Pillar 3 Annual Report 2023

საქართველოს ბანკი
BANK OF GEORGIA

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Content

1. Executive Summary

1.1. Introduction

This report represents the disclosure of JSC Bank of Georgia (the "**Bank**") in accordance with the Order No. 92/04 of the Governor of the National Bank of Georgia (the "**NBG**") "Regulation on Disclosure Requirements for Commercial Banks within Pillar 3" dated 22 June 2017 (the "**Regulation**") (as amended), under which commercial banks are obliged to disclose qualitative and quantitative information relating to a bank's regulatory capital elements, risk weighted assets, remuneration of senior management and other material information, within the Basel III framework. The Regulation also requires banks to disclose corporate governance and risk management related matters, based on the transparency principles enshrined in the Basel III framework. In exceptional cases, Article 3.3 of the Regulation permits omission of disclosure of the information, which if disclosed could have an adverse impact on the bank.

According to the Regulation, Pillar 3 reports and disclosure forms shall be available on the official websites of the National Bank of Georgia and respective bank, both in Georgian and English languages.

1.2. Management Statement

The Management Board (comprising the General Director and the Deputy General Directors as set out in section 3.4 below (the "**Management Board**")) and the Supervisory Board as set out in section 3.3 (the "**Supervisory Board**") of the Bank confirm the authenticity and accuracy of the data and information presented within this Pillar 3 Annual Report for the year ended 31 December 2023 (the "**Report**").

The Report is prepared in full compliance with the Regulation and other rules and norms established by NBG, as well as with the internal control procedures agreed with the Supervisory Board.

The Regulation does not require Pillar 3 disclosures to be audited, and the information provided in this Report is not audited as such.

1.3. Summary of Risk Profile

This section presents a high-level summary of the Bank's risk profile in line with its risk appetite, through the following risk metrics:

CET1 capital adequacy ratio (IFRS Based NBG in 2023 and NBG in 2022, Basel III)

18.2%

2022	14.7%
2023	18.2%

Minimum regulatory requirement for 2023 – 14.5% (2022 – 11.6%)

Cost of credit risk ratio (IFRS)

0.7%

2022	0.7%
2023	0.7%

0.0 ppts y-o-y

Liquidity coverage ratio (IFRS Based NBG in 2023 and NBG in 2022, Basel III)

125.2%

2022	132.4%
2023	125.2%

Minimum regulatory requirement – 100%

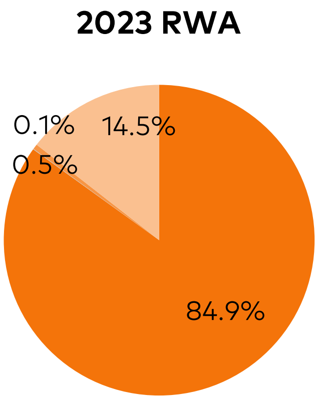
Net stable funding ratio (NBG, Basel III)

130.4%

2022	131.9%
2023	130.4%

Minimum regulatory requirement – 100%

Risk Weighted Assets[1]



	Risk Weighted assets 2023 kGEL	Risk Weighted assets 202 kGEL
Credit Risk	17,667,406	15,929,110
Counterparty Credit Risk	15,642	19,165
Market Risk	26,229	9,731
Operational risk	2,570,147	2,019,943
	20,279,424	**17,977,949**

At 31 December 2023, the Bank's Basel III CET1, Tier 1 and Total capital adequacy ratios stood at 18.2%, 20.0% and 22.1%, respectively, all comfortably above the minimum required levels of 14.5%, 16.7% and 19.6%, respectively. The risk-weighted assets increased by 13.7% y-o-y at 31 December 2023, reflecting the increase in interest-earning assets during the year.

On 1 May 2023, the Board of JSC Bank of Georgia declared a final dividend for 2022 of Georgian Lari 14.69 per share. On 23 August 2023, the Board of JSC Bank of Georgia declared an interim dividend for 2023 of Georgian Lari 7.04 per share. On 13 February 2024, the Board of JSC Bank of Georgia declared a final dividend for 2023 of Georgian Lari 6.65 per share. This would make a total dividend paid in respect of the 2023 earnings of GEL 13.69 per share.

The Bank's liquidity and funding positions have remained strong, the Bank's liquidity coverage ratio was 125.2% and net stable funding ratio was 130.4% at 31 December 2023, comfortably above the minimum required levels.

The loan portfolio quality has been stable during the period resulting in cost of credit risk ratio 0.7% in 2023.

[1] Risk Weighted Assets are calculated as per Basel III methodology in accordance with the local accounting standards set by the NBG

1.4. Pillar 3 Disclosures contained in the Report

The following table summarises - the required Pillar 3 disclosures contained in this report, which can be found as indicated below.

Article in REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "CRR")	Article in the Regulation	Location in the Report
Scope of disclosure requirements (Article 431)	Article 3.8	Section 1.2
Scope of application (Article 436)	Article 6.1	Sections 2.1 and 2.2
Risk management objectives and policies (Article 435)	Articles 6.2 and 6.3	Sections 3 and 4
Credit risk adjustments (Article 442)	Article 6.3	Section 4
Use of ECAIs (Article 444)	Article 6.3	Section 4
Use of credit risk mitigation techniques (Article 453)	Article 6.3	Section 4
Exposure to market risk (Article 445)	Article 6.3 (ბ)	Section 4
Operational risk (Article 446)	Article 6.3 (ბ)	Section 4
Regulatory Capital requirements (Article 438)	Article 6.4	Section 6
Remuneration policy (Article 450)	Article 7	Section 7

2. Ownership and Group Structure

2.1. Ownership

As at 31 December 2023, the principal direct shareholder of the Bank was JSC BGEO Group, owning 99.56% of the Bank's shares. The remaining 0.44% of the shares was owned by up to 1,000 different individuals on the Georgian Stock Exchange. In 2022 19.78% of the Bank's shares was held by Bank of Georgia Group PLC, however in 2023 the ultimate parent of the Bank undertook internal reorganization process intended to optimise its subsidiaries holding structure. As a result, 99.56% shareholding of the Bank was consolidated under JSC BGEO. There was no change in the Bank's ultimate parent as a result of the reorganization.

JSC BGEO Group is wholly owned by Bank of Georgia Group plc, a public limited liability company incorporated in England and Wales (the "**BoGG**") which represents the ultimate parent company of the Bank. The shares of BoGG are admitted to the premium listing segment of the Official List of the UK Listing Authority and are traded on the London Stock Exchange plc under ticker "BGEO".

As at 31 December 2023 and 2022, the following shareholders owned more than 3.0% of the total outstanding shares of BoGG. Other shareholders individually owned less than 3.0% of the outstanding shares.

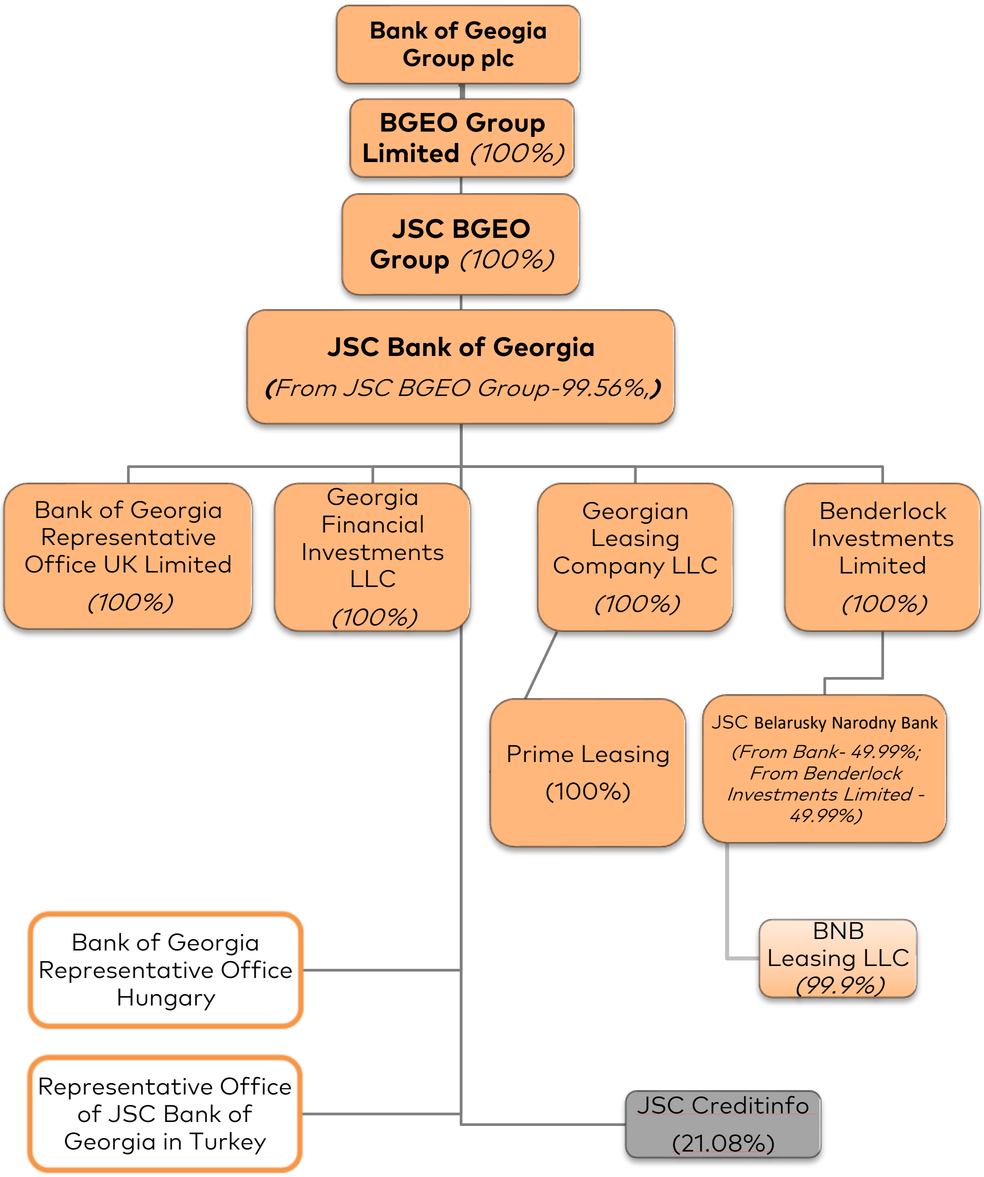
Shareholder of BoGG	31 December, 2023	31 December, 2022
JSC Georgia Capital**	19.71%	20.60%
M&G Investment Management Ltd	4.84%	4.10%
Dimensional Fund Advisors (DFA) LP	4.11%	3.67%
JP Morgan Asset Management	4.04%	2.60%
BlackRock Investment Management (UK)	3.58%	2.31%
Vanguard Group Inc	3.33%	3.20%
Others	60.39%	63.52%
Total*	**100.00%**	**100.00%**

** For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the BoGG group companies.*
*** JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.*

2.2. Group Structure

Bank of Georgia Group plc, its core subsidiary – JSC Bank of Georgia and its other subsidiaries make up a group of companies mainly incorporated in Georgia (together referred to as the "**Group**"). For information about the companies incorporated within the Group, please see Bank of Georgia Group plc Annual Report 2023, available as of the date of this Report on BoGG's official website – www.bankofgeorgiagroup.com.

