

**Order of the President of the National Bank of Georgia**

**Order №215/04**

**26<sup>th</sup> of September, 2018**

**City of Tbilisi**

**On the Approval of the Corporate Governance Code for Commercial Banks**

According to Subparagraph “g” of Paragraph 1 of Article 15 and Article 49<sup>1</sup> of the “Organic Law of Georgia on the National Bank of Georgia”, Article 14, Article 15, and Article 16 of the “Law of Georgia of the Activities of Commercial Banks”, and Article 25, Paragraph 1, Subparagraph “b” of the “Organic Law of Georgia on Normative Acts”, **I order:**

**Article 1**

Approve the Corporate Governance Code for Commercial Banks in the attached form.

**Article 2.**

The Decree №48/04 of June 17, 2014, of the NBG on the approval of the "Regulation on Risk Management of Commercial Banks" and Decree №25/04 of the President of the National Bank of Georgia of March 10, 2015, on the approval of the "Regulation on the requirements on internal audit function for Commercial Banks" are void.

**Article 3.**

This Decree will come into force upon its publication.

**President of the National Bank of Georgia**

**Koba Gvenetadze**

**Corporate Governance Code for Commercial Banks**

**Article 1. General provisions**

1. The purpose of this Code of Corporate Governance for Commercial Banks (hereinafter: Code) is to define the core principles of corporate governance for commercial banks, as effective and sound corporate governance in a Bank supports effective functioning and stability of the financial and Banking sectors respectively.

2. The requirements defined by this Code are mandatory for all commercial banks, branches, and subsidiaries of foreign banks operating in Georgia (hereinafter – Bank). In case certain issues related to corporate governance are not regulated by this Code, a Bank, in agreement with the National Bank of Georgia (hereinafter – NBG) should use the best international practices in the field. In addition, to ensure higher compliance with corporate governance standards, the Bank may be guided by stricter practices. Best practices in corporate governance include, but are not limited to the standards and principles on corporate governance adopted by the Basel Committee on Banking Supervision, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Organization for Economic Co-operation

and Development (OECD), London Stock Exchange and other advanced corporate governance standards and principles.

3. The NBG is authorized to impose different/individual requirements of corporate governance commensurate with systemic importance, risk profile, the scope of the business, ownership structure, or other characteristics of a Bank. In certain circumstances, NBG might require a Bank to provide appropriate explanation/information to decide on imposing different/individual requirements.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 2. Definition of terms**

1. For this code terms used in this text have the following meanings:

- a) **Independence** – the ability to exercise objective and independent decision-making without influence or potential influence of a Bank/other external parties.
- b) **Independent Member of the Supervisory Board** – A member whose independence should be confirmed in the manner set by Article 5, Paragraph 5 of the Code and within the selection process of relevant candidates all the factors set below should be considered. However, the existence of any given circumstance(s), doesn't automatically (per se) exclude person from being an independent member of the Supervisory Board. Such circumstances should be considered by the Bank and if the person is considered to be an independent member of the supervisory board, the arguments shall be respectively provided. Specifically, the following circumstances regarding the candidate should be considered:
  - b.a) has within the last two years had any personal relations (kinship) with the administrators of the Bank or those of the companies within the group, also with the person(s) holding (directly/indirectly) a significant share of the Bank or the companies incorporated in the group;
  - b.b) within the last two years has been running a business or has had any other material business relations with the administrators of the Bank or the companies within the group also with the person(s) who hold(s) (directly or indirectly) significant share of the Bank or the companies within the group;
  - b.c) has any kind of material obligation (including, financial) towards the Bank/its administrators/significant shareholders or other material/financial interest (including ownership, investment) in the Bank or companies within the group (exclusive of holding (directly or indirectly) lower than 2% share of a Bank or companies within the group);
  - b.d) within the last five years has had any professional or other kind of working relation (including, provision of business services) with the Bank or companies within the group, its administrators or its shareholders holding a significant share (this requirement does not limit the cases where there is a non-executive position held/non-executive functions are exercised);
  - b.e) receives any other additional payment from the Bank except for the fixed salary or dividend, which is related to the membership of the Supervisory Board or shareholding (directly or indirectly holding less than 2% share of the Bank);
  - b.f) has any other kind of relation, position or connection that may affect the independence of the person.

- c) **Risk Appetite** – The aggregate level and types of risk a bank is willing to accept, decided in advance and within its risk capacity considering regulatory capital, risk management and control mechanisms of a Bank, and other regulatory restrictions, to achieve its strategic objectives and business plan;
- d) **Risk Culture** – A Bank's norms, attitudes, and behaviors related to risk awareness, risk-taking and risk management, and controls that shape decision on risks. Risk culture established in the Bank, in turn, should be taken into account in the day-to-day operations of the Board of Directors and employees, including during the risk assessment process;
- e) **Risk Limits** - Specific quantitative measures or limits, which are based on forward-looking dynamic assumptions and projections and which allocate the Bank's risk appetite to appropriate business lines, structural units, specific risk categories and other measures;
- f) **Risk Profile** – Bank's gross (before application of any kind of mitigation) or net risk exposures (after taking into account mitigation) at a particular point in time in a specific risk category, which is based on current or forward-looking assumptions;
- g) **Risk Appetite Framework (RAF)** – The combination of approaches, policies, processes, controls, and systems, through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities under this RAF. The RAF should consider all material risks and should align with the Bank's strategy;
- h) **Risk Management Framework** – The framework defined by the Supervisory Board and the Board of Directors, according to which decisions are made on the Bank's strategy and risks. It includes established processes for risk identification, measurement, management, and control;
- i) **Control Functions** - Those functions that are responsible for checking the efficiency and effectiveness of processes, for objective evaluation, and for reporting in appropriate directions. These functions include the risk management function, the compliance function, and the internal audit function;
- j) **Compliance Function** – A structural unit performing the compliance function that together with other units, ensures that the Bank operates in compliance with applicable laws, regulations, internal policies, and procedures, as well as identifies and assess compliance related material/potential risks, makes recommendations to the Supervisory Board and Board of Directors regarding the management and control of compliance risks and in addition, ensures employee awareness on compliance-related matters;
- k) **Retention Period** – A period that begins after the vesting of instruments that have been awarded as variable remuneration during which the holder has no right to sell, pledge or access the instrument;
- l) **Persons related by kinship (relatives)** - For the purposes of Subparagraph “b.a” of Paragraph 1 of this Article, persons, who, under the Civil Code of Georgia, are included in I and II ranks of legal successors;
- m) **Group** - a group consisting of legal entities including commercial Bank, its parent company, as well as subsidiaries, associated and joint companies of the Bank and its parent company both within a country and abroad; Also, entities in which Bank's or its parent company's significant shareholder, administrator or their relative has a significant share.
- n) **Banking Group** - a group consisting only of financial institutions or/and legal entities engaged in Banking-related activities, including commercial Bank, its parent company, as well as subsidiaries, associated and joint companies of the Bank and its parent company and/or Banking holdings both

within a country and abroad;

- o) **Material Risk-Taker** - an employee of a Bank determined according to the quantitative and qualitative criteria developed by the Bank following the instructions for identification of material risk takers developed by the NBG, whose professional activities have a significant impact on the Bank's risk profile. Material risk-takers should include at least:
  - o.a) all members of the Supervisory Board and the Board of Directors;
  - o.b) an employee who has managerial responsibilities over the Bank's control functions or a significant business unit;
  - o.c) an employee with a total annual salary of more than GEL 500,000 for the previous year, which is not less than the average annual salary paid to the members of the Board of Directors and the Board of Supervisors and at the same time, he/she operates in a significant business unit of the Bank and his/her activities have a significant impact on the risk profile of this business unit;
- p) **Accrual Period** - the period during which the work performed by the recipient is evaluated based on the relevant quantitative and qualitative criteria for the purposes of determining an award of variable remuneration. For material risk-takers (excluding members of the Supervisory Board), the accrual period should include the results for the whole year;
- q) **Award of Variable Remuneration (Award)** - granting of variable remuneration *[to the recipient of the remuneration]* for a specific accrual period *[according to the results of the accrual period]*, independently of the actual point in time where the awarded amount is paid and/or vested.
- r) **Vesting of Variable Remuneration (vesting)** - the moment when the recipient of the remuneration becomes the *[legal]* owner of the variable remuneration awarded, regardless if the payment is subject to additional retention periods or clawback arrangements.
- s) **Deferral Period** - the period of time between the award and vesting of variable remuneration during which the recipient of remuneration is not yet the owner of the remuneration awarded to him/her;
- t) **Malus** - full or partial reduction of deferred variable remuneration by the Bank, *[which takes place before the variable remuneration has vested]* in case of realization of risks, based on the ex post risk adjustments defined in Article 19, Paragraph 15, Subparagraph "d" of this Code;
- u) **Clawback** - a *[forced/mandatory]* return of variable remuneration by the recipient of the remuneration to the Bank after its payment and/or vesting, based on the criteria outlined in Article 19, Paragraph 15, Subparagraph "d" of this Code;
- v) **Discretionary Pension Benefit** - an additional pension benefit issued by the Bank to a material risk-taker or other employee on a discretionary basis as one form of variable remuneration. Pension payments and contributions, which do not depend on the recipient's performance, are not considered as discretionary pension benefits;
- w) **Important Bank** - a Bank that belongs to one of the three largest Banks in Georgia in terms of total assets. The Bank, in case of classification as an Important Bank, shall ensure compliance with the relevant requirements of the Code within 1 year;
- x) **Systemically Important Bank** - a systemically important Bank as defined by the Order of the President of the National Bank of Georgia №174 / 04 of December 18, 2017 "On Defining Commercial Banks of Systemic Importance and Establishing a Systematic Buffer for Them". The Bank, in case of classification as an Important Bank, shall ensure compliance with the relevant requirements of the Code within 1 year;

2. All other terms used in this Code have the same meaning as defined by the Georgian legislation.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

### **Article 3. Core Principles of Corporate Governance**

1. The Supervisory Board retains primary responsibility for corporate governance of the Bank. Nevertheless, Board of Directors plays an important part in implementing and maintaining effective governance, which implies effective implementation of the policies approved by the Supervisory Board. All administrators of the Bank should comply with the requirements of this Code and legislation, including the requirements set by the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks approved by the Decree N50/04 of the President of NBG of June 17, 2014.

