervisory Council Deputy Chairman) and Mehmet TURGUT (Member of the Supervisory Board). Directors: Mehmet UCAR (General Director), Haluk CENGİZ (Deputy General director), Burcu EROL (Director). Other material risk takers: Murat YILDIRIM (Head of Batumi S / C) and Ender UNLU (Deputy head of Batumi S / C).

At this stage, the Bank does not apply criteria on which the entitlement to shares, options or variable components of remuneration is based, has no remuneration committee, and has no individuals being remunerated GEL 1 million or more per financial year. The remuneration policy for directors is defined by the Parent Bank's Human Resources Department, for the members of the Supervisory Board - by shareholders' committee.

	Pillar 3 Annual Report	
1	Name of a bank	JSC ZIRAAT BANK GEORGIA
2	Chairman of the Supervisory Board	HUSEYIN AYDIN
3	CEO of a bank	MEHMET UCAR
4	Bank's web page	www.ziraatbank.ge

Senior management of the bank ensures fair presentation and accuracy of the information provided within Pillar 3 disclosure report. The report is prepared in accordance with internal review and control processes coordinated with the board. The report meets the requirements of the decree N92/04 of the Governor of the National Bank of Georgia on “Disclosure requirements for commercial banks within Pillar 3” and other relevant decrees and regulations of NBG.

Table N	Table of contents
1	Key ratios
2	Balance Sheet
3	Income statement
4	Off-balance sheet
5	Risk-Weighted Assets (RWA)
6	Information about supervisory board, senior management and shareholders
7	Linkages between financial statement assets and balance sheet items subject to credit risk weighting
8	Differences between carrying values of balance sheet items and exposure amounts subject to credit risk weighting
9	Regulatory Capital
9.1	Capital Adequacy Requirements
10	Reconciliation of regulatory capital to balance sheet
11	Credit risk weighted exposures
12	Credit risk mitigation
13	Standardized approach - effect of credit risk mitigation
14	Liquidity Coverage Ratio
15	Counterparty credit risk
20	Differences between accounting and regulatory scopes of consolidation
21	Consolidation by entities
22	Information about historical operational losses
23	Operational risks - basic indicator approach
24	Remuneration awarded during the reporting period
25	Special payments
26	Information about deferred and retained remuneration
27	Shares owned by senior management

Banks shall disclose information required by this Annex in annual Pillar 3 reports according to the decree N92/04 of the Governor of the National Bank of Georgia on “Disclosure requirements for commercial banks within Pillar 3” .

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

Table 1

Key metrics

N	T	T-1	T-2	T-3	T-4
Regulatory capital (amounts, GEL)					
Based on Basel III framework					
1 Common Equity Tier 1 (CET1)	30,637,975	22,867,461	22,394,780	21,851,067	21,357,827
2 Tier 1	30,637,975	22,867,461	22,394,780	21,851,067	21,357,827
3 Total regulatory capital	31,208,212	23,418,557	22,755,625	22,157,989	21,650,944
Risk-weighted assets (amounts, GEL)					
4 Risk-weighted assets (RWA) (Based on Basel III framework)	62,018,876	59,549,142	66,287,504	78,627,535	51,502,529
5 Risk-weighted assets (RWA) (Based on Basel I frameworks)	49,501,533	51,359,547	54,478,856	46,096,735	36,391,387
Capital ratios as a percentage of RWA					
Based on Basel III framework					
6 Common equity Tier 1 ratio (≥ 7.0 %) **	49.40%	38.40%	33.78%	27.79%	41.47%
7 Tier 1 ratio (≥ 8.5 %) **	49.40%	38.40%	33.78%	27.79%	41.47%
8 Total regulatory capital ratio (≥ 10.5 %) **	50.32%	39.33%	34.33%	28.18%	42.04%
Based on Basel I framework					
9 Common equity Tier 1 ratio (≥ 6.4 %)	60.16%	42.91%	40.43%	46.36%	53.17%
10 Total regulatory capital ratio (≥ 9.6 %)	63.04%	45.60%	41.77%	48.07%	59.49%
Income					
11 Total Interest Income /Average Annual Assets	3.31%	2.79%	1.80%	5.10%	4.56%
12 Total Interest Expense / Average Annual Assets	0.32%	0.30%	0.20%	0.48%	0.32%
13 Earnings from Operations / Average Annual Assets	1.64%	1.63%	0.96%	3.59%	3.68%
14 Net Interest Margin	3.00%	2.49%	1.60%	4.62%	4.24%
15 Return on Average Assets (ROAA)	1.13%	1.48%	1.04%	2.96%	2.79%
16 Return on Average Equity (ROAE)	3.72%	4.94%	3.37%	9.05%	9.72%
Asset Quality					
17 Non Performed Loans / Total Loans	7.30%	2.33%	3.34%	4.17%	4.39%
18 LLR/Total Loans	4.98%	3.70%	4.16%	4.37%	4.31%
19 FX Loans/Total Loans	59.79%	58.58%	59.47%	62.02%	63.00%
20 FX Assets/Total Assets	56.31%	55.45%	59.52%	60.82%	52.08%
21 Loan Growth-YTD	27.49%	21.55%	22.32%	5.71%	12.84%
Liquidity					
22 Liquid Assets/Total Assets	76.00%	65.19%	75.06%	74.90%	69.09%
23 FX Liabilities/Total Liabilities	85.84%	80.40%	79.62%	82.79%	77.72%
24 Current & Demand Deposits/Total Assets	63.58%	57.09%	69.93%	67.96%	62.86%
Liquidity Coverage Ratio***					
25 Total HQLA	53,843,755				
26 Net cash outflow	29,426,562				
27 LCR ratio (%)	183%				