The Bank and its remaining subsidiaries make up a group of companies where the primary business activities include providing banking services to corporate and individual customers. As at 31 December 2023, the principal holdings of JSC Bank of Georgia were as follows:



Apart from the commercial legal entities provided in the above scheme, the Bank is also the founder and major contributor to "Tree of Life Foundation", a non-profit, non-commercial legal entity established under the laws of Georgia.

In March 2024, the Bank acquired 30% of the share capital of Ameriabank CJSC one of the leading banks operating in Armenia with the acquisition being subject to the Central Bank of Armenia approval. The acquisition is financed by cash consideration of kUSD 82,768 out of which 10% is deferred and is due in 6 months after the completion date.

3. Governance

3.1. Corporate Governance Framework

3.1.1. The Bank

The Bank's corporate bodies are the General Meeting of Shareholders (the **GMS**), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with applicable Georgian laws and the Bank's Charter (the **Charter**). The GMS is the highest internal governing body of the Bank which appoints the members of the Supervisory Board, which is responsible for overall corporate governance of the Bank, and supervising the Management Board. The Supervisory Board appoints members of the Management Board – the executive body of the Bank responsible for day-to-day operations. The Bank's ultimate parent company, BoGG, determines the strategy of the Group, including that of the Bank. Under the Corporate Governance Code for Commercial Banks (Order # 215/04 of the President of the NBG, dated 26 September 2018) (the **Corporate Governance Code**) (as amended), commercial banks in Georgia are required to have audit and risk committees, elected within and reporting to the supervisory board, and, in addition, systemically important banks are required to have corporate governance, nomination, and remuneration committees within their supervisory boards. As described in detail below, the Bank's Supervisory Board is assisted by five different committees, which are composed of members of the Supervisory Board: Audit Committee, Risk Committee, Nomination and Corporate Governance Committee, Remuneration Committee, and Special Committee. The Committee members are elected by and within the Supervisory Board.

3.1.2. The Group

On the Group level, the BoGG Board of Directors (which consists of members of the Bank's Supervisory Board serving as non-executive directors, the Bank's General Director serving as Chief Executive Officer, and the Bank's Supervisory Board Chairman serving as the Chairman) (the **BoGG Board**), with its Audit, Risk, Nomination and Corporate Governance, and Remuneration Committees, is ultimately responsible for the Group's strategy, risk management and internal controls. Interaction between the BoGG Board and the Corporate Governance Framework of the Bank is described below.

3.2. Shareholder Engagement and Functions of GMS

<u>Regulation of Shareholder Engagement, based on the Charter</u>

According to the Charter, the annual GMS is convened annually, at least once a year, not later than 3 months after the completion of the annual audit.

Convening GMS was not necessary if a shareholder holding more than 75.0% of the Bank's voting shares passed a resolution. Such decision was considered equivalent to the minutes of the GMS and was considered a resolution of the GMS. However, following the adoption of the new Law on Entrepreneurs, the Bank changed its charter in July 2022, whereby the convention of the GMS is necessary for all matters pertaining to the authority of GMS under the Charter as described below.

According to the new version of the Charter, if the convention of the GMS is necessary, then the time, place and agenda of the GMS is published on the Bank's webpage and its public registry portal at least 21 days prior to the date of the GMS. According to the Charter, the Supervisory Board determines the record date for the GMS. The annual GMS discusses and adopts decisions on issues such as annual report and annual accounts, proposal(s) of the Management Board and Supervisory Board regarding the distribution of dividends, the bank's reserves and dividend and capital distribution policy and other subjects presented for discussion by the Management Board or the Supervisory Board as well as items put forward by the shareholders in accordance with Georgian law and the Charter.

The GMS quorum is satisfied if it is attended by the holders of at least half of the voting shares or their representatives. If there is no quorum, a new GMS shall be convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures set by the law and the Charter. The new GMS quorum is satisfied if holders of at least 25.0% of the voting shares are present. If there is no quorum at this new GMS, another GMS shall be convened and such further GMS will be quorate irrespective of the number of attending and voting shareholders or their representatives.

An extraordinary GMS (**EGMS**) is convened whenever the Management Board, the Supervisory Board or a shareholder/group of shareholders holding at least 5.0% of the issued shares deems such a meeting necessary. Pursuant to the law, shareholders who individually or together hold at least 5.0% of the total issued capital may, stating the subjects to be discussed, not earlier than one month from the latest GMS, request that the Management Board convene an EGMS. The Management Board shall publish the decision to convene such meeting within 10 days after the receipt of the request from the shareholder(s)

The GMS is presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board. In the absence of members of the Supervisory Board, the meeting is presided over by the General Director or one of the Deputy General Directors. In their absence, the chairman of the meeting is elected by the GMS by a simple majority of votes. The minutes of the meeting are drawn up and certified by a notary.

All shareholders registered with the share registrar as of the record date of the GMS shall have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of this Report, the Bank has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy.

Under Georgian law and the Charter, the matters reserved to the shareholders' authority are:

- Approval and amendment of the Charter;
- Reorganisation of the Bank;
- Winding-up of the Bank, the appointment of a liquidator, the approval of interim and final liquidation balance sheets;
- Authorisation of redemption of shares by the Bank;
- Any changes to the subscribed capital;
- Determining the composition of the Supervisory Board, the number of members, their election, recall, the amount of remuneration and the structure;
- Approval of the Bank's audit report and selection of a person performing the audit inspection;
- Approval of the financial report and distribution of dividends;
- Determining the procedure for holding a GMS, and electing a vote counting commission;
- Making decisions on participation in court proceedings against the members of the management body/managers and members of the Supervisory Board, including the appointment of a representative in such proceedings;
- Making decisions on the acquisition, alienation, exchange (interrelated transactions) or otherwise encumbrance of the assets of the Bank, the value of which is more than half the book value of the assets of the joint-stock company, except for transactions that fall within the ordinary business activities.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective authorities.

Shareholder Meetings held and Resolutions reached during 2023

- On 1 May 2023 resolution was passed on approval of the final financial statements of the Bank and dividend distribution for 2022;
- On 19 September 2023 interim consolidated financial statements of the bank were approved as well as interim distribution of profit for 2023; Charter of the bank has been amended and approved by the resolution.

Regulation of Holders of Commercial Bank Shares, based on the NBG Regulations

Pursuant to the Banking Law, a person who has been convicted of a serious or extremely serious offence, terrorism financing and/or legalisation of illicit income, or other economic crime, may not hold a significant shareholding (defined as more than 10.0% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of a significant shareholding with a normative act.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10.0%, 25.0% or 50.0% of the share capital of the bank, must submit a declaration to and obtain prior approval from the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory, the NBG may extend this term by up to three months.

In the absence of a submission of a declaration to the NBG or in the case of the NBG's denial of consent, a transaction by which a person acquires, directly or indirectly, more than 10.0% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, is deemed null and void.

The NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10.0% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his shareholding to 10.0%. The NBG is entitled to deny approval if the transaction may endanger the stability of Georgia's financial sector, result in a breach of the requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide the necessary information on the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, according to the Banking Law, a person, or group of shareholders acting in concert, who intend to sell shares in a Georgian bank and, if as a result of such sale, their holding may fall below 10.0%, 25.0% or 50.0%, are required to notify the NBG prior to such sale and provide detailed information regarding the transaction.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Order No 94/04 of the President of NBG, commercial banks are required to quarterly disclose information on direct holders of more than 1.0% of their share capital, and on beneficial owners who own more than 5% of the bank's share capital indirectly. Such information must be prepared based on the information available to a commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10.0% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year. The information on the shareholders of the Bank is provided in Ownership section of this report.

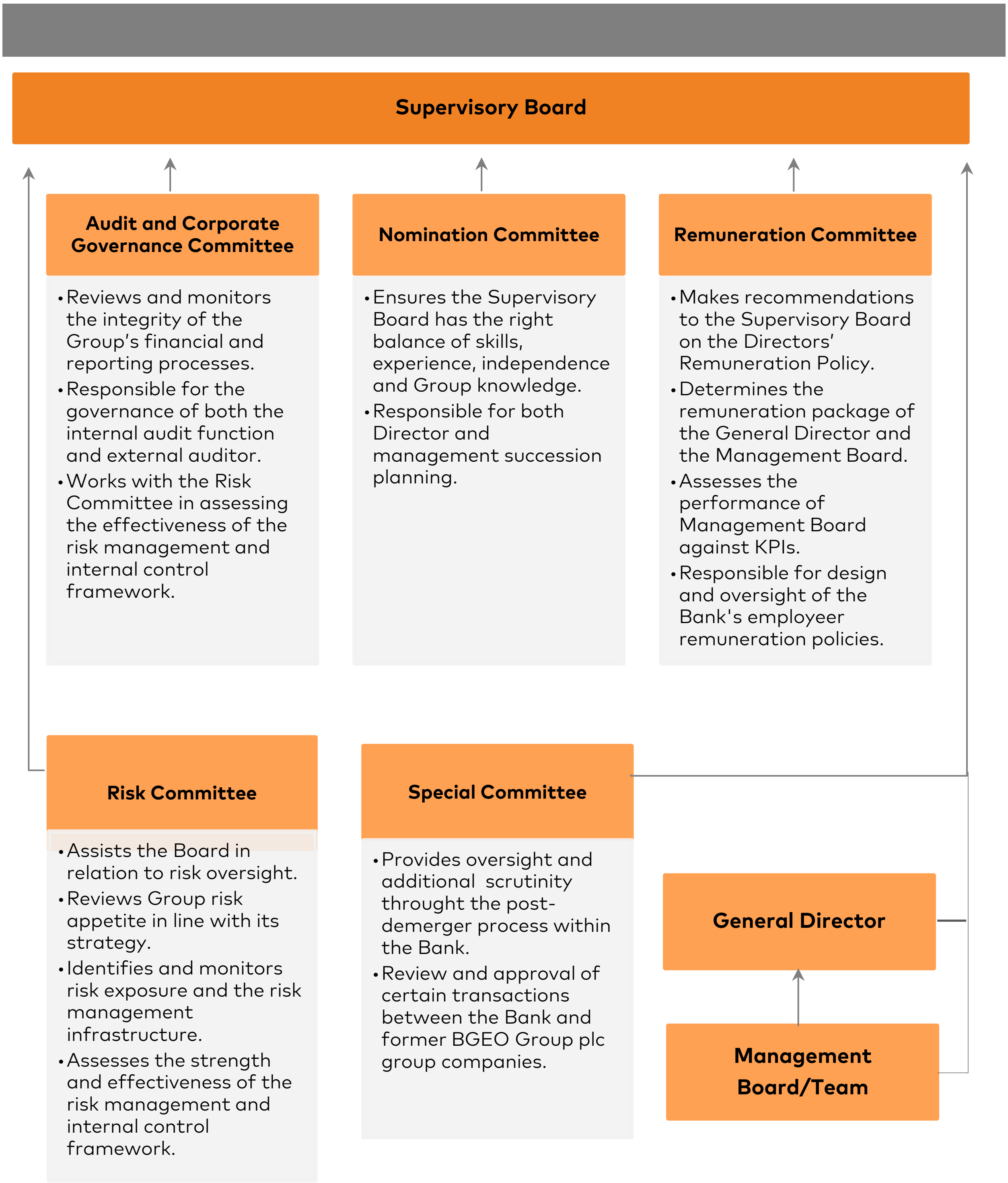
3.3. The Supervisory Board, the Committees and interaction with the BoGG Board