2) A Bank should have a well-defined organizational structure, which ensures allocation of responsibilities, effective identification of risks, management/monitoring and reporting procedures, adequate internal control mechanisms, including robust administrative and accounting procedures, effective IT systems and controls for relevant effective risk management, remuneration policies/procedures. This shall be subject to regular internal review and update.

3) The governance structure of the Bank should be commensurate with the nature, scale, and complexity of the Bank's operations. In addition, the Bank's Supervisory Board and Board of Directors should ensure that the Bank's organizational and governance structure is not overly complex or opaque. To assess the complexity, at least the following factors should be considered:

- a) clarity and purpose of each element of the structure;
- b) avoiding factors hindering effective risk management;
- c) avoiding factors hindering effective supervision.

4) A Bank shall ensure that the organizational and corporate structure of a Bank prevents conflicts of interest and no one has unfettered powers of decision-making.

5) The corporate governance structure and policies shall be articulated clearly and communicated to all appropriate staff within a Bank.

6) Any member of the governance structure of a Bank who has any material concern about the overall corporate governance of a Bank may address the Supervisory Board. Regardless of the above, the person can report his/her concern directly to the NBG providing the information on the background of the concern and any proposed remedial action.

7) To promote the long-term sustainability of the Bank, the Bank is obliged to take into account environmental, social and governance (ESG) issues in the Bank's strategy. ESG issues include issues that may have a material impact on the Bank's operations, including employee gender diversity. ESG issues also include issues such as climate change risk, if they are likely to have a material impact on a Bank's investments, loans, and the quality of other Banking activities.

8) A Bank shall ensure that its corporate governance system complies with the requirements of this Code. Accordingly, policies and procedures developed at a group level should facilitate the implementation of the requirements and standards set out in this Code in the Bank.

9) The Supervisory Board and the Board of Directors of the Bank should be fully aware of the

organizational structure of the Bank, including the details of the Bank's purpose, needs, weaknesses, and limitations. If there is a Banking group, the Bank's Supervisory Board and Board of Directors should also be aware of the structure of the group to which the Bank belongs and should be aware of any significant risks and problems that may affect the entire group or the Bank's subsidiaries.

10) The Bank should have a sound reporting system, which should effectively ensure that the Supervisory Board and the Board of Directors are fully informed about the Bank's general operations, financial condition, material risks, and decisions that have a significant impact on the Bank's business operations.

11) The Bank is obliged to submit the minutes of the shareholders' meeting to the NBG as soon as it is available, but no later than 10 working days.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 - Website, 02.06.2021.*

#### **Article 4. The Roles and Responsibilities of the Supervisory Board**

1. In addition to other functions, the members of the Supervisory Board are individually and collectively responsible for performing the following functions:

- a. Establishing Bank values, vision, mission, organizational structure and ensuring that a Bank is governed in full compliance with the principles of fairness, competence, professionalism, and ethics.
- b. Establishing Bank's ethical culture and code of conduct and continuously evaluating the role of Board of Directors in establishing and maintaining healthy corporate and ethical environment, which includes but is not limited to continuous compliance with the existing legislation, including the present Code, principles of ethics and standards of professional conduct, as well as the existing legislation on the prevention of money laundering and terrorist financing and the internal standards of the Bank;
- c. Having a continuous oversight on the effectiveness and impartiality of existing policies and procedures regarding whistleblowing system in the Bank. Additionally, it should be ensured that Board of Directors is fully responsible to report all the material issues identified by other bodies of the structure within a Bank. Furthermore, they *[other bodies]* should be fully protected from any kind of potential harm and discrimination.
- d. Establishing Bank's strategy and overseeing Board of Directors' implementation of the Bank's strategic objectives.
- e. Ensuring compliance of Bank's activities with all legislative and supervisory requirements.
- f. Establishing the Bank's risk appetite as a result of cooperation with the Risk Management Director (hereinafter - the Chief Risk Officer or CRO) and other members of the Board. Competitive environment, supervisory visions, long-term interests of the Bank, all risk positions of the Bank should be taken into account when developing risk appetite. The functions of effective risk management, monitoring and internal control should comply with the declared risk appetite, risk policies and limits;
- g. Establishing organizational structure including the roles and responsibilities so that Board of Directors and Supervisory Board can exert their powers and make decisions effectively.
- h. Monitoring the activities of the Board of Directors, evaluate the decisions made by the Board of Directors, and take appropriate measures as a result of the evaluation. To address deficiencies

identified during the evaluation, the Board should plan appropriate measures, which may include ensuring participation in the training and exercises required for upgrading the qualification of members of the Board of Directors. The Board shall ensure that adequate human and financial resources are available to implement the training and retraining programs provided for in this Paragraph as required. The Board should also ensure that it receives sufficient information from the Board of Directors, including explanations and assurances that the activities of the Board of Directors are fully in line with the strategy and risk appetite approved by the Board of Supervisors and that the Bank's internal control mechanisms are working effectively;

- i. monitoring the effective functioning of the Bank's remuneration system and related control processes, including reviewing and monitoring the remuneration of executives, compliance with the Bank's risk culture and risk appetite;
- j. Ensuring the efficiency and independence of control functions, which means the ability to make objective and independent decisions in the conduct of activities, without the influence/potential influence of any other party.
- k. Ensuring the implementation and maintenance of effective management processes, including the development of appropriate strategies and procedures for maintaining business continuity in the outflow of material risk-takers. The introduction of an effective management process also includes the ongoing evaluation and development of Bank's employees, as well as the search for potential candidates;
- l. Overseeing transactions with related parties and ensuring the existence of effective procedures-policies in a Bank.
- m. Monitoring and periodically evaluating the effectiveness of the organizational and governance structure and take appropriate measures to eliminate identified deficiencies;
- n. Ensuring the independence, authority, and unrestricted access of the compliance service to the Supervisory Board;
- o. Ensuring risk culture best practices and promote effective communication, constructive discussion, and accountability among employees;
- p. On the recommendation of the Remuneration Committee, if any, approving the remuneration policy of the Board of Directors and Control Functions;
- q. Ensuring that ESG issues are properly reflected in the Bank's strategy and monitor their effective implementation. This includes considering and assessing not only the financial results of the Bank's operations but also the potential environmental and social effects of the Bank's operations. To perform the function provided for in this Subparagraph, the Supervisory Board shall have the appropriate knowledge and receive relevant information on ESG matters. The Bank is obliged to allocate appropriate human and financial resources, including those that may be intended to ensure that members of the Supervisory Board participate in programs that will help them become more aware of environmental, social, and governance issues.

2. To perform the functions set in the first Paragraph, the Supervisory Board shall conduct a meeting at least once a quarter, and if necessary, has to increase the frequency of meetings.

3. While fulfilling its duties, the Supervisory Board primarily has to take into account the interests of the Bank, depositors, shareholders, and other stakeholders. The Supervisory Board shall ensure establishing and maintaining effective communication and cooperation with the supervisory body (NBG).

4 The member of the Supervisory Board shall not participate in the discussions and decision-making, if

he/she may have direct links to the discussion, which might create a threat of conflict of interests. In addition, in the case of indirect links, the Bank should assess the risks related to conflicts and interests and consider them into their decision-making process. Such cases should include when the board should take decisions related to the shareholder. In such cases, the Bank considers that conflict of interest risks exists, the shareholder's representative board member shall not participate in decision-making.

5. The Bank's Supervisory Board or its members shall not delegate their rights to others. This does not apply to the delegation of supervisory powers by the Supervisory Board to committees established at the Board level, as well as to the cases of authorized delegations defined by the Law of Georgia on Commercial Banks, which must be notified to the NBG.

6. The Supervisory Board should regularly meet Board of Directors and internal control functions to discuss policies and controls to identify material risks and the issues and matters in need for improvement. The Supervisory Board should question and critically review explanations and information provided by Board of Directors.

7. Relevant minutes should be produced on the decisions of the Supervisory Board and the committees of the same board. The corporate secretary may carry out this function, depending on the organizational arrangement of the Bank. The minutes of the meetings of both the Supervisory Board and the committees established at the Board level, in addition to the decisions made, should also reflect the positions and arguments of the decision made by the members of the Board/Committee, both for and against. Minutes of the Board and Committee meetings and other additional documents used at the meetings shall be provided to the NBG, upon availability, however, no later than 10 working days, which is authorized to request additional information.