* 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.

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

Table 2

Balance Sheet

in Lari

N	Assets	Reporting Period			Respective period of the previous year		
		GEL	FX	Total	GEL	FX	Total
1	Cash	718,041	4,075,353	4,793,394	1,041,933	3,331,129	4,373,062
2	Due from NBG	12,931,045	6,739,291	19,670,336	534,330	10,786,389	11,320,719
3	Due from Banks	84,616	31,353,031	31,437,647	10,623,517	11,717,829	22,341,346
4	Dealing Securities	0	0	0	0	0	0
5	Investment Securities	15,815,783	0	15,815,783	10,152,177	0	10,152,177
6.1	Loans	7,513,188	11,173,555	18,686,743	5,723,809	9,744,140	15,467,949
6.2	Less: Loan Loss Reserves	-254,155	-675,940	-930,095	-183,009	-483,222	-666,231
6	Net Loans	7,259,033	10,497,615	17,756,648	5,540,800	9,260,918	14,801,718
7	Accrued Interest and Dividends Receivable	119,103	49,206	168,309	57,096	49,469	106,565
8	Other Real Estate Owned & Repossessed Assets	124,341		124,341	0		0
9	Equity Investments	0	0	0	0	0	0
10	Fixed Assets and Intangible Assets	3,761,888		3,761,888	4,117,467		4,117,467
11	Other Assets	98,122	16,332	114,454	309,631	35,399	345,030
12	Total assets	40,911,972	52,730,828	93,642,800	32,376,951	35,181,133	67,558,084
	Liabilities						
13	Due to Banks	0	648,050	648,050	0	112,560	112,560
14	Current (Accounts) Deposits	6,367,192	35,283,073	41,650,265	6,923,673	18,822,600	25,746,273
15	Demand Deposits	2,162,895	15,723,602	17,886,497	2,851,845	13,867,431	16,719,276
16	Time Deposits	168,200	1,887,848	2,056,048	149,292	2,412,421	2,561,713
17	Own Debt Securities	0	0	0	0	0	0
18	Borrowings	0	135,030	135,030	0	264,680	264,680
19	Accrued Interest and Dividends Payable	0	38,670	38,670	19	31,877	31,896
20	Other Liabilities	191,472	173,344	364,816	307,530	184,948	492,478
21	Subordinated Debentures	0	0	0	0	0	0
22	Total liabilities	8,889,759	53,889,617	62,779,376	10,232,359	35,696,517	45,928,876
	Equity Capital						
23	Common Stock	30,000,000		30,000,000	0		0
24	Preferred Stock	0		0	0		0
25	Less: Repurchased Shares	0		0	0		0
26	Share Premium	0		0	0		0
27	General Reserves	0		0	15,204,182		15,204,182
28	Retained Earnings	859,435		859,435	6,417,037		6,417,037
29	Asset Revaluation Reserves	3,989		3,989	7,989		7,989
30	Total Equity Capital	30,863,424	0	30,863,424	21,629,208	0	21,629,208
31	Total liabilities and Equity Capital	39,753,183	53,889,617	93,642,800	31,861,567	35,696,517	67,558,084