In accordance with the Charter and applicable Georgian laws, it is the responsibility of the Supervisory Board to supervise the Management Board of the Bank. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principles, and is ultimately responsible for identifying and controlling risks. It approves the Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems, and approves certain decisions that fall outside the scope of the respective authorities of the Credit Committees (Including approval of Loans and other Liabilities for the client groups with more than US$ 35.0 million exposures). The Management Board presents a comprehensive credit risk report and market risk report to the Supervisory Board for its review on a quarterly basis.

As at 31 December 2023 the Supervisory Board consisted of eight members, each elected by the GMS, subject to approval of the NBG (details provided below).

The Supervisory Board members are appointed for three-year terms, and their reappointment and term prolongation is not restricted. The statutory term for independence of each Supervisory Board member is nine years. The Supervisory Board members are required to act in the best interests of all shareholders of the Bank and its business when performing their duties. The Supervisory Board is assisted by five different committees, composed of members of the Supervisory Board: Audit Committee, Risk Committee, Nomination and Corporate Governance Committee, Remuneration Committee, and Special committee. The Committee members are elected by the Supervisory Board. The functions of the Supervisory Board's Audit, Risk, Nomination and Corporate Governance, Remuneration, and Special Committees are described below.

The chart below outlines the committees operating under the Supervisory Board and their key responsibilities.



The Supervisory Board is responsible collectively for the long-term success of the Bank and for the creation and delivery to shareholders of sustainable value through the management of the Bank's business. The Supervisory Board establishes the Bank's core values and leads by example; sets and oversees the execution of the Bank's strategy within a framework of strong and effective risk management and internal controls; and encourages a culture of corporate governance in line with best practice, amongst its many other responsibilities.

Terms of Reference and Reporting to the Supervisory Board

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

All Supervisory Board Members have a standing invitation to attend Committee meetings (rather than just limiting attendance to Committee members).

As at 31 December 2023, the Supervisory Board consisted of eight members. Mel Gerard Carvill was appointed Non-Executive Chairman of Supervisory Board on 4 July 2022. Mr Carvill serves as Chairman of Bank of Georgia Group PLC's Nomination Committee, as well as a member of the Remuneration Committee.

- **Mel Gerard Carvill**
  Chairman (Independent) of JSC Bank of Georgia

Following Neil Janin's resignation from Bank of Georgia Group PLC's Board on 10 March 2022, Mel Carvill was appointed as the Chairman of Bank of Georgia Group PLC's Board on 10 March 2022. He serves as a chairman of Supervisory Board of JSC Bank of Georgia starting from 4 July 2022. Mr Carvill serves as Chairman of the Bank's Nomination and Corporate Governance Committee and a member of Remuneration Committee.

Skills and Experience

Mr Carvill has extensive international experience across a broad range of companies in the financial sector. He worked at the Generali Group from 1985 until 2009, holding various positions, including Chief Risk Officer, Head of Corporate Finance and M&A and of Strategic Planning. He also served as Head of Western Europe, Americas and Middle East at Generali. In 2009 he joined PPF Partners, a private equity fund investing in Central Eastern Europe and Asia, where he held the position of President until 2014, and then worked for the wider PPF Group, serving as an advisor. Mr Carvill also served on company boards in multiple European and Asian markets.

In addition to his directorship at Bank of Georgia Group PLC, Mr Carvill has built a portfolio of non-executive directorships, including as Non-Executive Director at Home Credit N.V., Vice Chairman at Aviva-CofcoLife Insurance Co. Ltd, Chair of the Financial Services Opportunities Investment Fund Ltd in Guernsey, and Chairman at Clearbank Group Holdings Ltd. Mr Carvill has spoken at a number of universities, regulatory events and think tanks, maintaining his links with high-level global foreign policy and economics contacts.

Education

Mr Carvill qualified as a Chartered Accountant while at Coopers & Lybrand and is a Fellow of the Institute of Chartered Accountants in England and Wales. He holds an Advanced Diploma in Corporate Finance, is a Chartered Insurer and an Associate of the Chartered Insurance Institute, as well as a Fellow of the Chartered Institute for Securities and Investment.

The professional backgrounds of the Supervisory Board members are outlined below:

- **Hanna Loikkanen**

  Deputy (Non-independent) Chairperson

Hanna Loikkanen was appointed as a Member of the Bank's Supervisory Board in August 2015 and as a Deputy Chairperson in August 2019. Ms Loikkanen serves as a member of the Bank's Remuneration Committee, Nomination and Corporate Governance Committee and the Audit Committee. Ms Loikkanen also serves as the Senior Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Risk Committee, Remuneration and Nomination Committees. Ms Loikkanen previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on their Nomination and Risk Committees.

Skills and experience:

Ms Loikkanen has over 25 years of experience working with financial institutions in Russia and Eastern Europe. She holds a master’s degree in Economics and Business Administration from Aalto University and has attained a certificate in Corporate Sustainability Management from Yale SOM.

Ms Loikkanen has worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB’s debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In 2004, Ms Loikkanen joined FIM, a Finnish investment bank, to run their brokerage and corporate finance operations in Russia. From 2007 to 2015 Ms Loikkanen worked at the Moscow office of Swedish asset management company East Capital, managing a private equity fund focusing on investments in financial institutions in the region. She previously served as an independent director of BGEO Group PLC, which included positions on their Nomination and Risk Committees.

Education:

Ms Loikkanen holds a Master’s degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

- **Tamaz Georgadze**

  Member (Non-independent)

Tamaz Georgadze was appointed as a Member of the Bank's Supervisory Board in December 2013 and has been subsequently re-appointed in accordance with the Charter. Mr Georgadze serves as a member of the Bank's Risk Committee, Remuneration Committee and the Nomination and Corporate Governance Committee. Mr Georgadze also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Risk Committee, Remuneration and Nomination Committees. Mr Georgadze previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Audit, Nomination and Risk Committees.

Skills and experience:

Mr Georgadze has extensive experience with wide range of international companies. He holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from JustusLiebig Universität Gießen, Germany. Mr Georgadze also studied Law at JustusLiebig Universität Gießen and graduated with honours.

Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. He had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. In 2013, Mr Georgadze founded Raisin, which launched the first global deposit platform in Europe and he continues to serve as its CEO.

Education:

Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

- **Alasdair (Al) Breach** (Has stepped down on 15 March, 2024)
  Member (Non-Independent)

Alasdair Breach was appointed as a Member of the Bank's Supervisory Board in September 2010 and has stepped down on 15 March, 2024. His resignation will be officiated on the General Meeting of Shareholders on 26 April, 2024. . Mr Breach served as a member of the Bank's Remuneration Committee, Risk Committee and the Nomination and Corporate Governance Committee. Mr Breach also served as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Remuneration, Risk and Nomination Committees. He previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Remuneration, Nomination and Risk Committees.

Skills and experience:

Mr Breach had close to 30 years' experience in markets, economics, banks and funds. From 1998 to 2002, he was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow, and from 2003 to 2007 he was at Brunswick UBS (later UBS Russia) as Chief Economist, Strategist and later co-Head of Research and Managing Director. Mr Breach is the founder, lead PM and co-CIO of Gemsstock Fund, a macro hedge fund based out of London and Switzerland. 12 years in existence (founded in 2010) it has won numerous awards and now has $3bn AUM. He is also co-founder of a number of different enterprises, including: TheBrowser.com, a web-based curator of current affairs writing, FiveBooks.com, a web-based curated library and set of interviews on books with experts, Vinothek1620, a Swiss wine-bar and wine-merchant and Wald & Klima, a charity planting trees and rewilding Ursental in Switzerland.

Education:

Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

- **Jonathan Muir**
  Independent Member

Jonathan Muir was appointed as an Independent Member of the Bank's Supervisory Board in August 2017. He serves as the Chairman of the Bank's Audit Committee and as a member of the Special Committee and the Nomination and Corporate Governance Committee. Mr Muir also serves as an Independent Non-Executive Director of BoGG plc, as well as the Chairman of BoGG plc's Audit Committee and a member of the Nomination Committee. He previously served as an Independent Non-Executive Director of BGEO Group plc, after serving as an advisor to BGEO Group plc's Board of Directors since December 2016.

Skills and experience:

Mr Muir has over 30 years' experience working as a professional in accounting and finance. He graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Mr Muir was a partner at the global audit and consulting company Ernst & Young from 1985 to 2000. From 2003 to 2013, he was Vice President of Finance and Control, then CFO of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Mr Muir is an executive director (CEO) of LetterOne Holdings SA and of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors.

Education:

Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

- **Cecil Quillen**
  Independent Member

Cecil Quillen was appointed as an Independent Member of the Bank's Supervisory Board in June 2018. Mr Quillen serves as a Chairman of the Bank's Special Committee since January 1, 2022, Chairman of Remuneration Committee and since 1 January 2023 and a member of the Bank's Audit, Nomination and Corporate Governance Committees. Mr Quillen also serves as a member of Bank of Georgia Group PLC's Audit Committee, Nomination Committee, and Chairman of Remuneration Committee since January 2023.

Skills and experience:

Mr Quillen has extensive legal and commercial experience in Europe and the United States. He received his undergraduate degree from Harvard and his law degree from the University of Virginia. Mr Quillen is a lawyer and a London-based US partner of Linklaters LLP, the global law firm where he is a leading US capital markets practicioner in the London market. Mr Quillen works on a broad spectrum of securities and finance matters; a particular focus of his practice has been transactions in the CIS and in central and eastern Europe. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia, and is a registered foreign lawyer in England and Wales.

Education:

Mr Quillen received his undergraduate degree from Harvard and his law degree from the University of Virginia.