8. The Supervisory Board should carry out assessments of the Supervisory Board and their committees' performance annually. Including with the help of external consultants at least in every 3 years, which should be approved by the Supervisory Board in the form of a policy document, in the manner stipulated by Article 12 of this Code.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 - Website, 02.06.2021.*

## **Article 5. Composition and Staffing of the Supervisory Board**

1. Competence and skills of the Supervisory Board members shall ensure the adequate functioning of financial performance and effective expertise in risk management.

2. If a member of the Supervisory Board no longer complies with the requirements set by law or there is a potential threat to this, or a member of the Board fails to perform his/her duties, the Supervisory Board shall take appropriate action and provide the relevant information to the NBG.

3. The Supervisory Board should be comprised of a sufficient number of members commensurate with the size and complexity of the Bank.

4. At least one-third of Supervisory Board members but no less than 2 (two) should be independent members of the Supervisory Board. In addition, the independent members of the Supervisory Board of a parent company and/or other bank within the banking group may also be considered to be independent members of the Supervisory Board of the subsidiary Bank if these members satisfy the independence



criteria set by the present Code or the best international practices.

5. The Bank itself should confirm the independence of a Supervisory Board member or candidate before his/her appointment as set by the independence questionnaire developed by NBG and compliance analysis submitted to NBG.

6. An independent member of the Supervisory Board, after 7 years from the first appointment as a member of the Board, automatically loses the status of an independent member. If a member of the Supervisory Board temporarily leaves the Board, this period will not be taken into account when calculating the term. If a person has left the Board for five years or more and has since been re-appointed as a member of the Board, to assess his/her independence status, the term shall run from the date of return to the Board if other criteria for an Independent Member are met.

7. Each Supervisory Board member should have sufficient time to perform his/her duties adequately, which should be considered in the selection process and Bank should be able to demonstrate this compliance.

8. The Bank should ensure that the Supervisory Board is staffed in such a way that maintains a balance of diversity of opinion. This means staffing the board with people with different skills, qualifications, and experience. In addition, at least 20% (minimum 1 member) of the Supervisory Board should consist of opposite gender members.

9. A Bank should have relevant compliance policy and procedures for selection, independence and compliance requirements for Supervisory Board.

10. Supervisory Board members are collectively responsible for Bank's interests disregarding the shareholders appointing them. Additionally, Supervisory Board members have a fiduciary duty towards a Bank, as determined by the current legislation.

11. To improve the knowledge and skills of the members of the Supervisory Board, as well as to effectively carry out their functions and duties, the members of the Supervisory Board should participate in the qualification program of new members at the time of appointment, as well as in professional development training. Such training and programs should include in particular members of the Board who, following Article 12, Paragraph 5 of this Code, taking into account the results of the assessment or self-assessment, need professional development training necessary for their relatively limited experience, including in matters of finance, supervision or risk. The Board shall ensure that adequate human and financial resources are available to implement the training and retraining programs provided for in this Paragraph as required. This may require the involvement of both internal and external resources.

12. The members of the Supervisory Board and the committees should be able, given the complexity and importance of the issue to be resolved, to obtain any resources necessary for decision-making, including the services of independent consultants. For this purpose, the Bank's Board of Directors should ensure the allocation of sufficient resources (budget) in the budgeting process.

13. The information (including training requested by the Supervisory Board members, professional programs participated by Supervisory Board members, the budget allocated by the Bank for the training and the hired consultants for Supervisory Board members, consulting services requested and provided by the Supervisory Board members and other relevant information and other relevant information) regarding fulfillment of the requirements set by Paragraph 11 and 12 of this Article should be submitted to the NBG annually.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 6. Chairperson of the Supervisory Board**

1. Chairperson is appointed from the members of the Supervisory Board. He/she is responsible for its effective overall functioning, including maintaining a relationship of trust and collegiality between Supervisory Board members as well as facilitating coordination and effective cooperation between Supervisory Board and Board of Directors. In electing the Chairman of the Supervisory Board, it is desirable to take into account the advanced international practice, which, in addition to proper qualifications, professional experience and education, implies a conscientious and impartial attitude to the work/maximum protection of the best interests of the Bank.
2. If a Chairperson is not an independent Supervisory Board member as defined by Paragraph “b” of Article 2, from independent members of the Supervisory Board a senior independent member should be selected, who shall be responsible for avoiding and removing any concerns regarding the conflict of interests. The senior independent member shall be simultaneously appointed as the deputy chairperson of the Supervisory Board. The senior independent board member serves as a chairperson while deciding on the issues when the chairperson has/might be faced to conflicts of interest. The procedure (when a senior independent member serves as a chairperson) as well as separating the roles and responsibilities between the Chairperson and a senior independent member shall be well defined in a Bank’s internal policy.
3. The Chairperson of the Supervisory Board for systemically important Banks shall be an independent member of the Supervisory Board as defined in Article 2, Paragraph “b” of this Code.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 7. The Committees of the Supervisory Board**

1. All Banks, regardless of their size, complexity, and scope of activities, are required to set up at least audit and risk management committees from among the members of the Supervisory Board.
2. A systemically important Bank is obliged, in addition to the committees provided for in Paragraph 1 of this Article, to set up remuneration, corporate governance, and nomination committees from among the members of the Supervisory Board. In case of the establishment of the committees listed in this Paragraph by a Bank that is not systemically important, the Bank shall ensure the compliance of these committees with the requirements outlined in this Code.
3. In addition to the committees referred to in Paragraphs 1 and 2 of this Article, to increase efficiency, it is desirable to establish committees with other functions with the Supervisory Board. Moreover, according to the decision of the NBG, the Bank may be required to establish other committee/committees, taking into account its systemic importance, risk profile, complexity, and specificity.
4. Each committee should have relevant provisions setting out the committee's mandate, directions, and procedures, including information on regular reporting to the committee's Supervisory Board, cooperation between committees, restrictions on committee membership, roles and functions of committee members. The Supervisory Board should periodically change the Chairperson and the composition of members of the Committee to ensure that new visions and directions are encouraged in the work of the Committee. A reasoned decision on the change of the Chairperson and members of the Committee shall be submitted to the NBG immediately, but not later than within 10 working days.

5. Relevant records shall be kept of decisions made by the committees, if any, by the Corporate Secretary. In addition, committees should report regularly to the Supervisory Board on decisions and recommendations. This information must be provided to the NBG immediately, but not later than 10 working days. The NBG is authorized to request additional information regarding the mentioned decisions and the results of the review. The final responsibility for the decisions made by the committees rests with the Supervisory Board.

6. The chairs of the Audit, Risk Management, Remuneration, and Nomination Committees should be independent members of the Supervisory Board. Committee members should have the authority to enable them to carry out their duties properly.

7. Charters, especially in terms of powers and responsibilities, should be subject to regular review by committees, which in some cases may be subject to review with the Supervisory Board. These discussions should be held at least once a year and be properly documented.

8. Committees should be able to obtain all types of Bank information in the format and frequency specified by each committee. Moreover, they should be able to meet independently with control functions, external consultants, or external auditors, without the presence of the Board of Directors. At the same time, objectivity and active involvement of all members should be encouraged in committees to ensure the environment necessary for sound decision-making.

9. Committees, in addition to the requirements set out in Articles 8 to 11 of this Code, shall meet at least the following requirements:

- a. consist of at least three members;
- b. have a sufficient number (at least one) of independent members to play a leading role in the work of the Committee. Moreover, it is recommended that the majority of the committees be independent members;
- c. Committee members shall individually and collectively have the appropriate knowledge, skills, and experience relevant to the role, responsibilities, and activities of the Committee. The Supervisory Board should consider this when staffing committees.

10. Unless any committee specified in this Code is established in the Bank, the Supervisory Board shall be responsible for the performance of the activities of these Committees.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 8. Audit Committee**

1. The Audit Committee established with the Supervisory Board, among other functions, is responsible for:

- a. establishing Bank's policy on internal control and financial reporting;
- b. overseeing the financial reporting process and approve financial statements before publication;
- c. monitoring and active cooperation with the Bank's internal and external auditors;
- d. evaluating effectiveness of external auditor, expressing opinion on candidates for external auditors, recommending to the Supervisory Board or shareholders for their candidates, the approval, appointment, remuneration, and dismissal of external auditors;
- e. reviewing and approving scope and frequency for the internal audit to be conducted;

- f. receiving internal audit reports and periodic reporting information of activities and ensuring that Board of Directors is taking necessary corrective actions promptly to address control weaknesses, non-compliance with legislation, and other issues identified during the audit process or by other control functions;
  - g. monitoring the development of the Bank's accounting policies and practices; Ensure the fairness, completeness, and compliance of financial reporting policies with relevant legislation and standards;
  - h. reviewing the third-party opinions on the framework of risk management and effectiveness and structure of internal control systems.
  - i. ensuring adequate functioning, independence, and effective cooperation of internal and external audits.
  - j. reviewing recommendation letter prepared by external audit and monitor that Board of Directors takes corrective actions to remedy identified problems.
  - k. monitoring the Pillar 3 reporting process, including the reporting of ESG issues, and approve the annual Pillar 3 reporting to be published if it is the function of the Audit Committee following the Bank's internal policies.
2. The chairperson of the Audit Committee should be independent and should not be the chair of the Supervisory Board and/or any other committees. Additionally, an Audit Committee should comprise of at least 3 members, the majority of which should be independent members of the Supervisory Board.
3. At least two members of an Audit Committee, including the chairperson should have the ability to analyze financial statements, respective experience or should have education in finance.
4. The members of an Audit Committee should have free and unfettered access to Board of Directors, the internal audit, and all risk management functions.
5. An Audit Committee should annually review the independence of external auditors and publish information in the Pillar 3 reports on:
- a. the aggregate amount of fees paid to the external auditors for that financial year;
  - b. a breakdown of the fees paid in total for audit and non-audit services respectively, or an appropriate negative statement, in the company's Annual Report. Where the external auditors also supply a substantial volume of non-audit services to the company, the Audit Committee should in advance review and approve the nature and extent of such services, seeking to maintain objectivity and avoiding conflicts of interest;
6. A former partner or director of a Bank's existing audit firm, who was involved in the provision of the audit service to the Bank, should not also be a member of a Bank's Audit Committee:
- a. within 12 months from the date of his/her ceasing to be a partner or a director of the audit firm;
  - b. For as long as he/she has any financial interest.
7. The Audit Committee should evaluate the independence of the external auditors and, if necessary, make a recommendation to the Supervisory Board and the shareholders' meeting to replace the auditing firm.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 - Website, 02.06.2021.*