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

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

N		Reporting Period			Respective period of the previous year		
		GEL	FX	Total	GEL	FX	Total
	Interest Income						
1	Interest Income from Bank's "Nostro" and Deposit Accounts	343,060	104,175	447235	617,931	96,872	714803
2	Interest Income from Loans	651,421	613,254	1264675	696,602	764,591	1461193
2.1	from the Interbank Loans	670,994	642,834	1313828	727,389	790,207	1517596
2.2	from the Retail or Service Sector Loans	442,774	156,081	598855	475,425	126,553	601978
2.3	from the Energy Sector Loans	0	0	0	0	0	0
2.4	from the Agriculture and Forestry Sector Loans	0	0	0	0	0	0
2.5	from the Construction Sector Loans	0	0	0	0	0	0
2.6	from the Mining and Mineral Processing Sector Loans	0	0	0	0	0	0
2.7	from the Transportation or Communications Sector Loans	0	0	0	0	0	0
2.8	from Individuals Loans	208,647	457,173	665820	221,177	638,038	859215
2.9	from Other Sectors Loans	0	0	0	0	0	0
3	Fees/penalties income from loans to customers	19,573	29,580	49153	30,787	25,616	56403
4	Interest and Discount Income from Securities	649,790	0	649790	857,406	0	857406
5	Other Interest Income	29,766	77,474	107240	57,079	138,945	196024
6	Total Interest Income	1,693,610	824,483	2518093	2,259,805	1,026,024	3285829
	Interest Expense						
7	Interest Paid on Demand Deposits	0	0	0	0	0	0
8	Interest Paid on Time Deposits	109,084	33,780	142864	57,097	54,487	111584
9	Interest Paid on Banks Deposits	0	88,934	88934	0	109,798	109798
10	Interest Paid on Own Debt Securities	0	0	0	0	0	0
11	Interest Paid on Other Borrowings	0	8,045	8045	0	8,964	8964
12	Other Interest Expenses	0	0	0	0	0	0
13	Total Interest Expense	109,084	130,759	239843	57,097	173,249	230346
14	Net Interest Income	1,584,526	693,724	2278250	2,202,708	852,775	3055483
	Non-Interest Income						
15	Net Fee and Commission Income	(125,389)	403,735	278346	(177,509)	743,396	565887
15.1	Fee and Commission Income	98,994	538,664	637658	145,442	915,772	1061214
15.2	Fee and Commission Expense	224,383	134,929	359312	322,951	172,376	495327
16	Dividend Income	0	0	0	0	0	0
17	Gain (Loss) from Dealing Securities	0	0	0	0	0	0
18	Gain (Loss) from Investment Securities	0	0	0	0	0	0
19	Gain (Loss) from Foreign Exchange Trading	1,141,564	0	1141564	2,158,750	0	2158750
20	Gain (Loss) from Foreign Exchange Translation	(67,143)	0	-67143	(151,039)	0	-151039
21	Gain (Loss) on Sales of Fixed Assets	0	0	0	(12,383)	0	-12383
22	Non-Interest Income from other Banking Operations	0	359	359	0	3,285	3285
23	Other Non-Interest Income	9,292	0	9292	69,329	5,624	74953
24	Total Non-Interest Income	958,324	404,094	1362418	1,887,148	752,305	2639453
	Non-Interest Expenses						
25	Non-Interest Expenses from other Banking Operations	208,141	10,833	218974	322,736	17,732	340468
26	Bank Development, Consultation and Marketing Expenses	134,042	0	134042	125,622	0	125622
27	Personnel Expenses	1,414,720	0	1414720	1,699,859	0	1699859
28	Operating Costs of Fixed Assets	15,251	0	15251	16,779	0	16779
29	Depreciation Expense	333,816	0	333816	606,586	0	606586
30	Other Non-Interest Expenses	345,219	687	345906	421,611	0	421611
31	Total Non-Interest Expenses	2,451,189	11,520	2462709	3,193,193	17,732	3210925
32	Net Non-Interest Income	(1,492,865)	392,574	-1100291	(1,306,045)	734,573	-571472
33	Net Income before Provisions	91,661	1,086,298	1177959	896,663	1,587,348	2484011
34	Loan Loss Reserve	152,892		152892	269,452		269452
35	Provision for Possible Losses on Investments and Securities			0	0		0
36	Provision for Possible Losses on Other Assets	139,217		139217	(50,081)		-50081
37	Total Provisions for Possible Losses	292,109	0	292109	219,371	0	219371
38	Net Income before Taxes and Extraordinary Items	(200,448)	1,086,298	885850	677,292	1,587,348	2264640
39	Taxation	26,415		26415	254,718		254718
40	Net Income after Taxation	(226,863)	1,086,298	859435	422,574	1,587,348	2009922
41	Extraordinary Items			0			0
42	Net Income	(226,863)	1,086,298	859435	422,574	1,587,348	2009922