Véronique McCarroll
Independent Member

Véronique McCarroll was appointed as an Independent Member of the Bank's Supervisory Board on 11 February 2019. Ms McCarroll also serves as a Chair of the Risk Committee since 1 January, 2022 and a member of the Bank's Nomination and Corporate Governance Committee and Special Committee. She also serves as an Independent Non-Executive Director of BoGG plc, as well as a Chair of BoGG plc's Risk Committee and a member of Nomination Committee.

Skills and experience:

Ms McCarroll has over 30 years' experience in financial services, with a strong focus on Corporate and Investment Banking, Risk Management and Digital banking. She was an executive director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and spent 19 years in consulting firms, helping large banking clients on risk and finance matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/ Ernst & Young. As a Deputy CEO at Orange Bank S.A., Ms McCarroll has responsibility for finance, data office, risk and compliance and SME subsidiary, having previously headed Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. She also teaches Finance at Paris Dauphine University.

Education:

Ms McCarroll graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales) in 1985.

Mariam Megvinetukhutsesi
Independent Member

Mariam Megvinetkhutsesi was appointed as an Independent Member of the Bank's Supervisory Board. Ms Megvinetkhutsesi also serves as a member of the Bank's Risk Committee and Nomination and Corporate Governance Committee. She also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Risk and Nomination Committees.

Skills and experience:

Ms Megvinetukhutsesi has 20 years' prior experience in financial services, including in banking appointments at the European Bank for Reconstruction and Development from 1997 to 2007 and as Deputy CEO at TBC Bank from 2009 to 2014. Previously she served as Head of Georgia's Investors Council Secretariat from 2015 to 2019, promoting reforms for improvement of Georgia's investment climate. Ms Megvinetukhutsesi provides consulting services to businesses on governance and financial management.

Education:

Ms Megvinetukhutsesi received her undergraduate degree in Banking and Finance from Tbilisi State University and holds an MSc in Finance and Investments from the University of Edinburgh.

Supervisory Board Diversity and Independence

The Bank considers that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business. The Supervisory Board and its Nomination Committee work to ensure that the Bank's Supervisory Board continues to have the right balance of skills, experience, knowledge and independence necessary to discharge its responsibilities.

The Supervisory Board considers that the overall size and composition of the Supervisory Board is appropriate, considering the independence of character and integrity of all members. Each of the Supervisory Board members occupies, and/or has previously occupied, senior positions in a broad range of relevant associated sectors, bringing valuable insights to the Board's deliberations and contributing significantly to decision-making. No individual, or group of individuals, can dominate the decision-making process and no undue reliance is placed on any individual.

The Bank values diversity in all forms. At 31 December 2023, six different nationalities were represented on the Bank's Supervisory Board of eight members. The Bank is committed to sustaining and developing gender balance. At 31 December 2023, female representation on the Supervisory Board was 37.5%.

The independence of each member of the Supervisory Board is assessed and the Bank is of the opinion that each of them acts in an independent and objective manner and therefore, under the Banking Law in Georgia, is independent and free from any relationship that could affect their judgment. Each Supervisory Board member has an ongoing obligation to inform the Supervisory Board of any circumstances which could impair their independence.

Succession Planning and Supervisory Board Appointment Procedures

Members of the Supervisory Board may be appointed and dismissed at a GMS. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board; for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The Supervisory Board members are appointed for three-year terms, and their reappointment and term prolongation is not restricted. The statutory term for independence of each Supervisory Board member is nine years. The Supervisory Board as well as each holder of voting shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board.

Furthermore, shareholders the right to nominate, subject to the existence of a vacancy on the Supervisory Board, their representative to the Supervisory Board. The members of the Supervisory Board are elected by cumulative voting. A member of the Supervisory Board may not serve as a member of the Management Board at the same time. According to the Bank's Charter, the Supervisory Board elects the Chairman and the Deputy Chairperson from its members.

The Chairman of the Supervisory Board (or in case of his/her absence, the Deputy Chairperson) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board. Meetings of the Supervisory Board shall be held at least once per quarter. A written notification with the respective agenda shall be sent at least eight days prior to the anticipated date of the meeting. The Bank believes that effective succession planning mitigates the risks associated with the departure or absence of qualified and experienced individuals. The Bank's aim is to ensure that the Supervisory Board and Management Board are always well-resourced with the right people in terms of skills and experience, to effectively and successfully deliver on the Bank's strategy. The Bank also recognises that continued tenure brings a depth of Bank-specific knowledge that is important to retain.

Role of the Supervisory Board

The Supervisory Board's principal duty is to promote the long-term success of the Bank by directing management towards creating and delivering sustainable shareholder value. This is accomplished by setting the Bank's strategy and overseeing its implementation by management. The Supervisory Board is accountable to shareholders for the financial performance of the Bank.

The Bank believes that the success of the implementation of its strategy requires for the strategy to be aligned with the Bank's internal governance framework. The Bank views a strong system of risk management and internal controls as essential to governance in allowing the Bank to pursue its strategy in a way that risk appetite can be set and risks identified, assessed, managed and reported effectively. By setting the tone at the top, establishing the core values of the Bank and demonstrating leadership, the Supervisory Board is able to implement the key policies and procedures the Bank has created in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of his or her dealings.

The management's execution of strategy and financial performance are also monitored. While the ultimate focus is long-term growth, the Bank also needs to deliver on short-term objectives and thus seeks to ensure that management strikes the right balance between the two.

The Bank is mindful of its wider obligations and considers the impact its decisions will have on the Bank's various stakeholders, such as employees, customers, the environment and communities where the Group operates.

In order to ensure that the Bank meets its responsibilities, specific key decisions have been reserved for approval by the Supervisory Board. In addition, the Supervisory Board will receive reports and recommendations from time to time on any matter which it considers significant to the Bank.

Responsibilities of the Bank's Supervisory Board include:

- Supervising the activities of each director;
- Appointing and discharging the CEO and other deputy CEOs, concluding and terminating service contracts with them;
- Approval and amendment of any policies, codes of conduct and other regulatory documents related to the Bank and its activities;
- Requesting reports on the Bank's activities from the Management Board and reviewing the information provided by internal audit or external inspections;
- Convening an extraordinary General Meeting of Shareholders, if necessary, for the Bank's benefit;
- Review the annual reports of the Management Board and the profit sharing proposal and provide such information to the General Meeting. In the notice the Board shall indicate by how and to what extent it has audited the management of the company during the past financial year, which part of the annual report and activity report it has inspected, and whether these audits have resulted in material changes in the final results.

The Following are the matters reserved for the Supervisory Board's resolution only, per the Charter:

- Establishment and liquidation of branches of the Bank;
- Starting a new type of banking activity or suspending or terminating an existing type of activity;
- Making decision on the issuance of public bonds and other public securities;
- Determining the remuneration and/or additional benefits of the Bank's management (CEO and other members of the Management Board);
- Approval of the minimum and maximum interest rates to be used by the Bank on credit resources and deposits;

- Redemption of shares issued by the Bank in cases provided by law (which, without any limitation, includes the "treasury shares");
- Approval and amendment of any policies, codes of conduct and other regulatory documents related to the Bank the approval of which by the Supervisory Board may be required by the applicable law, including determining and approval of internal policies and procedures for the management of credit, investment, foreign exchange, asset and liability, asset valuation, their classification and the creation of adequate reserves for possible losses;
- Acquisition and disposal of a stake and shares in other companies if the amount of such stake/share exceeds 50% (fifty percent) of the total equity of such company or the transaction value exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and property ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Borrowing funds in excess of 2.5% of the Bank's equity value as at the end of the previous calendar month;
- Securing loans and credits if they fall outside the scope of routine economic activity;
- Determination of general principles of business strategy and the business plan of the Bank and approval of the annual budget;
- Approval of the agreement(s) or contract(s) pursuant to which a non-recurring expense or several-tranche expenditure of the Bank is to be made which exceeds 1% (one percent) of the Bank's equity values as at the end of the previous calendar month.

Operation of the Supervisory Board

The Supervisory Board usually meets four times a year, three times in Georgia in person and once via a teleconference. For the rest of the meetings the discussion and approval is held either through teleconference or through email correspondence.

At each scheduled meeting, the Supervisory Board receives reports from the Chairman, the General Director and the Chief Financial Officer on the performance and results of the Bank. The General Directors of the principal subsidiaries and the Deputy General Directors of the Bank regularly update the Supervisory Board on the performance, strategic developments and initiatives in their respective segments throughout the year. The Chief Risk Officer and General Counsel/Chief Legal Officer regularly report to the Supervisory Board. The Supervisory Board receives updates from the Bank's operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters, among others.

A regular quarterly in-person meeting will include discussion on the following topics:

- Updates from Committee Chairmen on matters discussed at the respective Committee meetings held the day before;
- The macroeconomic environment;
- Financial performance;
- Business segment performance and developments;
- A deeper dive into strategy and performance at one or more business units;
- New strategic initiatives and progress against strategy;
- Regulatory, legislative and other corporate governance updates;
- Developments in relation to principal risks and risk management.

A comprehensive assessment of the risk management framework and system of internal controls is performed at least once a year through the Risk and Audit Committees, or the Supervisory Board.

Supervisory Board meetings are, however, flexible to ensure that pressing matters, when they arise, are addressed as quickly as possible.

The Chairman meets with the General Director after each meeting to agree the follow-up actions and to discuss how effective the meeting was.

The Chairman and General Director maintain frequent contact (in person or otherwise) with each other and with other Supervisory Board members throughout the year outside of the formal meetings. The Senior Independent Member supports the Chairman in his role, acts as an intermediary for other Independent Members where necessary and liaises with the Members outside of the Supervisory Board and Committee meetings.

Supervisory Board Induction, Ongoing Training and Professional Development

On appointment, Supervisory Board members participate in an induction programme, during which they meet members of Management Board/Team and receive information about the role of the Supervisory Board and individual members, each Supervisory Board Committee and their respective powers. They are also advised of their legal and regulatory obligations. Induction sessions are designed to be interactive and are tailored to each individual based on his or her previous experience and knowledge.

The Bank committed to ensuring the continuing development of the Supervisory Board members so that they build on their expertise and develop an ever more detailed understanding of the business, and of the markets and the regulatory environment in which the Bank operates.

All members of the Supervisory Board participated in an ongoing training and professional development throughout 2023, which included briefings, development sessions and presentations by members of the Management Board/Team and the Bank's professional advisors. During the year, the Bank's Chief Legal Officer provided updates on regulatory and legislative changes, including the changes to the Code of Corporate Governance for the Commercial Banks as adopted by the National Bank of Georgia and changes in the regulatory framework governing Data Protection.

The Bank also ensures that all members of the Supervisory Board have access to the advice of the Supervisory Board Secretary as well as independent professional advice, at the Bank's expense, on any matters relating to their responsibilities.