## **Article 9. Risk committee**

1. In addition to other functions, the Risk Committee established with the Supervisory Board:

- a. Discusses all risk strategies on both an aggregated basis and by type of risk and makes recommendations to the Supervisory Board and the shareholders' meeting on the Bank's overall current and future risk appetite;
- b. Prepares and reports to the Supervisory Board on the state of risk culture in the Bank and reviews the Bank's risk policies at least annually;
- c. Oversees if the Board of Directors has in place appropriate procedures to promote the Bank's adherence to the approved risk policies;
- d. Cooperates and monitors the activities of CRO;
- e. Provides recommendations to the Supervisory Board regarding effectiveness of the risk strategies and the policies, including distribution and maintaining of adequate level of capital for identified risks;
- f. Monitors strategies for capital and liquidity management; also, all other types of risks including credit, market, operational, and reputation risks, to ensure compliance with risk appetite.
- g. Makes recommendations regarding the appointment of an external consultant, to whom the Supervisory Board or its committees may apply, for consultation or advice;
- h. Reviews various possible scenarios, including stress scenarios, to assess the impact of various external and internal events on the Bank's risk profile;
- i. Monitors the compliance of material financial products and services offered to clients, including their pricing with the organization's business model and risk strategy. The Risk Committee is responsible for assessing the risks associated with the financial products and services offered and for considering the relevance of the price of these products and services to the profits derived from them;
- j. Evaluates the recommendations of the internal and external auditor and monitors the implementation of appropriate measures in cooperation with the Audit Committee;
- k. Monitors the Pillar 3 reporting process, including ESG issues, and approves the publication of the annual Pillar 3 reporting if it is a function of the Risk Committee following the Bank's internal policies.

2. The Risk Committee is responsible for providing recommendations and views to the Supervisory Board regarding existing and future risk appetite. Additionally, it should provide a report about material risks and other identified significant issues, including the structure of internal control systems and risk management, effective functioning, continuity, and generally about the risk culture in a Bank to the Supervisory Board at least once a year.

3. The committee should receive regular reporting and communication from the CRO and other relevant functions about the Bank's current risk profile, the current state of the risk culture, utilization against the established risk appetite, limits, limit breaches, and mitigation plans.

4. There should be effective communication and coordination between the Audit Committee and the Risk Committee including the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the Bank.

5. The Risk Committee shall have free and unfettered access to Board of Directors, risk and control personnel, and other parties (internal and external) in carrying out its duties effectively.

6. The chair of the Risk Committee should be independent and should not be the chairperson of the Supervisory Board or any other committees. Additionally, the Risk Committee should comprise at least 3 members, the majority of which should be independent members of the Supervisory Board.

7. The Risk Committee shall cooperate regularly with the CRO to ensure the development and ongoing maintenance of an effective risk management system within the Bank that is effective and proportionate to the nature, scale, and complexity of the risks inherent in the Bank. The Risk Committee should invite the CRO to attend all meetings of the Committee.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 - Website, 02.06.2021.*

#### **Article 10. Remuneration Committee**

1. Following Paragraph 2 of Article 7 of this Code, systemically important banks are required to establish a Remuneration Committee with the Supervisory Board. The committee should support the Supervisory Board to establish and operate the remuneration system in the Bank, also in ensuring the compliance between remuneration system of a Bank and Bank risk culture, long-term business strategy and risk appetite, Bank's activities and control environment as well as legislative/supervisory requirements.

2. The chair of the Remuneration Committee should be an independent member of the Supervisory Board. In addition, the committee should be composed of at least 3 members and a sufficient number of independent members should be represented in the committee. The members of the Remuneration Committee should jointly have relevant knowledge and professional experience in remuneration policies and practices, risk management and control, remuneration structure, and the compliance of the Bank's risk and equity with the structure profile.

3. The Remuneration Committee, among other functions, is responsible for:

- a. Regularly reviewing the remuneration policy and submitting relevant recommendations to the Supervisory Board to ensure that the Bank's remuneration policy complies with international standards and regulatory standards set by law. This includes assessing the effectiveness of the Bank's remuneration policy and its compliance with the requirements of the law. The Remuneration Committee assesses the relevance of the remuneration policy to the Bank's strategy, goals, corporate culture, and long-term interests, and determines whether the remuneration policy of the Bank contributes to effective risk management;
- b. Submitting annual recommendations to the Supervisory Board on the remuneration of material risk-takers (except members of the Supervisory Board);
- c. Submitting annual recommendations to the Supervisory Board on the remuneration of the categories of persons defined by the remuneration policy;
- d. Ensuring the existence of internal processes necessary for the publication of remuneration-related information required by the "Rule of Disclosure of Information by Commercial Banks under Pillar 3" approved by the Order №92/04 of the President of the National Bank of Georgia of June 22, 2017, to ensure maximum accuracy of the given information;
- e. Reviewing the appointment of external consultants and considering their recommendations in the event of a decision by the Supervisory Board or the Remuneration Committee to receive the services of external remuneration consultants;

- f. Ensuring that information provided to shareholders about remuneration policies and practices, including the increase in the maximum ratio of annual variable remuneration, is adequate;
  - g. Assessing the fulfillment of key performance indicators (KPIs) of material risk-takers (other than members of the Supervisory Board) and the need for performance and risk based adjustments for variable remuneration before and after the award, including the return or reduction of variable remuneration;
  - h. Reviewing different scenarios to assess the impact of different internal or external events on the remuneration policy and practice, as well as to assess the criteria used for risk-based adjustments;
  - i. Cooperating closely with other committees of the Supervisory Board and internal corporate functions (human resources, legal, strategic planning, etc.) to review and analyze remuneration plans, processes, and results at least annually. With this review, the Remuneration Committee should ensure that the remuneration policy operates under the plan and that it is in line with the Bank's business strategy and risk appetite, local and international best practices, principles, and standards, and does not jeopardize maintaining an adequate Bank capital position. If in the course of the periodic review, remuneration policy-related deficiencies are identified, the Remuneration Committee should ensure that a remedial action plan is developed and adopted promptly.
4. The Remuneration Committee should work with the Bank Risk Committee and the compliance function to assess the incentives for the remuneration system. Risk and compliance functions, following their roles, should participate in determining the amount of variable remuneration and performance appraisal criteria. Independently of the Remuneration Committee, the Risk Committee examines the extent to which the incentives of the remuneration system take into account the risks, equity, liquidity, revenue forecast, and timing of the Bank.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 11. Other Committees**

1. According to Paragraphs 2 and 3 of Article 7 of this Code, other committees may be established in the Bank, although, the following committees are recommended to be established in all Banks:
- a. Nomination Committee;
  - b. Corporate Governance Committee.
2. Nomination Committee, among other functions:
- a. submits recommendations to the Supervisory Board and the Board of Directors regarding new candidates. In addition, the Committee should be actively involved in the structural planning process of the Supervisory Board, including the selection of board members, which should take into account the requirements and needs of the Bank and its business strategy, skills, and expertise in the Board;
  - b. regularly reviews the efficiency and effectiveness of the functioning of the Supervisory Board. In addition, the Nomination Committee regularly reviews candidates such as Chief Executive Officer (CEO), Deputy CEOs, including Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the grounds for appointing other persons;
  - c. ensures that the Bank has adequate policies and procedures for the appointment, dismissal, and selection of the members of the Board of Directors. This should also include a diversity policy

based on at least education, professional experience, age, and gender. The Committee should be actively involved in the ongoing processes in the Bank in these areas.

- d. should ensure that any member and/or group of members of the Supervisory Board and/or the Board of Directors is not a dominant party in such a way that it is detrimental to the overall objectives of the Bank.
- e. should be involved in the process of evaluating the effectiveness of the activities of the Supervisory Board and the Board of Directors, as well as in the process of monitoring the implementation of the Bank's internal staff and human resources policies.

3. The Chairperson of the Nomination Committee shall be an independent member of the Board. In addition, the committee should be composed of at least 3 members and a sufficient number of independent members should be represented in the committee.

4. Corporate Governance Committee, among other functions:

- a. ensures compliance of the Bank's internal management structure with the requirements of the legislation governing corporate governance issues and the internal rules/documents of the Bank;
- b. ensures the existence of such a decision-making system within the Bank, which in turn ensures the assessment of the Bank's reputation risks in decision-making and, in addition, full compliance with the legislation and internal standards of the Bank;
- c. performs the functions and duties provided for in the Code of Ethics and Standards of Professional Conduct for Commercial Banks.