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

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	4,155,749	7,377,575	11,533,324	552,374	6,824,532	7,376,906
1.1	Guarantees Issued	4,042,749	7,377,575	11,420,324	550,374	6,824,532	7,374,906
1.2	Letters of credit Issued			0			0
1.3	Undrawn loan commitments	113,000	0	113,000	2,000	0	2,000
1.4	Other Contingent Liabilities	0	0	0	0	0	0
2	Guarantees received as security for liabilities of the bank		1,503,476	1,503,476			0
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	Guarantees received as security for receivables of the bank	14,150,539	33,635,825	47,786,364	5,714,175	30,307,651	36,021,826
4.1	Surety, joint liability	13,333,539	32,239,537	45,573,076	5,714,175	30,222,954	35,937,129
4.2	Guarantees	817,000	1,396,288	2,213,288	0	84,697	84,697
5	Assets pledged as security for receivables of the bank	9,402,101	58,459,624	67,861,725	6,824,467	41,504,149	48,328,616
5.1	Cash	168,200	1,641,822	1,810,022	25,110	4,568	29,678
5.2	Precious metals and stones	0	0	0	0	0	0
5.3	Real Estate:	9,233,901	56,817,802	66,051,703	6,799,357	41,499,581	48,298,938
5.3.1	Residential Property	3,156,356	25,080,245	28,236,601	2,847,809	18,357,545	21,205,354
5.3.2	Commercial Property	1,752,500	9,228,232	10,980,732	970,148	8,343,155	9,313,303
5.3.3	Complex Real Estate	765,000	12,077,060	12,842,060	0	4,713,069	4,713,069
5.3.4	Land Parcel	3,560,045	10,432,265	13,992,310	2,981,400	10,085,812	13,067,212
5.3.5	Other	0	0	0	0	0	0
5.4	Movable Property	0	0	0	0	0	0
5.5	Shares Pledged	0	0	0	0	0	0
5.6	Securities	0	0	0	0	0	0
5.7	Other	0	0	0	0	0	0
6	Derivatives	0	0	0	0	0	0
6.1	Receivables through FX contracts (except options)			0			0
6.2	Payables through FX contracts (except options)			0			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	20,969	105,760	126,729	11,416	171,449	182,864
7.1	Principal of receivables derecognized during last 3 month	2,785	0	2,785	0	0	0
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	4,749	15,489	20,239	3,670	14,028	17,698
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	2,785	36,369	39,154	0	100,023	100,023
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	10,650	53,901	64,551	7,746	57,397	65,143
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

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

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

N		T	T-1
1	Risk Weighted Assets for Credit Risk	52,755,269	52,682,783
1.1	Balance sheet items	42,280,105	36,961,005
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)		
1.2	Off-balance sheet items	10,475,164	9,472,984
1.3	Currency induced credit risk*		6,248,794
1.4	Counterparty credit risk	0	0
2	Risk Weighted Assets for Market Risk	335,299	63,839
3	Risk Weighted Assets for Operational Risk	8,928,308	6,802,520
4	Total Risk Weighted Assets	62,018,876	59,549,142