Evaluation of the Supervisory Board Performance

The Bank's Supervisory Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal.

Throughout 2023 the Committee reviewed the key actions arising from its internal evaluation process. Based on the evaluation the Supervisory Board's key objectives for 2023 were:

- Managing the agenda and materials (including additional time for discussion, more focused papers and timely receipt of papers)
    - Outcome: during the During the year Board papers have become more focused and the quality has improved. In addition, there has been a focus on ensuring the timely delivery of meeting papers to allow more time for review. The presenters have also been briefed to focus on material items of reports and allow more time for questions and discussions.
- Additional time for strategic discussions (the Supervisory Board felt they would benefit from a strategy day to allow a deep-dive of items).
    - Outcome: a two-day strategy discussion was held during 2023
- Additional risk and compliance reporting in respect of evolving governance:

- Outcome: items added to Supervisory Board and Committee agendas, including internal controls, diversity, independence and updates on legal and regulatory developments.

Supervisory Board and Committee Meeting Attendance

Details of the Supervisory Board and Committee meetings attendance in 2023 are presented below.

Members	Board	Audit Committee	Nomination and Corporate Governance	Remuneration Committee	Risk Committee	Special Committee
Mel Gerard Carvill	4 of 4 scheduled	N/A	4/4	4/4	N/A	N/A
Alasdair Breach	4 of 4 scheduled	N/A	4/4	4/4	4/4	N/A
Tamaz Georgadze	4 of 4 scheduled	N/A	4/4	4/4	4/4	N/A
Hanna Loikkanen	4 of 4 scheduled	4/4	4/4	4/4	N/A	N/A
Véronique McCarroll	4 of 4 scheduled	N/A	4/4	N/A	4/4	4/4
Jonathan Muir	4 of 4 scheduled	4/4	4/4	N/A	N/A	4/4
Cecil Quillen	4 of 4 scheduled	4/4	4/4	4/4	N/A	4/4
Mariam Megvinetkhutsesi	4 of 4 scheduled	N/A	4/4	N/A	4/4	N/A

Committees

The Bank's Supervisory Board has delegated authority to respective Board Committees to carry out certain tasks on their behalf, to operate efficiently and give the right level of attention and consideration to relevant matters, and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration, while reserving the authority to approve certain key matters to the Supervisory Board, as documented in the Bank's Charter, which is reviewed annually by the Supervisory Board.

The Bank's Supervisory Board has the following Committees:

- the Audit Committee;
- the Risk Committee;
- the Nomination and Corporate Governance Committee
- the Remuneration Committee and;
- the Special Committee.

Audit Committee

The Audit Committee assists the Supervisory Board in relation to the oversight of the Bank's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Supervisory Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among others, operational risks, compliance, IT and information security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework. The Audit Committee oversees and challenges management on its internal control and risk management systems in relation to the financial reporting process.

The rights and obligations of the Audit Committee are to:

- set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the Bank's Internal and External Audit;
- supervise the compliance of the Bank with the applicable laws;
- approve the regulations governing the Bank's Internal Audit and monitor the functioning of the Internal Audit of the Bank;
- ensure the independence of the Internal Audit from the Supervisory Board and the Management Board;
- approve the operation plan of the Internal Audit for the following fiscal year;
- review the quarterly reports of the Internal Audit, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- supervise the activities of the Internal Audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the Internal Audit and individual auditors;
- approve the annual operations plan by quarters prepared by the Internal Audit and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Supervisory Board and the Management Board, ensure the cooperation of the Internal Audit with other structural units of the Bank;
- make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of the Bank's Internal Audit, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the Internal Audit) to the Management Board on the employment/dismissal of the other staff of Internal Audit, as well as on remuneration of such staff;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Supervisory Board.

Meetings of the Audit Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Hanna Loikkanen, Jonathan Muir and Cecil Quillen are members of the Audit Committee of the Bank. The composition of the Audit Committee was last approved on 1 January 2022. Jonathan Muir serves as a chairman of the Audit Committee.

Risk Committee

The main role of the Risk Committee is in relation to the oversight of risk. It reviews the Bank's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, reviews the Bank's risk policies on a regular basis, cooperates and monitors the activities of the Chief Risk Officer, provides recommendations to the Supervisory Board regarding the risk strategies and effectiveness of the policies and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee regularly reviews and approves the parameters and methodology used by the Bank to assess risk and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets standards for accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to, credit risk, market risk and operational risk.

Alasdair Breach, Tamaz Georgadze, Mariam Megvinetukhutsesi and Véronique McCarroll are members of the Risk Committee, the composition being last approved on 1 January 2022. Veronique McCarroll took over as Chair of the Risk Committee on 1 January 2022.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee (recommended for systemically important banks) provides recommendations to the Supervisory Board on all new appointments of both directors and Supervisory Board members, ensures that the Supervisory Board is not dominated by any one individual or small group of individuals. The Nomination and Corporate Governance Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Supervisory Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations to the Supervisory Board on new appointments of executive and non-executive directors and memberships in Supervisory Board committees. The committee also oversees the annual review of the Supervisory Board effectiveness.

Each member of the Supervisory Board also sits on the Nomination and Corporate Governance Committee.

Remuneration Committee

The Remuneration Committee reviews and recommends to the Supervisory Board the Remuneration Policy for the General Director, Deputy General Directors and executive management to ensure that remuneration packages are designed to promote the long-term success of the Bank and to see that management is appropriately rewarded for its contribution to the Bank's performance in the context of wider market conditions and shareholder views. The Committee determines the remuneration packages for the above-listed positions along with their terms of employment and assesses the performance of executive management against KPIs. The functions of the Remuneration Committee include determining the terms and conditions of employment of the members of the Management Board and other top executives and from time to time assessing their performance. The Remuneration Committee reviews the recommendation of the General Director in respect of the total bonus pool for the Bank's employees as well as the individual bonuses for the Management Board and certain executive officers.

The members of the Bank Remuneration Committee are: Mel Carvill, Alasdair Breach, Hanna Loikkanen, Tamaz Georgadze and Cecil Quillen. The composition was last approved on 1 January 2022. Hanna Loikkanen served as Chairman of the Committee until in December 2022 this role has transferred to Cecil Quillen with effect from 1 January 2023.

Special Committee

The Special Committee was established on 7 January 2019 in the interests of the best practices of corporate governance and provides oversight and additional scrutiny throughout the post-demerger process within the Bank. The functions of the Special Committee include general oversight of post-demerger processes, including review and approval of certain transactions between the Bank and former BGEO Group plc group companies.

Jonathan Muir, Cecil Quillen and Véronique McCarroll are members of the Special Committee, the composition being last approved on 1 January 2022 and Cecil Quillen serves as Chairman.

Terms of Reference and Reporting to the Supervisory Board

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

Interaction between the Bank's Supervisory Board and the BoGG Board

On BoGG level, the BoGG Board members are elected by BoGG Shareholders' Annual General Meeting and they are divided into "Executive" and "Non-executive" directors (the **Non-Executive Directors**). Eight of nine members of BoGG Board are independent non-executive members (in accordance with the UK Corporate Governance rules applicable to BoGG plc). Each of the Chairman and Non-Executive Directors has clearly defined roles within the BoGG Board structure.

On the Bank's Supervisory Board level, there are no "executive" directors, as the executive powers are carried out by the management of the Bank as exemplified below. The Supervisory Board is appointed by GMS as described above. The Supervisory Board elects its own Chairman and Committee members.

Interaction between the BoGG Board and the Supervisory Board of the Bank is further described below:

- While the BoGG Board retains ultimate responsibility for the Group's governance and management, it delegates authority for certain matters to its Committees (Audit, Nomination, Remuneration, and Risk). The Bank's Supervisory Board performs similar functions on the Bank level and maintains ultimate responsibility for the Bank's governance and management.
- The BoGG Board sets the Group strategy, oversees its implementation and sets the Group policies, which are cascaded down to key operating subsidiaries as appropriate. The BoGG Board and the Bank's Supervisory Board, respectively, monitor the BoGG management team and the Management Board's execution of strategy and financial performance in a number of ways including:
  - Regular reports at BoGG Board meetings and the Supervisory Board meetings from the Bank's General Director, Chief Financial Officer and Deputy General Directors on matters including strategy, progress against strategy and financial performance;
  - Updates at each regularly scheduled meeting of each BoGG Board Committee Chairmen and the Supervisory Board Committee Chairmen;
  - Updates at each regularly scheduled meeting on macroeconomics and business segment performance;
  - Updates at each regularly scheduled meeting of Audit Committee on Internal Audit, with serious matters reported to the BoGG Board and the Supervisory Board by the Chairman of the Audit Committee; and
  - Reviewing and approving policies in a range of areas which have relevance across the Group by the BoGG Board and for the Bank by the Supervisory Board;
- The BoGG Board has a schedule of defined matters reserved for the BoGG Board and meets at least quarterly to discuss strategic matters and business performance. The BoGG Board committees have documented terms of reference.

Succession Planning and BoGG Board/Supervisory Board Appointment Procedures

At BoGG level, the BoGG Board Nomination Committee is responsible for both Director and Group executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the BoGG Board.

BoGG's succession planning model occasionally involves the recruitment of independent external advisors to the BoGG Board and Committees. In this way, both BoGG and the Bank receive objective insight into the decision making and can judge whether an individual advisor has the requisite skills, knowledge and understanding of the Bank to be appointed as an Independent Non-Executive Director and/or Independent member of the Bank's Supervisory Board.

On appointment, Non-Executive Directors are given a Letter of Appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil the role as BoGG Board Committee members and/or BoGG Board Committee Chairmen, as applicable. The BoGG is satisfied that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the BoGG Board. The letters of appointment for Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

Any external appointment or other significant commitment of the Non-Executive Directors requires the prior approval of the BoGG Board. The Non-Executive Directors hold external directorships or other external positions but the BoGG Board believes they still have sufficient time to devote to their duties as a Director of BoGG and that the other external directorship positions held provide BoGG and the Bank with valuable expertise.

3.4. Management Board and Executive Management Team

As at the date of this report the Bank's Management Board consists of the members listed below. The business address for all of the Management Board members is 29a Gagarini Street, Tbilisi 0160, Georgia.