5. A Corporate Governance Secretary is accountable to the Corporate Governance Committee.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

## **Article 12. Supervisory Board performance assessment**

1. The Supervisory Board shall ensure that there is an appropriate skill and experience mix across members of the Supervisory Board and this shall be considered during the selection process of the Supervisory Board members.

2. The Supervisory Board should periodically review its structure, size, and composition as well as committees' structures and coordination, compliance of each Supervisory Board member with the requirements of legislation and Bank's internal rules, the effectiveness of its internal governance practices and procedures.

3. For the purposes of the evaluation provided for in Paragraph 2 of this Article, the Supervisory Board shall have appropriate self-assessment and evaluation procedures, which shall include an annual evaluation by the Supervisory Board of the entire Supervisory Board, committees and individual members of the Board.

4. At least in very three years an assessment of the Supervisory Board's performance by an external evaluator shall be conducted. The external evaluator is elected by the Supervisory Board or the Corporate Governance Committee, if any. If necessary, upon NBG's decision, the frequency of evaluation of the Supervisory Board by an external evaluator may be increased.

5. The purpose of the self-assessment as well as external evaluation of the Supervisory Board is to identify the matters, which should be improved by the Board or its members. Based on the assessments, the



Supervisory Board shall plan measures to improve the identified issues. The latter might include participation in trainings and exercises required for Supervisory Board members to improve their qualification.

6. The data used in the assessment provided for in this Article and the results of the assessment shall be published following the "Rule of Disclosure of Information by Commercial Banks under Pillar 3" approved by the Order №92/04 of the President of the National Bank of Georgia of June 22, 2017, and shall be reported to the NBG.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

### **Article 13. Board of Directors**

1. The Bank's Board of Directors, among other functions, implement Bank's business strategies, creates effective financial and non-financial risk management systems, facilitate the development and establishment of risk culture, processes, and controls, is responsible for the effective functioning of the remuneration system. It provides information necessary for the performance of the functions to the Supervisory Board, at least in the format and frequency to be determined by the Supervisory Board and the Committees, as well as additional information that the Board decides is necessary for its decision-making. This information includes, but is not limited to, information required by the Supervisory Board to effectively evaluate and oversee the activities of the Board of Directors. Accordingly, the Board of Directors should regularly provide information to the Supervisory Board on important issues and problems of the Bank.

2. The Bank's Board of Directors is responsible for the redistribution of duties and responsibilities of the Bank's employees and the establishment of an effective governance structure, which should ensure accountability and transparency within the Bank.

3. The joint roles and responsibilities of the Bank's Board of Directors and individual directors are defined by the Supervisory Board in an official document, to avoid indefinite control over the Bank's business activities by any person/group of persons.

4. Members of the Board of Directors should have the experience and competencies necessary to carry out their functions effectively and have sufficient time to perform their duties properly. In addition, to enhance their competencies and knowledge in the required areas, they should be allowed to participate in relevant training and retraining programs. The selection of the members of the directorate is recommended to follow the received recommendations and structural planning, and the qualifications and skills of the candidates should be evaluated at each stage of the process.

5. The members of the Board of Directors who are responsible for the internal control functions should not have any other responsibilities that may jeopardize their activities in the field of internal control or the independence of the internal control function. In the consideration and decision of the issue/issues by the Board of Directors, when any member of the Board of Directors has a direct connection with the issue under consideration, which may lead to a conflict of interest, the said member should not take part in the discussion of the relevant issue and decision-making. Moreover, in cases of indirect connection with the issue under consideration, the Bank should assess the risks of conflict of interest and take them into account in the decision-making process.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - Website, 09.02.2021.*

#### **Article 14. Chief Executive Officer**

1. The structure of all Bank's Board of Directors should include the CEO, who is the chief executive officer of the Bank. The ultimate responsibility for the bank's internal operations, compliance and operations rests with the CEO. In addition, the CEO, among other functions, acts as a liaison between the Bank's Board of Directors and the Supervisory Board.
2. The Supervisory Board shall appoint the CEO.
3. The CEO of the Bank should have sufficient time to perform his/ her duties properly, appropriate qualifications, professional experience, relevant competence, and a conscientious attitude towards work.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

#### **Article 15. Chief Risk Officer**

1. Every Bank should have a Chief Risk Officer (CRO) who should be a member of the Board of Directors. The CRO monitors the effective implementation of the Bank's risk management function, which includes, but is not limited to, improvement staff skills and qualifications in terms of risk management systems, policies, processes, quantitative models, and reporting, which is important for creating a healthy and effective risk management system, as well as for strategic goals and effective implementation of risky activities.
2. CRO should have sufficient stature and authority within the organization, unfettered access, and, for functional purposes, a direct reporting line to the Supervisory Board or the Risk Committee. CRO should have the right to request a meeting with the Supervisory Board, the Risk Committee or independent members of the Board without involvement from the members of Board of Directors.
3. The Supervisory Board or its Risk Committee should approve appointment, dismissal, and other changes to the CRO position. If the CRO is removed from his or her position, reasons and basis for removal should be documented and provided to the NBG no later than 10 working days. The NBG has the right to discuss this matter with parties to learn more about the reasons for removal.
4. The CRO's activities shall be reviewed and evaluated by the Risk Committee.
5. The CRO and Bank's risk management function in general, should take all measures to identify and assess the risks associated with group membership. To this end, the CRO should obtain all available information about the group. In addition, the CRO shall identify, assess, monitor, control, and report risks at the banking group level.
6. The CRO should have the ability to interpret and articulate risks and their influence on the Bank clearly and understandably. The Supervisory Board and Board of Directors should be able to engage in constructive communication on key risk issues. The CRO and the Supervisory Board/ Risk Committee should cooperate regularly, including CRO's meeting with the Risk Committee, the Supervisory Board and independent Board members, with and without the other members of Board of Directors.
7. While making a decision, including the decision-making process of a credit committee while a CRO is a member of the latter, CRO should have the right to block/ put a veto on material decisions when he/she

considers that the decision threatens/ does not comply with the Bank's risk appetite/limits approved by the Supervisory Board. Such cases should be officially recorded and shared with the NBG, the Supervisory Board, and Risk Committees.

8. CRO should constantly report to the Supervisory Board, Risk Committees, and Board of Directors in such a manner that allows them to analyze the Bank's risks. Given records should be available to the NBG as well upon request.

9. CRO should be in between the top five highest-paid material risk-takers (excluding members of the Supervisory Board) and other employees of the Bank.

10. CRO should not simultaneously hold the position of a Chief Operating Officer, CFO, Head of Internal Audit or any other managerial position.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

#### **Article 16. Corporate Governance of a Banking Group**

1. In a Banking Group, the Supervisory Board of the parent company or in case of its absence, relevant highest executive body has the overall responsibility for the corporate governance of the Banking group, including ensuring the establishment and operation of a clear governance framework for enterprises appropriate to the structure, business, and risks of the banking group and its entities.

2. The Supervisory Board of the parent company or in case of its absence, relevant highest governance body should be aware of the material risks and issues that might affect both the Bank as a whole and its subsidiaries. This should include periodic reviews of the structure of the subsidiaries, their controls and activities, as well as their compliance with the strategy adopted. At the same time, the Supervisory Board of the parent enterprise should adequately monitor the subsidiaries, in the process of which the legal and managerial responsibilities of the Supervisory Boards of the subsidiaries should be maintained.

3. The management of each member of the banking group or a similar body, and if any, the Supervisory Board is responsible for maintaining effective risk management processes within the enterprise. In addition, it is important for enterprises to promote risk management efficiency at the banking group level.

4. The Supervisory Board of each subsidiary or a similar body that is a member of the Banking group should assess the compliance of the Banking group's policies with the laws/regulatory requirements of the country in which it operates. If local law restricts the Group from pursuing a more conservative policy, including the disclosure and exchange of information within the Group, its subsidiaries, and affiliates, the subsidiary shall notify the head of the parent company's compliance department and, accordingly, change policies and/or make some adjustments, if the above poses a threat to the healthy functioning of the Bank.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

#### **Article 17. Risk Management**

1. The Supervisory Board is responsible for monitoring and establishing a strong risk management system, which includes strong risk culture, a healthy risk appetite, which is set by the risk appetite statement, and effectively determines responsibilities regarding risk management and control functions. The Bank's risk identification, aggregation, mitigation, and monitoring capabilities should be commensurate with the

Bank's size, complexity, and risk profile.

2. The Supervisory Board is required to understand the risks to the Bank, on- and off-balance sheet and on a group-wide, portfolio-wise, and business-line level including ongoing analysis of existing risks as well as the identification of new or emerging risks and shall establish a documented risk appetite for the institution which should correspond to Bank's strategy, capital, financial plans, and remuneration practices. Risk appetite document should at least:

- a. include both quantitative and qualitative considerations and also include quantitative metrics to allow evaluation of performance and compliance with the agreed strategy;
- b. Establish the individual and aggregate level and types of risk that the Bank is willing to assume in advance taking into account the Bank's existing capital, risk management, and supervisory limitations in the scope of planned business activities.
- c. Define the boundaries and business considerations under which the Bank is expected to operate when pursuing the business strategy;
- d. Communicate how everyday activities are in line with the Bank's risk appetite.