* 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>

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

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

	Members of Supervisory Board	
1	HUSEYIN AYDIN	
2	YUSUF DAGCAN	
3	MEHMET TURGUT	
4		
5		
6		
7		
8		
9		
10		
	Members of Board of Directors	
1	MEHMET UCAR	
2	HALUK CENGİZ	
3	BURCU EROL	
4		
5		
6		
7		
8		
9		
10		
	List of Shareholders owning 1% and more of issued capital, indicating Shares	
1	T.C. ZIRAAT BANKASI A.S.	100%
	List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares	
1		%

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

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 standardized 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	4,793,394		4,793,394
2	Due from NBG	19,670,336		19,670,336
3	Due from Banks	31,437,647		31,437,647
4	Dealing Securities	0		0
5	Investment Securities	15,815,783		15,815,783
6.1	Loans	18,686,743		18,686,743
6.2	Less: Loan Loss Reserves	-930,095		-930,095
6	Net Loans	17,756,648		17,756,648
7	Accrued Interest and Dividends Receivable	168,309		168,309
8	Other Real Estate Owned & Repossessed Assets	124,341		124,341
9	Equity Investments	0		0
10	Fixed Assets and Intangible Assets	3,761,888	221,460	3,540,428
11	Other Assets	114,454		114,454
	Total exposures subject to credit risk weighting before adjustments	93,642,800	221,460	93,421,340

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

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	93,421,340
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	11,533,324
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	
3	Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes	104,954,664
4	Effect of provisioning rules used for capital adequacy purposes	341,831
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	-1,058,160
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	
6	Effect of other adjustments	
7	Total exposures subject to credit risk weighting	104,238,335

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

Table 9

Regulatory capital

N		in Lari
1	Common Equity Tier 1 capital before regulatory adjustments	30,863,424
2	Common shares that comply with the criteria for Common Equity Tier 1	30,000,000
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	
4	Accumulated other comprehensive income	3,989
5	Other disclosed reserves	0
6	Retained earnings (loss)	859,435
7	Regulatory Adjustments of Common Equity Tier 1 capital	225,449
8	Revaluation reserves on assets	3,989
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	0
10	Intangible assets	221,460
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	0
12	Investments in own shares	0
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	0
14	Cash flow hedge reserve	0
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	0
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	0
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	0
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	0
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)	0
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	0
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	0
23	Common Equity Tier 1	30,637,975
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	570,237
37	Instruments that comply with the criteria for Tier 2 capital	0
38	Stock surplus (share premium) that meet the criteria for Tier 2 capital	0
39	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	570,237
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	570,237

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

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%	

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

Table 10

Reconciliation of balance sheet to regulatory capital

in Lari

N	On-balance sheet items per standardized regulatory report	Carrying values as reported in published stand-alone financial statements per local accounting rules	linkage to capital table
1	Cash	4,793,394	
2	Due from NBG	19,670,336	
3	Due from Banks	31,437,647	
4	Dealing Securities	0	
5	Investment Securities	15,815,783	
6.1	Loans	18,686,743	
6.2	Less: Loan Loss Reserves	930,095	
6	Net Loans	17,756,648	
7	Accrued Interest and Dividends Receivable	168,309	
8	Other Real Estate Owned & Repossessed Assets	124,341	
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	3,761,888	
10.1	Of which intangible assets	221,460	table 9 (Capital), N10
11	Other Assets	114,454	
12	Total assets	93,642,800	
13	Due to Banks	648,050	
14	Current (Accounts) Deposits	41,650,265	
15	Demand Deposits	17,886,497	
16	Time Deposits	2,056,048	
17	Own Debt Securities	0	
18	Borrowings	135,030	
19	Accrued Interest and Dividends Payable	38,670	
20	Other Liabilities	364,816	
21	Subordinated Debentures		
21.1	Of which tier II capital qualifying instruments	0	
22	Total liabilities	62,779,376	
23	Common Stock	30,000,000	table 9 (Capital), N2
24	Preferred Stock	0	
25	Less: Repurchased Shares	0	
26	Share Premium	0	
27	General Reserves	0	
28	Retained Earnings	859,435	table 9 (Capital), N6
29	Asset Revaluation Reserves	3,989	table 9 (Capital), N8
30	Total Equity Capital	30,863,424	