Name	Current Position
Archil Gachechiladze	General Director
Sulkhan Gvalia	Deputy General Director, Chief Financial Officer
David Chkonia	Deputy General Director, Chief Risk Officer
Davit Davitashvili	Deputy General Director, Data and Information Technology
Mikheil Gomarteli	Deputy General Director, Strategic Project Direction
Eter (Etuna) Iremadze	Deputy General Director, Premium Banking (SOLO)
Zurab Kokosadze	Deputy General Director, Corporate Banking
Nutsiko Gogilashvili	Deputy General Director, Mass Retail Banking

In addition to the Management Board, the persons listed below are part of the Bank's senior management team:

Name	Current Position
Levan Gomshiashvili	Chief Marketing and Digital Officer
Ana Kostava	Chief Legal Officer
Elene Okromchedlishvili	Head of Human Capital Management
Giorgi Gureshidze	Head of Operations (appointed in September 2023)

The professional backgrounds of the Bank's Management Board/Team are presented below:

- **Archil Gachechiladze**
  General Director

Archil held senior positions between 1998 and 2009 at the World Bank's CERMA, KPMG, The European Bank for Reconstruction and Development (EBRD), Salford Equity Partners, Lehman Brothers Private Equity (currently Trilantic Capital Partners) and TBC Bank. In 2009 he joined the Bank as Deputy CEO, Corporate Banking and has since held various roles with the Bank and the Group, such as Deputy CEO, Investment Management, CFO of BGEO Group and Deputy CEO, Corporate and Investment Banking. Prior to his appointment as CEO, Archil served as CEO of Georgian Global Utilities (formerly part of BGEO Group PLC). He received his undergraduate degree in Economics from Tbilisi State University and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

- **Sulkhan Gvalia**
  Deputy General Director, Chief Financial Officer

Sulkhan has extensive experience in banking, having served in various senior roles at Bank of Georgia, including Deputy CEO – Chief Risk Officer (2005-2013) and Deputy CEO – Head of Corporate Banking (2013-2016). Prior to his recent appointment, Sulkhan was the founder and CEO of E-Space Limited – the only Georgian company developing electric car charging infrastructure in Georgia. Sulkhan started his career in banking at TbilUniversalBank and served as its Deputy CEO before its acquisition by Bank of Georgia in November 2004. Sulkhan holds a bachelor's degree in law from Tbilisi State University.

- **David Chkonia**
  Deputy General Director, Chief Risk Officer

Prior to his current role, David served as a senior advisor and Director of International Business at Bank of Georgia during 2021-2022. Before joining the Bank, he held senior positions in local and international organisations. He was Deputy CEO/Chief Risk Officer at TBC Bank during 2017-2020. Previous to that, David was Director at BlackRock in London, where he advised financial institutions and regulators on risk management, balance sheet strategy and regulation, Senior Vice President at PIMCO, responsible for the risk advisory practice. During 2009-2011, David Chkonia worked at European Resolution Capital. David holds an MBA from the Wharton School of the University of Pennsylvania and a bachelor's degree in finance from San Jose State University.

- **David Davitashvili**
  Deputy General Director, Deputy CEO, Data and Information Technology

David joined Bank of Georgia in 2006 and served in various senior roles, including Deputy Chief Operating Officer, responsible for collections, cash operations, procurement, and information security, and Head of Internal Audit from 2009 to 2017, covering both banking and non-banking subsidiaries. David holds an Executive MBA from Bayes Business School and a bachelor's degree and a master's degree in management and microeconomics from Tbilisi State University.

- **Mikheil Gomarteli**
  Deputy General Director, Strategic Projects Direction

Mikheil was appointed as Deputy CEO, Strategic Projects Direction of JSC Bank of Georgia in September 2022. Prior to this appointment, Mikheil was Deputy CEO, leading the Bank's Retail Banking business since 2009. Mikheil joined Bank of Georgia in 1997 and served in various senior and executive roles. Throughout his time with the Bank, Mikheil has been instrumental to Retail Banking and digital transformations and was behind many key initiatives launched during the past few years. Mikheil holds a bachelor's degree in economics from Tbilisi State University.

- **Eter (Etuna) Iremadze**

  Deputy General Director, Premium Business Banking (SOLO)

Eter was appointed Head of SOLO in May 2019 and became Deputy CEO in March 2021, and has been leading SOLO and WM businesses since April 2021. Eter joined Bank of Georgia early in her career in 2006 in Corporate Banking, in various roles, including senior positions. During 2009-2016 she was Head of Blue Chip Corporate Banking Unit, responsible for structured lending, M&A, significant buyouts and project financing. Prior to her recent appointment, Eter spent two years as Head of Strategic Projects Department at Georgian Global Utilities (formerly part of BGEO Group PLC). Eter holds an MBA from Grenoble Business School and a bachelor's degree in economics and commerce from Tbilisi State University.

- **Zurab Kokosadze**

  Deputy General Director, Corporate Banking

Zurab became Head of Corporate Banking in June 2020 and became Deputy CEO, leading Corporate and Investment Banking direction in March 2021. Zurab joined Bank of Georgia in 2003 as a Junior Corporate Banker and has progressed through various positions, being in senior roles prior to his recent appointment. He served as Head of Corporate Banking, under Deputy CEO, during 2017-2020. Zurab holds an MBA from Grenoble Graduate School of Business and a bachelor's in business administration from Caucasus School of Business.

- **Nutsiko Gogilashvili**

  Deputy General Director, Retail Banking

Nutsa became Head of Mass Retail Banking in September 2022. Prior to her recent appointment, she was Head of Human Capital Management and Customer Experience during 2019-2022, directly reporting to the CEO. Nutsa joined Bank of Georgia in 2016 as Head of Strategic Processes of Corporate and Investment Banking, responsible for human capital and customer experience initiatives in the Corporate and Investment Banking business. In 2017 she became Head of Customer Experience and played a key role in building the customer experience management function at the Bank. Before joining Bank of Georgia, Nutsa was at TBC Bank where she held the role of Head of Strategic Planning and Budgeting. Before taking up this role, during 2011-2014, Nutsa worked as an analyst at JP Morgan in London, covering different products. Nutsa holds a master's degree in finance from Bayes Business School and a bachelor's degree in economics from Moscow State Institute of International Relations.

- **Levan Gomshiashvili**

  Chief Marketing and Digital Officer

Levan was appointed Chief Marketing Officer in May 2019 and additionally became Chief Digital Officer in February 2023. Levan has extensive experience in marketing, having worked in different roles, including creative manager and chief marketing officer in international and local companies. Before joining the Bank, Levan was the founder of HOLMES&WATSON, a creative agency, where he served as an Account Manager for clients operating in different sectors. Levan is also the founder of Tbilisi School of Communication, an educational facility focused on executive education. Levan holds a master's degree in management from the University of Edinburgh and a bachelor's degree in management from Saint Petersburg State University of Economics and Finance.

Ana Kostava
Chief Legal Officer

Ana became a direct report of the CEO in October 2021. She joined Bank of Georgia in April 2018 as Senior Group Lawyer (2018-2020). Prior to that, Ana was an Associate at Dechert LLP during 2015-2018. Ana has experience working at the World Trade Organization Appellate Body Secretariat and European Court of Human Rights. She started her career in law as Associate at Legal Partners Associated LLC in 2010. Since 2015, Ana has been an Associate Lecturer at Free University of Tbilisi. Ana holds an LLM from University of Cambridge and an LLB from Caucasus University, Caucasus School of Law. She also holds a Harvard Law School Executive Education Certificate of Leadership in Corporate Counsel.

Elene Okromchedlishvili
Head of Human Capital Management

Prior to her recent appointment, Elene served as Head of Business Processes, Lean Transformation and Transactions. She joined the Bank in 2017 and held various positions, including Head of IFRS Reporting Unit responsible for the Bank's stand-alone financial statements and those of its subsidiaries, and Head of Operational Efficiency and Cost management Unit. Before joining the Bank, Elene worked at EY, progressing to the position of senior auditor. Elene holds an MBA from IE Business School and a bachelor's degree in business administration from Free University Tbilisi.

Giorgi Gureshidze
Head of Operations

Prior to this role, Giorgi had a diverse professional experience during 2017-2023 at Georgia Global Utilities (GGU – formerly part of BGEO Group PLC) where he held various positions, including Investment Analyst, Head of Financial Analysis and Research, and Head of Strategic Projects and Business Development, before serving as Chief Financial Officer of the company during 2020- 2023. He played an instrumental role in the first Green Eurobond issuance from the region on the Irish stock exchange in 2020 and in the sale of GGU, the largest private transaction in Georgia. Giorgi started his career working as an Auditor at Deloitte and also worked as an Investor Relations Manager at TBC Bank. Giorgi holds a bachelor's degree in Economics and Global Affairs from Yale University.

Responsibilities of the Management Board

The Management Board and the Management Team of the Bank represent an executive body that is responsible for day-to-day management of the Bank (except for the functions reserved to the GMS and the Supervisory Board) and, according to the Charter, shall consist of the General Director and not less than three Deputy General Directors. The Management Board of the Bank is accountable to the shareholders and the Supervisory Board, and its members are appointed and dismissed by the Supervisory Board. Any member of the Management Board shall have the right to request from any Supervisory Board member that a meeting of the Supervisory Board be called and he/she may address such meeting.

The Supervisory Board of the Bank approves the remuneration and other conditions of employment for each member of the Management Board of the Bank. Certain resolutions of the Management Board of the Bank are subject to prior approval of the Supervisory Board of the Bank.

The Management Board is led by the General Director, who together with the Supervisory Board, allocates responsibilities of the Management Board among its members. The responsibilities of the Management Board include:

- Running the Bank's day-to-day activities
- Reviewing the agenda items for the GMS and for the Supervisory Board meetings, obtaining the necessary information, preparing proposals and drafting resolutions
- Drafting and presenting to the Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and the Bank's investments plan)
- Reviewing issues in relation to lending, settlement, financing, cash services, security, accounting and reporting of cash and valuables of the Bank and internal controls
- Making decisions regarding the operation of the Bank's branches and service centres, ensuring that the branch managers and heads of service centres fulfil their tasks and functions
- Reviewing the information provided by internal audit or external inspections, and the reports submitted by the branch managers and heads of service centres, and making appropriate decisions
- Ensuring the fulfilment of resolutions passed at the GMS and by the Supervisory Board
- Developing policies, by-laws and other regulatory documents, which are approved by the Supervisory Board, and ensuring compliance with such policies, by-laws and regulatory documents
- Deciding on the appointment, dismissal, training, and remuneration of employees
- Convening an extraordinary general meeting, if necessary
- Any other issues which may be assigned to the Management Board by the Supervisory Board and/or the GMS
- Fulfiling the responsibilities set forth by the Bank’s charter and the applicable laws

The following activities fall within the authority of Supervisory Board and may be carried out only with the approval of the Supervisory Board:

- Acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Establishment and liquidation of branches;
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Borrowing funds in excess of 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Securing debt financing, if such financing falls outside the scope of routine economic activity;
- Launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- Adopting general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director, other members of the Management Board and any other top managers so selected by the Supervisory Board);
- Approval of an agreement or contract pursuant to which the expenditures of the Bank (payable by single or several tranches) exceeds 1.0% of the Bank's equity value as of the end of the previous calendar month;

- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;
- Determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- Redemption of the Bank's shares in cases envisaged by the applicable laws, including the redemption of treasury shares;
- Other activities that may be prescribed by applicable laws.