3. The risk appetite shall be comprehensive and clear, taking into account Bank's short-term, medium-term and long-term perspectives. Risk appetite should be the subject of review by the Supervisory Board at least once every year.

4. Depending on the Bank's scope, risks arising from each structural unit should be controlled. Additionally, for quantitative and qualitative analysis, Bank should conduct stress tests and scenario analysis, to better evaluate potential risk positions taking into account different scenarios.

5. Bank should regularly compare actual performance against risk estimates (i.e., backtesting) to assist in evaluating the accuracy and effectiveness of the risk management process and making necessary adjustments. In the event of a material deviation from the defined risk appetite, the details of the deviation and the appropriate actions to remedy the deviation shall be reported to the NBG in writing.

6. Banks should have risk management system and approval processes for new products or services, line of business, and large and complex transactions that require significant use of resources or have hard-to-quantify risks. Bank should also have relevant data required to make risk decisions.

7. The risk management framework of a Group, including Banking Group, member banks, should include assessing future risks arising from Banking group or member banks with material risks and should be taken into account in risk management processes.

8. Mergers and significant acquisition transactions, as well as other significant changes in a Bank group structure that are associated with significant challenges, should be assessed thoroughly and adequately by the relevant functions involved in a Bank's risk management.

9. A risk governance framework should include well-defined organizational responsibilities for risk management, typically referred to as the three lines of defense:

- a. The business line implies line of risk-takers and is responsible for the initial identification, assessment, management, monitoring of the risks for products, activities, processes and systems. The first line of defense should take into account the Bank's risk appetite and its policies, procedures, and controls. Moreover, for the understanding of the Bank's risk culture by the first line of defense, it is important for the Bank to define risk culture awareness activities at the

Supervisory Board level;

- b. a risk management function and a compliance function independent from the first line of defense with the responsibility for overseeing the Bank's risk-taking activities and assessing risks and issues independently from the business line while assisting the Board of Directors and business line in identifying and assessing risks thoroughly and critically. The Bank Risk Management Director plays a leading role in the operation of this line. Moreover, it is important that the business line itself is responsible for the initial identification of respective risks. The Compliance Office, which is also part of the second line defense, should monitor compliance of the process with legislation, corporate governance rules, and internal policies, and report directly to the Supervisory Board and provide the same information to the Board of Directors;
- c. an internal audit function should be independent from the first and second lines of defense. For the effective risk management purposes, internal audit function provides independent review and objective assurance on the quality and effectiveness of the Bank's internal control system, the first and second lines of defense, and the effectiveness of the overall risk governance framework. The latter includes but is not limited to assessment of the strategic and business planning, remuneration and decision-making processes.

10. Depending on the Bank's nature, size and complexity, and the risk profile of its activities, the specifics of how these three lines of defense are structured can vary. Regardless, these three should be structurally and qualitatively differentiated. The bank should be able to identify and evaluate the effectiveness of structural units of all three lines.

11. The Supervisory Board should ensure that the functions representing second and third lines are properly structured, and resourced to carry out their responsibilities independently, objectively, and effectively.

12. The Supervisory Board should regularly review Bank's key policies and controls with Board of Directors and with the heads of the risk management, compliance, and internal audit functions to identify and address significant risks and determine areas that need improvement.

13. The Supervisory Board, together with financial risks, shall assess non-financial risks that contain ESG, including climate change risks. The Supervisory Board shall ensure the full integration of the ESG risks into the Bank's risk management framework. As part of the risk management system oversight, the Supervisory Board shall regularly assess ESG risks and verify that these risks are identified, measured, monitored, and their impacts are mitigated appropriately.

14. The Bank should have sound, effective and comprehensive strategies and processes for assessing and maintaining internal capital, which should ensure that the volume of internal capital, the types of constituent elements, and the allocation processes are adequate to the nature and level of risks facing the Bank. Those strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale, and complexity of the activities of the Bank concerned.

15. The information on risks should be exchanged in a timely, precise, and clear manner, using dynamic and consistent reporting systems, to ensure a well-supported/documented decision-making process.

16. Risk appetite and internal capital adequacy assessment process should encompass all the risks providing overall risk framework inclusion.

17. In the case of high dollarization, the overall risk management framework should take into account market risk related to FX risk as well as currency-induced credit risk and those risks should be reflected into the Bank's risk appetite statement and its related policies/procedures and limits.

18. The risk management function should ensure appropriate assessment and management of risks related to structural position caused by the asset dollarization. For these purposes, FX risk should be adequately incorporated in stress scenarios. In addition, a Bank should assess and manage unhedged credit risk.

19. For effective management of dollarization risk as well as ensuring transparency, the relevant Bank staff is obliged to notify the client of the currency risks related to the products.

20. The Supervisory Board should receive regular reporting on dollarization risk management issues.

21. The risk management function should be involved in the new product approval process, which should be based on the new product approval policies and procedures developed by the Bank.

22. The risk management function should be involved in the process of approving the transaction with related parties following the conflict-of-interest management regulation approved by the Supervisory Board.

23. The Bank shall have an outsourcing policy approved by the Supervisory Board. The outsourcing policy document should address the impact of outsourcing on the Bank's business and existing and/or potential risks, including operational, reputational, and concentration risks. It should also set out the reporting and monitoring procedures to be followed from the start of the agreement to its conclusion and should regulate outsourcing between team members. The Bank is responsible for the correctness and adequacy of the services received through outsourcing.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 – website 02.06.2021*

## **Article 18. Internal control and audit**

1. A system of sound internal controls including an effective and efficient internal audit function that provides independent assurance to the Supervisory Board and Board of Directors on the quality and effectiveness of a Bank's internal control, risk management, and governance systems and processes should support the Bank's risk management system.

2. The Supervisory Board and Board of Directors should ensure the independence and effectiveness of the internal audit function, including by the following means:

- a. Ensuring full access of internal audit functions to the Bank's information, records, and data, which includes access to the informational systems and records of each advisory and decision-making unit.
- b. Fully ensuring the independence and impartiality of internal audit functions, including structural independence when evaluating the effectiveness and efficiency of internal control, risk management and management systems and processes.
- c. Requiring internal auditors to adhere to national and international professional standards in the area;
- d. Ensuring that the internal audit has an independent personnel policy and remuneration system that allows it to attract resources with sufficient qualifications, skills, and experience appropriate

to the scale and complexity of the Bank's operations;

- e. Ensuring timely and effective elimination of internal audit issues and shortcomings by the Board of Directors;
- f. The internal audit function should evaluate the Bank's overall risk management framework, which includes, but is not limited to, assessing the following elements:
  - f.a) the effectiveness of the risk management function and compliance service;
  - f.b) the quality of risk reporting processes with the Supervisory Board and the Board of Directors;
  - f.c) adequacy of the Bank's internal control system.

3. Internal audit function shall report to the Supervisory Board and its Audit Committee, which shall make decisions regarding the hiring, dismissal, evaluation, and remuneration of the head of the internal audit function. Participation of the Bank's Board of Directors or any other executive structures in determining the remuneration of the internal audit employees is prohibited.

4. The internal audit function should independently evaluate the:

- a. Effectiveness and efficiency of internal control, risk management, and governance systems in the context of both current and potential future risks;
- b. Quality of internal and external reporting information on operations and processes performed by the Bank;
- c. Reliability, efficiency and integrity of management information systems, technologies and processes (including data relevance, accuracy, completeness, accessibility, confidentiality and comprehensiveness);
- d. Compliance with laws and regulations, including any requirements imposed by the supervisor;
- e. Protection and safeguarding of assets.

5. The head of internal audit is responsible for establishing an annual internal audit plan that can be part of a multi-year plan. The plan should be based on a sound risk assessment (including input from Board of Directors and the Supervisory Board) and should be updated at least annually (or more frequently, to enable an ongoing real-time assessment of where significant risks lie). The Audit Committee's approval of the audit plan implies that an appropriate budget will be available to support the internal audit function's activities. The budget should be sufficiently flexible to adapt the internal audit plan in response to changes in the Bank's risk profile.

6. Internal audit assurance and advisory mandate should include the following aspects of risk management:

- a. the organization and mandates of the risk management function including market, credit, liquidity, interest rate, operational, and legal risks;
- b. evaluation of risk appetite and reporting of issues and decisions taken by the risk management function;
- c. the adequacy of risk management systems and processes for identifying, measuring, assessing, controlling, responding to, and reporting on all the risks resulting from the Bank's activities;
- d. the integrity of the risk management information systems, including the accuracy, reliability, and completeness of the data used;
- e. the approval and maintenance of risk models including verification of the consistency, timeliness, independence, and reliability of data sources used in such models.

7. Internal audit should review management's process for stress testing its capital levels, taking into account the frequency of such exercises, their purpose (e.g., internal monitoring vs. regulator imposed), the reasonableness of scenarios and the underlying assumptions employed, and the reliability of the processes used. Additionally, the internal audit should evaluate Bank's systems and processes for measuring and monitoring its liquidity positions concerning its risk profile, external environment, and minimum regulatory requirements.

8. Internal audit should regularly evaluate the reporting and risk communication processes to ensure that timely, accurate, reliable, and appropriate reports are prepared for both the Bank's management and the supervisor. This should include standard reports relating to the Bank's calculations of its capital adequacy requirements and ratios, as well as reports that are subject to public disclosure (such as Pillar 3 reporting and other public reporting of the Bank).