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

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

Risk weights	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		0%		20%		35%		50%		75%		100%		150%		250%		
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
	1. Claims or contingent claims on central governments or central banks	16,746,827		12,000,000	0	0	0	0	0	0	0	6,745,456	0	0	0	0	0	9,145,456
	2. Claims or contingent claims on regional governments or local authorities	0	0	0	0	0	0	0	0	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	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	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	0	0	0	0	0	0	0	0	-
	6. Claims or contingent claims on commercial banks	0	0	15,665,729	0	0	0	15,779,508	0	0	0	0	0	0	0	0	0	11,622,900
	7. Claims or contingent claims on corporates	0	0	0	0	0	0	0	0	0	0	5,019,465	485,764	0	0	0	0	5,505,229
	8. Retail claims or contingent retail claims	0	0	0	0	0	0	0	0	0	0	13,234,671	9,969,400	0	0	0	0	23,204,071
	9. Claims or contingent claims secured by mortgages on residential property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
	10. Past due items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
	11. Items belonging to regulatory high-risk categories	0	0	0	0	0	0	0	0	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	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	0	0	0	0	0	0	0	0	-
	14. Other items	4,395,933	0	397,461	0	0	0	0	0	0	0	3,778,121	0	0	0	0	0	3,857,613
	Total	21,142,760	0	28,063,190	0	0	0	15,779,508	0	0	0	28,777,713	10,475,164	0	0	0	0	52,755,269

Table 12

Secured Credit Protection															Funded Credit Protection															Unfunded Credit Protection															Total Credit Risk Mitigation - Off-balance sheet			Total Credit Risk Mitigation - On-balance sheet			Total Credit Risk Mitigation																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
On-balance sheet netting															Cash on deposit with, or cash instruments issued by, central banks, regional governments or 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 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 regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions															Debt securities issued 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Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

Table 13 **Standardized approach - Effect of credit risk mitigation**

		a	b	c	d	e	f
		On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density f=e/(a+c)
			Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
Asset Classes							
1	Claims or contingent claims on central governments or central banks	35,492,283	0	0	9,145,456	9,145,456	26%
2	Claims or contingent claims on regional governments or local authorities	0	0	0	0	0	
3	Claims or contingent claims on public sector entities	0	0	0	0	0	
4	Claims or contingent claims on multilateral development banks	0	0	0	0	0	
5	Claims or contingent claims on international organizations/institutions	0	0	0	0	0	
6	Claims or contingent claims on commercial banks	31,445,237	0	0	11,022,900	11,022,900	35%
7	Claims or contingent claims on corporates	5,019,465	485,764	485,764	5,505,229	5,505,229	100%
8	Retail claims or contingent retail claims	13,234,671	11,047,560	9,989,400	23,224,071	23,224,071	100%
9	Claims or contingent claims secured by mortgages on residential property	0	0	0	0	0	
10	Past due items	0	0	0	0	0	
11	Items belonging to regulatory high-risk categories	0	0	0	0	0	
12	Short-term claims on commercial banks and corporates	0	0	0	0	0	
13	Claims in the form of collective investment undertakings ('CIU')	0	0	0	0	0	
14	Other items	8,792,975	0	0	3,857,613	3,857,613	44%
	Total	93,984,631	11,533,324	10,475,164	52,755,269	52,755,269	51%