The Management Board is led by the General Director who is responsible for: acting independently on behalf of the Bank (subject to any required consents from the Supervisory Board); chairing meetings of the Management Board, supervising the implementation of the decisions of the Management Board, Supervisory Board and the GMS, assigning tasks to the Management Board members with the consent of the Supervisory Board and to other managers of the Bank and issuing relevant orders, instructions and other directives for these purposes; submitting for approval to the Supervisory Board, recommendations on the remuneration and bonuses of the Bank's employees; appointing and dismissing employees in accordance with the employee recruitment plan approved by the Management Board; carrying out any other activity required for attaining the goals of the Bank (except for those that fall within the competence of the GMS or Supervisory Board). The General Director is entitled to delegate his direct tasks to other Management Board members or the heads of relevant departments of the Bank as deemed appropriate.

4. Risk Management

The effective management of risk is key for achieving the Bank's strategic objectives. Material risks and uncertainties are key focus areas for the Supervisory Board and the Board of Directors. The Board of directors have ultimate responsibility for risk governance and management. The Bank's Enterprise Risk Management (ERM) framework embeds day-to-day accountability throughout the organisation to ensure we operate within acceptable risk tolerances, as set by the Board's risk appetite, with our governance structure and three lines of defence providing a foundation for continuous oversight.

Key components of our ERM framework

Risk Governance	Non-executive risk management	The risk appetite limits are reviewed and approved annually by the Board of Directors. The Board sets the tone 'from the top' and is advised by the Risk Committee.
	Executive Risk Governance	Executive Management assesses the effectiveness of the implementation of the risk management and internal control policies and procedures
Roles and Responsibilities	"Three Lines of defence model"	The Bank's ERM framework is based on the industry standard 'three lines of defence' model for risk management.
Processes and tools	Risk Appetite	The Bank has processes in place to identify, assess, measure, manage and report risks to ensure we remain within risk appetite.

<table>
<tr><td></td><td>Active Risk Management: identification, measurement, mitigation, reporting</td><td></td></tr>
<tr><td rowspan="2">Internal Controls</td><td>Policies and Procedures</td><td rowspan="2">The Bank continuously develops the control environment in business processes – including through segregation of duties, preventive tools integrated in the systems, restrictions of user rights.</td></tr>
<tr><td>Control Activities</td></tr>
</table>

Risk Management Process

Risk identification

Risk identification is performed regularly and is a joint effort of the business and the risk management functions. The main goal is to detect potential risks in a timely manner and to avoid or mitigate potential harm those risks would bring. In case of material internal or external change, additional ad hoc risk identification can be performed. The Supervisory Board also regularly discusses and debates key risks and management's approach managing those risks.

Risk assessment and measurement

Each identified risk is assessed based on its likelihood and potential financial and non-financial impacts, before being compared to our overall risk appetite and specific limits or triggers. We then prioritise risks and decide which need immediate risk response strategies aligning identified exposures with the Bank's risk tolerances.

Risk treatment

Risk mitigating activities are developed and implemented to reduce the potential impact of a particular risk. When evaluating possible mitigating actions, costs and benefits, residual risks (those that are retained) and secondary risks (those arising from risk mitigation itself) are also considered. All key controls are recorded and reviewed on a regular basis. When a control is not working effectively, root causes are analysed and action plans are developed and implemented to improve the control design.

Risk monitoring and reporting

The Bank monitors if appropriate actions are taken in a timely, consistent and systematic manner. Executive Management assesses the effectiveness of the implementation of the risk management and internal control policies and procedures, and periodically reviews the output from the bottom-up process. Key risks are escalated to the appropriate level of authority. Any significant changes and developments affecting our risks and respective mitigating actions are reviewed quarterly (of more often, if necessary) by the Audit and Risk Committees and reported to the Supervisory Board. In addition, monthly risk reporting provides senior management with the information they need to manage risks.

Risk appetite framework

The risk appetite framework is a key component of the ERM framework and supports effective risk management by promoting sound risk-taking within agreed limits. The Bank has established risk appetite limits for principal risks to ensure it can meet its strategic objectives and medium-term targets even during challenging economic and operating environments.

The risk appetite limits are reviewed and approved annually by the Supervisory Board. A risk appetite dashboard is presented monthly to Executive Management and quarterly to the Risk Committee which reports to the Board. This process ensures timely escalation of a breach and remediation action plan development.

Risk culture

Risk culture is at the heart of the Bank's risk management framework and risk management practice. A strong culture, starting with the Supervisory Board, supports the Bank in ensuring ethical business operations and that performance, risk and reward are aligned.

Our risk culture aims to ensure that all employees: (i) understand the risks associated with their individual roles; (ii) consider risks and consult with the Risk function during the development of new products, procedures, policies and systems; (iii) align risk appetite and decision-making; (iv) identify, escalate and proactively manage risk matters in accordance with the risk management framework; and (v) report and communicate risks transparently.

To develop risk culture, the Bank focus on giving employees the awareness and capabilities to manage risk. We provide a wide range of training programmes to our employees across the risk disciplines – some mandatory for all employees, others role-specific or part of individual development plans. Mandatory training programmes are accessible online and ensures we keep our customers, employees and the whole organisation safe. Topics covered include operational risks, business continuity, information security and data protection, health and safety, corporate security, business ethics, and financial crime risks and sanctions risks. The completion rate of the risks and compliance training programme at the end of 2023 was 91%.

Our Code of Conduct and Ethics and Whistleblowing

The Code of Conduct and Ethics and the Whistleblowing Policy are the primary documents governing culture and ethics. Our Code of Conduct clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings.

Whistleblowing tool allows employees to report any concern anonymously if they wish so. Responsibility for the Whistleblowing Policy resides with the Supervisory Board who, together with Audit Committee, receive reports on its operation quarterly.

Through our grievance mechanism, which is part of our Human Rights and Grievance Policy, employees can communicate legitimate concerns about illegal, unethical or questionable practices - confidentially, if necessary- without risk of retaliation.

Internal controls

Supervisory Board is responsible for reviewing and approving the Bank's system of internal controls, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of the risks we face. Certain matters – such as the approval of major capital expenditures, significant acquisitions or disposals, and major contracts – are reserved exclusively for the Supervisory Board. For other matters, the Supervisory Board is often assisted by both the Audit and Risk Committees.

With respect to internal controls over financial reporting our financial procedures include a range of system, transactional and management oversight controls. The Bank prepares detailed monthly management reports that include analyses of results, comparisons, relevant strategic plans, budgets, forecasts and prior results.

These are presented to, and reviewed by, the Executive Management. Each quarter, the Bank's Chief Financial Officer and other members of the Finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Supervisory Board. The Audit Committee also reviews quarterly, half-year and full-year financial statements and corresponding results announcements, and advises the Supervisory Board.

The external and internal auditors attend each Audit Committee meeting, and the Audit Committee meets them regularly both with and without the presence of the Executive Management.

Audit and Risk Committees monitor internal controls over operational and compliance risks. The Bank's Chief Risk Officer and Chief Financial Officer, Head of Internal Audit and other Executive Management members report to the Audit and Risk Committees on a quarterly basis. Any key issues identified are escalated to the Supervisory Board. The Supervisory Board also receives regular reports directly from the head of each risk function of the Bank, in which principal risks and internal control issues are addressed.

Effectiveness review

Each year the Bank reviews the effectiveness of risk management processes and internal controls, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year ended 31 December 2023 and obtained assurance from the Executive Management and Internal Audit.

The Supervisory Board concludes with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively during 2023 and that these systems continued to operate effectively up to the date of approval of this report. The review did not identify any significant weaknesses or failures in the systems. The Bank's risk management processes and internal control systems comply with the UK Corporate Governance Code 2018 and the Financial Reporting Council's (FRC) guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Risk management structure

The Bank's risk management framework is based on the industry- standard 'three lines of defence' model for risk management. All roles below the CEO fall within one of the three lines. All employees are responsible for understanding and managing risks within their individual roles and responsibilities.

First Line of Defence

The first line of defence comprises the relevant business/operational unit's front-line and mid-line managers, the Risk Owners, who have ownership of and manage relevant units of the Bank. They are accountable for:

- identifying, assessing, managing, monitoring and reporting risks of products, activities, processes and systems under their management.
- designing and implementing controls to effectively manage risks.
- integrating risk appetite and risk culture into daily activities.
- reflecting risk management roles and responsibilities in the Risk Owners' job descriptions and incentivising/rewarding expected risk management behaviours.

Second Line of Defence

The second line of defence- risk function under Chief Risk Officer- provides an additional level of support to the first line of defence, with senior management who bring an additional level of expertise to the risk management process and provide further support to and monitoring of Risk Owners to ensure that risks and controls are properly managed. The second line of defence is in charge of:

- developing policies, methods and procedures.
- developing and implementing the risk appetite framework, including setting the limits.
- supporting and challenging first-line risk management.
- providing assurance on regulatory compliance and effectiveness of key controls.

Third Line of Defence

The third line of defence is the responsibility of the Internal Audit department. The third line of defence is in charge of:

- providing independent assurance.
- assessing the consistency and effectiveness of the Bank's internal control system.
- reviewing the overall risk management framework to ensure alignment to regulatory expectations and industry standards.

Risk management bodies

The main risk management bodies of the Bank are the Supervisory Board, Audit Committee, Risk Committee, Executive Management, Credit Committee, Asset and Liability Management Committee (ALCO), and Environmental and Social Impact Committee.

The Executive Management has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. To effectively implement the risk management system, the Executive Management delegates individual risk management functions to each of the Bank's various decision- making and execution bodies.

The Bank's Internal Audit function is an internal independent, objective assurance and consulting provider. As the third line of defence, it adds value and improves the Bank's operations through the assessment of the effectiveness and adequacy of Bank-wide processes, controls, governance and risk management. The Chief Auditor reports to the Audit Committee at least quarterly on significant risk exposures and control issues if any are identified through audit engagements.

The Bank has five Credit Committees, each responsible for managing the Bank's credit risk across loan portfolios in all businesses.

The Credit Committee comprises three tiers of subcommittees for retail loans; one tier for micro loans; three tiers for SME loans; three tiers for corporate loans; and one tier for corporate recovery.

Lower-tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed – typically once or twice a week. Each subcommittee of the Credit Committees makes its decisions by a majority vote of its members.

The ALCO is the core asset liability management and financial risk management body establishing policies and guidelines with respect to capital adequacy, market risks, funding and liquidity risk, interest rate and prepayment risks and respective limits, money market general terms, and credit exposure limits.

The ALCO reviews scenario analyses and stress tests, regularly monitors compliance with the pre-set risk limits, and approves treasury deals. . The management-level Environmental and Social Impact Committee is responsible for the development and implementation of the Bank's ESG strategy, including its climate risk and opportunity management strategy. The Committee manages the Bank's climate, environmental and social impacts, focusing primarily on those associated with its lending activities.