9. Besides the reporting to the Supervisory Board, considering the Board of Directors' responsibility of providing adequate and effective internal control function in a Bank, the internal audit function should immediately report to Board of Directors on material identified issues and assessment results for prompt decisions and reactions of taking relevant measures that should be also discussed by the internal control function with Board of Directors. The status of measures, results, and planned arrangements should be also reported by the internal control function to the Supervisory Board.

10. Regular communication and exchange of information between the internal audit function and the NBG should take place to ensure an effective and efficient internal audit function within the Bank. For this purpose, the Bank's internal audit function should provide the NBG with information on identified risks, deficiencies, including reports/findings, which should also include information on the measures taken and the outcomes received by the Board of Directors to address these identified deficiencies and risks and mitigation objectives. Issues, risks, shortcomings identified by the Bank and/or the NBG, the Bank's response and their outcomes, recommendations, further measures may be discussed in meetings (including face-to-face and remote), which may be conducted with or without the involvement of the Board of Directors.

11. The Audit Committee is required to assess internal audit function performance at least annually.

12. The Bank is required to notify the NBG about the dismissal of the head of the internal audit function by providing the relevant reasons and grounds within 10 working days.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

## **Article 19. Remuneration**

1. The Bank's remuneration system should promote sound corporate governance and risk management incentives. The system should provide appropriate risk-taking procedures and a strong operational and risk culture and system of the Bank in line with the Bank's activities, risk strategy, goals, values, and the long-term interests of the Bank as well as the Bank's shareholders, investors, other stakeholders, and the public. The remuneration system should not encourage excessive risk-taking.

2. The Bank should have a documented remuneration policy, which should include, among other things, fixed and, if any, variable forms of remuneration, their combinations, ratios, and limits, performance objectives, the link between the achievement of performance objectives and the amount of variable remuneration, adjustments of variable remuneration before (ex-ante) and after (ex-post) awarding, as well



as schedules and periodicity of payments/vesting.

3. The fixed and variable components of the remuneration of material risk-takers (other than members of the Supervisory Board) shall be properly balanced and the fixed remuneration shall be high enough to enable the Bank to flexibly award/pay variable remuneration, which, among other things, implies the possibility to reduce variable component of remuneration down to zero.

4. The Bank should determine the maximum amount of variable remuneration, taking into account current risks, expected losses, estimates of unexpected losses, and stress conditions related to the activities of the Bank. At the end of the accrual period, the variable remuneration of material risk-takers (excluding members of the Supervisory Board) should be determined based on key performance indicators (KPIs) and ex-ante risk adjustments as specified in Subparagraph “c” of Paragraph 15 of this Article.

5. The Bank's pension policy, if any, should be consistent with the Bank's business strategy, goals, and long-term interests. In the event of a discretionary pension benefit, the Bank shall ensure compliance with international best practices and agreement with the NBG.

6. Remuneration policies should ensure that conflicts of interest are avoided and that remuneration of employees of control functions, including components based on their functions and activities if any [*i.e. performance based variable remuneration*], does not pose a risk to the independence of such persons. To maintain the independence of control functions, the remuneration of employees should not depend on the financial results of the business line that are audited or monitored by those functions.

7. The Bank's remuneration policy should be based on criteria related to education, qualifications and responsibilities imposed. It is not allowed to differentiate the remuneration in any way, based on gender.

8. For the Supervisory Board members, Board of Directors and other employees, who are also employed in the Group's member enterprises, the remuneration policy requirements outlined in this Code, shall be extended on the group level for the remuneration accrued/paid for the activities performed within the Bank.

9. The Bank shall develop a remuneration policy for the entire staff of the Bank, which shall comply with the remuneration policy requirements outlined in this Article. Moreover, the Bank shall have additional/different remuneration standards for material risk-takers.

10. Variable remuneration should reflect both the risk-taking behavior and the risk outcomes. If the variable remuneration award or its volume depends not only on the accrual period of variable remuneration but also on the results of the future period, the Bank should determine and evaluate the additional performance indicators (KPIs) based on which the remuneration will be awarded [*or awarded remuneration will be vested*].

11. The remuneration of the Supervisory Board members should be commensurate with their involvement, responsibilities, efforts, and time resources. Their remuneration should not jeopardize their impartiality. Remuneration of the Supervisory Board members should include only fixed remuneration. In addition to membership of the Supervisory Board, the Supervisory Board members may receive additional remuneration if the member is the Chairperson of the Board, the Deputy Chairperson, a member or Chairperson of the Committee of the Board. Moreover, the difference between the highest annual (including additional remuneration) and the lowest annual remuneration of the Supervisory Board members should not be more than 30% of the minimum [*lowest*].

12. The definition of fixed and variable remuneration and the criteria for determining them should be clearly defined in the Bank's remuneration policy:

- a. **Fixed remuneration** should reflect the relevant professional experience and organizational responsibilities, which in turn should be defined in the job description of the person as part of the employment. The cash equivalent of fixed remuneration should be predetermined and unchanged, should not depend on performance indicators, should not encourage risk-taking behaviors and the Bank should not be able to reduce and/or cancel it. Fixed remuneration also includes pension benefit accrued on fixed remuneration;
- b. **Variable remuneration**, in addition to that specified in the job description of the person, shall be based on the results of the accrual period of variable remuneration, both at the individual and business unit level and the Bank level as a whole, subject to Paragraph 6 of this Article. Any remuneration that does not meet the fixed remuneration criteria will be considered as variable remuneration.

13. The variable remuneration policy should not interfere with the Bank's compliance with its capital adequacy ratios and compliance with other standards. For regulatory capital accumulation purposes, the Bank should be able, in whole or partially not to award and/or not to vest/pay *[fully or partially]* the deferred variable remuneration awarded in the past.

14. Guaranteed variable remuneration, if any, should be exceptional and may only be awarded to newly hired material risk-takers (other than Supervisory Board members) and other employees during the first year of their employment. Moreover, guaranteed variable remuneration is allowed only when the Bank has a solid capital base. Guaranteed variable remuneration shall not exceed 200% of the annual fixed remuneration of the recipient. Guaranteed variable remuneration shall be subject to ex ante risk adjustment [before the award], as well as ex post risk adjustments [after the award] such as malus and clawback.. Guaranteed variable remuneration shall be awarded on a one-time basis, only in cash or in shares. Guaranteed variable remuneration should be issued to material risk-takers with prior agreement with the NBG.

15. The remuneration policy should include at least the following elements regarding variable remuneration of material risk-takers (other than members of the Supervisory Board):

- a. the principle of deferral and retention of variable remuneration and the forms of payment of variable remuneration:
  - a.a) **Principle of Deferral** - The duration of the deferral period of variable remuneration should depend on the period of realization of the risks related to the activity of the person. Moreover, not less than 40% of the annual variable remuneration, and in the case of persons whose annual variable remuneration is material (exceeds 100% of the annual fixed remuneration and/or exceeds GEL 500,000 or its equivalent), payment of at least 60% shall be deferred, at least in the following way:
    - a.a.a) the duration of the deferral period of remuneration of the directors *[members of Board of Directors]* of systemically important and/or Important Banks shall not be less than 5 years;
    - a.a.b) the duration of the deferral period of variable remuneration of material risk takers (except members of the Supervisory Board and the Board of Directors) of systemically important and/or important banks should not be less than 3 years;

**a.a.c)** the duration of the deferral period of variable remuneration of material risk takers (except members of the Supervisory Board) of Banks that are not systemically important and/or significant should not be less than 3 years; Deviation from this requirement is possible if the annual variable remuneration of the person is non-material (does not exceed 20% of the annual fixed remuneration);

**a.a.d)** deferred variable remuneration may be paid and/or vested fully at the end of the deferral period or in equal proportions during the deferral period. In addition, in the case of proportionate payment, the first installment of the deferred variable remuneration may be paid no earlier than one year from the beginning of the deferral period and subsequent payments should not be made more often than every 12 months.

**a.b) Principle of Retention** - in the case of systemically important and/or Important Banks, the non-deferred portion of the variable remuneration, which is issued in the form of shares of a Bank or Bank holding, share-linked or other means, shall be subject to a retention period of at least 1 (one) year in the case of directors, and a retention period of at least 6 (six) months in the case of material risk-takers (other than members of the Supervisory Board and board of directors).

**a.c) Forms of payment** - in the case of systemically important and/or Important Banks, a maximum of 50% of both the deferred and non-deferred portions of the variable remuneration may be granted in cash, and the remainder granted in the form of Bank or Bank holding shares, share-related or other means:

**a.c.a)** if, shares of a Bank or in the case of a Banking group structure, the shares of a Bank holding are traded on a stock exchange and constitute a liquid asset, part of the remuneration shall be paid in the form of shares of a Bank or Bank holding if the Bank is a material member (the share of Bank assets in the Banking group assets exceeds 50% and there is a significant correlation between the Bank and Banking group stock prices) of that Banking group. In such cases, the methodology for determining the share price to be granted should be in line with recognized international practice and shall be approved by the General Meeting of Shareholders.

**a.c.b)** if the shares of a Bank or Bank holding are not traded on a stock exchange or are not a liquid asset, the Bank shall develop a remuneration system consisting share-linked or other instruments. The price of share-linked or other instruments should be determined by factors affecting the fair value of the Bank's shares. If the determination of fair value is related to material costs, the Bank's aggregate indicators such as capital adequacy requirements, capital ratios, asset quality ratios etc. should determine the price of those assets. These indicators should be determined by the Bank, within the framework of the development of the remuneration policy and agreed with the NBG.