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

Table 11 Liquidity Coverage Ratio

		Total unweighted value (daily average**)			Total weighted values according to NBG's methodology* (daily average**)			Total weighted values according to Basel methodology (daily average**)		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
High-quality liquid assets										
1	Total HQLA				28,933,701	24,910,054	53,843,755	28,849,086	10,814,469	39,663,555
Cash outflows										
2	Retail deposits	1,095,831	9,890,225	10,986,056	406,324	3,709,385	4,115,709	77,473	686,259	763,732
3	Unsecured wholesale funding	7,602,486	43,787,385	51,389,871	2,629,045	22,129,374	24,758,419	1,937,490	10,887,390	12,824,880
4	Secured wholesale funding	-	-	-	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	4,155,749	7,712,874	11,868,622	455,062	1,075,133	1,530,195	213,437	704,177	917,615
6	Other contractual funding obligations									
7	Other contingent funding obligations	12,169	38,670	50,839	12,169	11,265	23,434	12,169	11,265	23,434
8	TOTAL CASH OUTFLOWS	12,866,235	61,429,154	74,295,389	3,502,600	26,925,157	30,427,756	2,240,569	12,289,092	14,529,661
Cash inflows										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	7,402,261	40,939,769	48,342,030	598,884	152,311	751,195	683,499	31,506,767	32,190,267
11	Other cash inflows	800,767	4,204	804,971	250,000	-	250,000	250,000	-	250,000
12	TOTAL CASH INFLOWS	8,203,028	40,943,973	49,147,001	848,884	152,311	1,001,195	933,499	31,506,767	32,440,267
					Total value according to NBG's methodology* (with limits)			Total value according to Basel methodology (with limits)		
13	Total HQLA				28,933,701	24,910,054	53,843,755	28,849,086	10,814,469	39,663,555
14	Net cash outflow				2,653,716	26,772,845	29,426,562	1,635,921	3,828,054	4,470,409
15	Liquidity coverage ratio (%)				1090.31%	93.04%	182.98%	1763.48%	282.51%	887.25%

* 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

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

Table 15 Counterparty credit risk

[illegible]

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

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
1	Cash and cash equivalents	49,165,684	49,165,684	49,165,685		4,793,394	19,670,336	24,701,955											49,165,685
2	Mandatory reserve with the NBG	6,735,692	6,735,692	6,735,692				6,735,692											6,735,692
3	Loans to customers	17,917,715	17,917,715	17,912,306							18,686,743	-930,095	17,756,648	155,658					17,912,306
4	Held-to-maturity investments	15,815,783	15,815,783	15,815,783						15,815,783									15,815,783
5	Other assets	253,373	253,373	251,446										12,651	124,341			114,454	251,446
6	Property and equipment	3,540,429	3,540,429	3,540,428													3,540,428		3,540,428
7	Intangible assets	221,460	221,460	221,460													221,460		221,460
																			0
																			0
	Total assets	93,650,136	93,650,136	93,642,800	0	4,793,394	19,670,336	31,437,647	0	15,815,783	18,686,743	-930,095	17,756,648	168,309	124,341	0	3,761,888	114,454	93,642,800

[illegible]

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

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	
1	XXX	Full Consolidation					
2	XXX	Proportional Consolidation					
3	XXX	Not consolidated					

Bank: JSC ZIRAAT BANK GEORGIA

Date: 12/31/2017

Table 22 **Information about historical operational losses**

		2017	2016	2015
1	Total amount of losses	0	0	0
2	Total amount of losses, exceeding GEL 10,000	0	0	0
3	Number of events with losses exceeding GEL 10,000	0	0	0
4	Total amount of 5 biggest losses	0	0	0

Bank:

JSC ZIRAAT BANK GEORGIA

Date:

12/31/2017

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

		a	b	c	d	e
		2016	2015	2014	Average of sums of net interest and net non-interest income during last three years	Risk Weighted asset (RWA)
1	Net interest income	3,055,483	2,618,864	1,914,514		
2	Total Non-Interest Income	2,620,705	2,688,555	1,374,787		
3	less: income (loss) from selling property	-12,383	0	0		
4	Total income (1+2-3)	5,688,571	5,307,419	3,289,301	4,761,764	8,928,307

Bank: JSC ZIRAAT BANK GEORGIA
Date: 12/31/2017

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

			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	Number of employees	3	3	2
2		Total fixed remuneration (3+5+7)	279,783	86,025	192,740
3		Of which cash-based	279,783	86,025	192,740
4		Of which: deferred			
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms			
8		Of which deferred			
9	Variable remuneration	Number of employees	3	3	2
10		Total variable remuneration (11+13+15)	7,473	0	4,974
11		Of which cash-based	7,473	0	4,974
12		Of which: deferred			
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms			
16		Of which deferred			
17	Total remuneration		287,256	86,025	197,713

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

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			

Bank:
Date:

JSC ZIRAAT BANK GEORGIA
12/31/2017

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

Date:

12/31/2017

Shares owned by senior management

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Amount of shares at the beginning of the reporting period			Changes during the reporting period							Amount of shares at the end of the reporting period		
		Unvested	Vested	Total (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