- b. Maximum ratio of variable annual remuneration - the annual variable remuneration of material risk-takers (other than members of the Supervisory Board) shall not exceed 100% of the annual fixed component remuneration, except as provided in Paragraph 16 of this Article.
- c. adjustments based on the performance results and risks, before the award of variable

remuneration [*ex-ante risk adjustments*], based on which the amount of variable remuneration should be determined before its award. Such adjustments shall include, at least, the criteria for the malus and clawback of remuneration outlined in Subparagraph (d) of this Paragraph and the following qualitative and quantitative characteristics:

- c.a)** economic capital, economic gains, returns on risk-weighted assets;
  - c.b)** violations of compliance with the legislation, violations of the risk limits, issues identified by the internal control functions.
- d. adjustments based on the performance results and risks after the award of variable remuneration, [*ex-post adjustments*] which is based on the assessment of the performance of the person, the structural unit and the Bank as a whole, and the criteria set by the Bank. These adjustments include malus and clawback arrangements, which might affect the whole amount of variable remuneration. To apply the principle of malus and clawback of variable remuneration, the Bank is obliged to determine in advance the criteria based on which it will decide to apply malus or clawback on the variable remuneration/part of it. These criteria should, at least, include the following elements:
- d.a)** the person committed an act that caused significant damage to the Bank;
  - d.b)** the person no longer meets the standards set by the “Regulation on the Fit and Proper Criteria for Administrators of Commercial Banks” approved by the Order №50/04 of President of the National Bank of Georgia of June 17, 2014;
  - d.c)** unlawful conduct or material misconduct by the person, including a material breach of the Code of Ethics or other internal rules;
  - d.d)** deterioration of the financial performance of the Bank/structural unit (for example, specific business indicators). In case of clawback, the said deterioration shall be caused by the participation of the person;
  - d.e)** significant errors/problems in terms of risk management in the Bank or in the structural unit where the said person works. In case of clawback, the mentioned errors/problems shall be caused by the participation of the person;
  - d.f)** significant increase in the economic/regulatory capital requirements of the Bank/structural unit. In case of clawback, the mentioned errors/problems shall be caused by the participation of the person;
  - d.g)** the action of the person, which had a certain impact on the imposition of a sanction/supervisory sanction imposed on the Bank by law.

*[the person in above criteria means the director, material risk taker or other staff member which is a recipient of variable remuneration]*

16. In exceptional cases, if there are sufficient grounds, it is possible to set a higher ratio than the maximum annual variable remuneration ratio, by the decision of the majority of shareholders, provided that the annual variable remuneration does not exceed 200% of the annual fixed component. The above-mentioned decision making process by the shareholders shall be carried out taking into account the following requirements:

- a. Shareholders should act based on a recommendation provided by the Bank as to the reason for the increase in the ratio and also, they should have full information on how many employees will be affected by the decision to change the ratio, what their functions and responsibilities are, and what the impact of that change will be on the Bank's capital. The Bank is obliged to provide all

shareholders with information on the change in advance and promptly;

- b. At least 50% of the shareholders should be present and the decision shall be made with the consent of at least 66% of the attendees. If the number of attendees is less than 50%, the decision shall be made with the consent of at least 75% of the attendees. In addition, the persons whose remuneration is subject to this change, in case of holding voting shares, should not take part in the voting;
- c. The Bank shall immediately notify the NBG of the planned change, as well as provide it with information on the expected new maximum ratio and substantiate that if the shareholders approve the decision, the new maximum ratio will not prevent the Bank from meeting the requirements, including compliance with the capital adequacy requirements. In addition, in the event of approval such a decision, the NBG must be notified immediately.

17. The resignation/leaver of a material risk-taker (other than members of the Supervisory Board) in a Bank shall not be grounds for early termination or adjustment of the variable remuneration deferral period, as defined in Paragraph 15 of this Article, unless there are grounds for adjustments. The decision on this shall be made by the Remuneration Committee and when making the decision, the performance of the person and the reasons for the adjustment specified in Subparagraph "d" of Paragraph 15 of this Article shall be evaluated.

18. Material risk-takers of the Bank (except members of the Supervisory Board) and other employees are not permitted to use insurance and personal hedging strategies related to variable remuneration and related liabilities to reduce risk. Prohibition on hedging and insurance should apply to both deferred and retained variable remuneration.

19. The Bank shall disclose the identity of the remuneration consultants/company name (if any) in the Pillar 3 Annual Report, following Article 7 of the Rule on Disclosure of Information by Commercial Banks under Pillar 3, approved by the Order №92/04 of President of the National Bank of Georgia of June 22, 2017. In addition, the Bank's remuneration policy should be subject to the Bank's internal disclosure and should be available to all Bank employees at all times. The Bank should ensure that employees have access to information about the remuneration policy disclosed within the Bank. This does not imply the internal disclosure of confidential quantitative characteristics of individual employee remuneration.

20. The structure of variable remuneration should not be overly complex and such methods and mechanisms should not be used in its issuance, which will prevent it from complying with variable remuneration requirements or complicate compliance checks.

*Order of the President of the National Bank of Georgia of April 27, 2021, №89/04 - website, 28.04.2020*

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - website, 09.02.2021*

## **Article 20. Information disclosure and transparency**

A Bank shall properly disclose relevant information to its stakeholders on its activities, including the corporate governance of the Bank, and publish material information on the Bank's official website. The Bank shall disclose information on compliance with corporate governance standards in the annual report prepared following Decree №92/04 of June 22, 2017, on the "Regulation on Disclosure requirements for commercial Banks within Pillar 3" approved by the President of the National Bank of Georgia, which also includes information on ESG issues.

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 – website 09.02.2021*

*Order of the President of the National Bank of Georgia of June 1, 2021, №69/04 – website 01.06.2021*

## **Article 21. Authority of the National Bank of Georgia**

1. In case of failure to fully comply or violation of the aforementioned Code, NBG may impose necessary administrative and corrective measures, require the Bank, its administrator or the controller party to adjust the Bank's corporate governance structure or impose regulatory measures and/or sanctions (monetary fine) set by the present Code or sanctions set under Article 30 of the Law of Georgia on Commercial Bank Activities.
2. NBG is authorized to assess Banking Group's and each Bank's corporate governance system, which includes, but is not limited to, assessment using reports, relevant documentation, interviewing supervisory board members and bank staff, bank self-assessments, on-the-spot checks and other supervisory methods.
3. NBG is authorized to evaluate how effective Bank's Supervisory Board and Board of Directors execute their respective responsibilities. This includes assessments of the Supervisory Boards' cooperation with the Bank's various functions, their assessment of the adequacy of internal controls, and, in general, their role in the overall sound governance of the Bank.
4. NBG is authorized to periodically meet or attend meetings of the Bank's Supervisory Board and their committees as part of the Bank's corporate governance assessment. These include more frequent meetings with the Chairman of the Supervisory Board, a senior independent member or deputy of the Board (if any), the Chairmen of the Committees or independent members of the Board.
- 4<sup>1</sup>. The NBG is entitled to request additional information on the Bank's remuneration policy, if necessary, and to request changes in the Bank in case of any discrepancies with the existing regulations. The NBG is also authorized to request appropriate justification from the Bank that the incentives from the remuneration system adequately address the Bank's risks, regulatory capital and liquidity requirements, and probabilities of receiving incomes.
5. The matter of compliance with the principles and requirements of the present Code will be taken into account, along with other matters within the GRAPE framework, while assessing the corporate governance risk and fit and proper compliance criteria defined by the relevant legislation. In addition, compliance with the requirements of advanced corporate governance standards, including having more independent members into the Supervisory Board or having an independent chairperson should positively affect the corporate governance assessment under GRAPE. For mitigation of risks identified under evaluation, NBG is authorized to issue a written instruction/warning, set restrictions, and individual requirements, including in particular cases, require a change of composition of the Supervisory Board, addition of an independent member(s), enhancing control function resources, etc.

*Order of the President of the National Bank of Georgia of April 27, 2021, №89/04 - website, 28.04.2020*

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - website, 09.02.2021*

## **Article 22. Transitional provisions**

1. Banks should ensure to compose their Supervisory Board and their committees following the respective requirements set in this Code until December 31, 2019;

2. Banks should ensure to comply their charters and related policies to the requirements of this Code until June 1, 2019;

3. (Removed- 09.02.21 №17/04)

4. During 6 months after the entry into force of the given Code, Banks should develop relevant remuneration policies and procedures following the requirements set by the Code.

5. After the expiration of the relevant date stipulated in Paragraph 4 of this Article, new remuneration-related contractual agreements should be drafted in full compliance with the requirements set in the Code, whereas the existing contracts should be updated to comply with the following the requirements of the Code until December 31, 2019.

6. Contrary to Paragraph 5 of this Article, Banks that are not commercial banks of systemic importance shall bring the remuneration contractual relations in compliance with the requirements of Article 19, Paragraph 10, Subparagraph “a” of this Code by 31 December 2020.

*Order of the President of the National Bank of Georgia of December 19, 2019 №244/04 - website, 20.12.2019*

*Order of the President of the National Bank of Georgia of February 9, 2021, №17/04 - website, 09.02.2021*

---

In this document, text in square brackets is provided only for the purposes of clarifying the meaning to an English-speaking reader and is deduced from the context of the Georgian source text. Therefore, it should not be considered as authoritative, or used as the basis for any legal argument.