Stress testing

Stress testing and scenario analysis are important risk management tools providing input for strategic decision-making and planning as they enable to assess the impact of plausible but severe stress scenarios relating to the Bank's liquidity and capital positions. We regularly assess the vulnerabilities of our portfolios to adverse macroeconomic factors, financial market stresses and geo (political) developments. Portfolio sensitivities are fed into the impact assessment of profit and loss (P&L), liquidity and capital.

The Bank performs different types of stress tests:

- Viability stress tests: scenario assumptions for all relevant macroeconomic and financial market variables are set, and potential impacts are assessed against the viability of the Bank. These stress tests include reverse stress testing, where the Bank identifies circumstances that may lead to business failure. This type of test is performed at least annually and reported to the Supervisory Board.
- Risk-specific stress tests: depending on the tendencies on the market, specific portfolios are tested for various market-wide scenarios. The impact of various shocks is assessed against portfolio quality, profitability, liquidity and capital.
- Idiosyncratic stress-tests: conducted on an ad hoc basis, based on certain idiosyncratic factors that may arise in the business over time.
- Regulatory stress-tests: mandated by the NBG, which also provides the context and methodology for stress tests.

Stress test methodologies vary by type and objective. Depending on the risk type, respective risk management units are responsible for performing the analysis. If unacceptably high risks are identified, risk units adopt measures to mitigate them and reflect those measures in their strategic plans. The ERM department is responsible for results aggregation, analysis and reporting.

Key development in 2023

In 2023 the Bank implemented several changes and initiatives to further strengthen our risk management:

- The Bank consolidated Risk and Compliance functions under the Chief Risk Officer to enhance collaboration and efficiency among teams.

- The Bank continued to improve capital and liquidity risk management by updating the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to reflect changes in the financial landscape, regulatory requirements and the Bank's risk profile.

- The Bank improved enterprise risk reporting processes, increasing focus on key risk indicators, promoting proactive risk management and ensuring more comprehensive assessment of potential vulnerabilities.
- The Bank revised Model Risk Management Policy with the help of a global management consultancy, McKinsey & Company.
- The Bank continued to strengthen climate risk management capabilities across the Bank. This involved broadening the scope of climate-related training, deepening our knowledge of climate change and climate policy in Georgia, and reassessing climate scenarios.

Principal and Emerging risks

Each business line identifies key risks that are inherent to their activity and may significantly influence Bank's performance or prospects. The principal risks and uncertainties faced by the Bank are identified through this bottom-up process. Information compiled from all the businesses is examined and processed to identify, assess and manage emerging risks. This information is presented and discussed with the Executive Management and the head of each business division as appropriate. The Bank also considers wider macroeconomic risks and escalate these to the Supervisory Board or Board of Directors, as appropriate in regular presentations.

The Bank has identified climate risk as an emerging risk. We continue to assess climate-related risks, both transitional and physical, for our client base and determine potential impacts on the Bank.

The Bank is describing and managing climate-related risks in line with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

Management of Principal Risks and Uncertainties

Macro and Geopolitical risks

Macro and geopolitical risks are the risks that would lead to the Bank being unable to execute its strategy – and therefore result in a deterioration in its financial position – due to macroeconomic and geopolitical instability affecting the Georgian economy.

Mitigation

Governance: The Board of Directors receive a regular, quarterly update on global, regional, and local economic developments and risks from the Bank's economist. The Board is also regularly updated, sometimes by external consultants, on major political and geopolitical developments that affect the broader region. Economic analysis is also regularly presented to the ALCO, with a specific focus on interest rates, exchange rates, inflation and economic growth outlook.

Monitoring and reporting: The Bank continuously monitors macroeconomic conditions and performs stress and scenario analyses to test its position under adverse economic conditions, including adverse currency movements. We assess sensitivities of certain portfolios towards macroeconomic factors and geopolitical scenarios, enabling us to take portfolio-related actions if necessary, including increasing monitoring and changing our credit risk appetite.

The Bank actively monitors the situation around the Russia-Ukraine war and its repercussions for the region, especially Georgia and Belarus. The Bank conducts stress testing analysis to ensure early risk indicators are identified and mitigation plans implemented in a timely manner.

Georgia's resilience to external shocks has been supported by a well-diversified economy, prudent monetary and fiscal policies, a business-friendly environment, and a healthy banking sector. The Belarus market is more vulnerable to the impact of the Russia-Ukraine war, and we continue to closely monitor the situation.

Mitigation: In accordance with the Georgian legislation, in 2023 loans up to GEL 200,000 were issued only in Lari; starting from 1 January 2024, loans up to GEL 300,000 will be issued only in the local currency. Additionally, the NBG requires the Currency Induced Credit Risk (CICR) capital buffer that aims to reduce systemic risks caused by dollarisation. This buffer is created for risk positions denominated in a currency different from that used to cover those positions. For loans to individuals, the NBG's payment-to-income (PTI) and loan-to-value (LTV) requirements are more conservative for foreign currency loans to mitigate borrower-level exchange rate-induced credit risk. Versus those denominated in Lari, PTI requirements for foreign currency loans are 5 ppts higher for income below GEL 1,500 and 20 ppts higher for income above GEL 1,500; the LTV requirement for foreign currency mortgage loans is 15 ppts tighter.

At 31 December 2023 22.8% of Bank of Georgia's Retail Banking (RB) gross loans, 43.5% of SME Banking gross loans, and 73.5% of CB gross loans were denominated in foreign currency. Meanwhile, 4.9% of Retail Banking gross loans, 1.7% of SME Banking and 37.7% of CB loans were issued in foreign currency, with minimal exposure to foreign currency risk.

In addition, the Bank's open currency position limits set by the Supervisory Board are currently more conservative than those imposed by the NBG. The open currency position on a day-to-day basis is managed by the Treasury and monitored by the Capital Adequacy and Financial Risk Management (CFRM) unit.

Credit risk

Credit risk is the risk that the Bank will incur financial loss because its customers or counterparties fail to meet their contractual obligations. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation

Governance: The Bank has three independent Credit Risk Management departments: Retail Credit Risk direction; Corporate Credit Risk department; and MSME Credit Risk department. The Credit Risk Management departments oversee and challenge frontline credit risk management activities. Each department is supported by the following teams:

- Credit Risk Analysis team: responsible for analysing customers' creditworthiness based on financial information/credit ratings, sharing analyses with the risk owners and providing recommendations at underwriting or monitoring stages. It controls compliance with credit limits through regular reporting and systemic alerts, and ensures compliance with credit risk management procedures.

- Portfolio Risk Analysis team: responsible for analysing and monitoring the credit risk position of the Bank while establishing and maintaining the credit risk framework and policies. It assesses credit risk, reporting to management and business lines.

The Enterprise Risk Management (ERM) department oversees the bank wide credit risk assessment process, manages quality monitoring policies, continuously monitors the Bank's credit portfolio quality parameters using various tools and techniques, and manages risk budgeting, stress testing and scenario analysis. The ERM department provides regular reports to the Executive Management and the Supervisory Board on the Bank's credit risk profile and the effectiveness of risk management strategies.

Risk appetite: The credit risk appetite consists of quantitative limits and is specifically designed to mitigate the occurrence of excessive credit risk and credit concentrations at various levels within the Bank's portfolio. The credit risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Credit risk identification and assessment: The process of identifying credit risks primarily relies on effective relationship management and the prudent oversight of customer and portfolio credit. The credit assessment process is distinct across segments and is further differentiated across various product types to reflect the specifics of different asset classes. The assessment process depends on transaction complexity: Corporate, SME and larger Retail loans are assessed individually; unsecured Retail loan decisions are largely automated. The performance of all models used in credit risk management is monitored in line with the Bank's model risk management framework.

To ensure a robust credit-granting process, the Bank has implemented several measures and frameworks:

- Well-defined lending standards: The Bank has established clear standards for granting credit, outlining the requirements and standards that borrowers must meet. These standards serve as a benchmark for evaluating the creditworthiness of customers, enabling the identification and assessment of potential risks associated with extending credit.
- Segregation of duties: The credit analysis and approval process involves a clear segregation of duties among the parties involved. In the case of Corporate, SME clients, the analytics team is involved in credit risk analysis, while for Retail loans only loan officers and credit risk officers are involved. Credit analysts and loan officers prepare presentations with key borrower information which are then reviewed by a business credit risk officer, ensuring all risks and mitigating factors are identified and addressed, and that loans are properly structured.
- Multi-tiered loan approval committees: The loan is reviewed and approved by multi-tiered credit committees, with different loan approval limits to consider a customer's overall risk profile. Different committees are responsible for reviewing credit applications and approving exposures based on the size and risk of a loan.

Loan portfolio quality monitoring: The Bank actively monitors the credit risk of its loan portfolio. Processes and controls are in place to ensure macro and micro developments are identified in a timely manner. Monitoring includes a full assessment against risk appetite limits, supported by a series of key risk and early warning indicators to identify areas of the portfolio with potentially increasing credit risk. The Bank's Chief Risk Officer and the Credit Risk Management departments review the credit quality of the portfolio monthly.

Retail and SME loans are subject to periodic reviews, and the Bank monitors exposures to identify customers with signs of potential financial difficulty. For CB loans above US$ 5 million, the Bank updates the financial information of borrowers and reviews significant non-financial changes quarterly. Exposures up to US$ 5 million are monitored semi-annually, or as needed if signs of credit stress are detected.

The Bank strictly adheres to customer exposure limits set by the NBG for CB loans and limits set internally, monitors the level of concentration in the loan portfolio and the financial performance of its largest borrowers, and maintains a well-diversified loan book. The Bank's top ten borrowers accounted for 7.1% of gross loans to customers and finance lease receivables at 31 December 2023 versus 5.9% at 31 December 2022.

The Bank provides updates monthly to Executive Management and quarterly to the Board of Directors on the Bank's exposures and loan portfolio quality, and detailed information on the largest CB borrowers. In addition to these recurring updates, some point-in-time analyses are occasionally performed upon request of the Supervisory Board's Risk Committee to monitor exposures in specific sectors and/or single-name exposures.

Collateral valuation: Property and other security arrangements are used to mitigate credit risk across portfolios. The main forms of collateral in CB and SME Banking are liens over real estate, property, plant, equipment, inventory, transportation equipment, corporate guarantees, and deposits and securities. The most common form of collateral in Retail Banking for loans to individuals is a lien over residential property. As at 31 December 2023, 83.2% of the Bank's gross loans were collateralised.

The Bank monitors the market value of collateral during reviews of the adequacy of the allowance for ECL. When evaluating collateral for provisioning purposes, the Bank discounts the market value of assets to reflect the liquidation value of collateral. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department, or a reputable third-party asset appraisal company, and submitted to the appropriate Credit Committee alongside a loan application and credit risk officer's report.

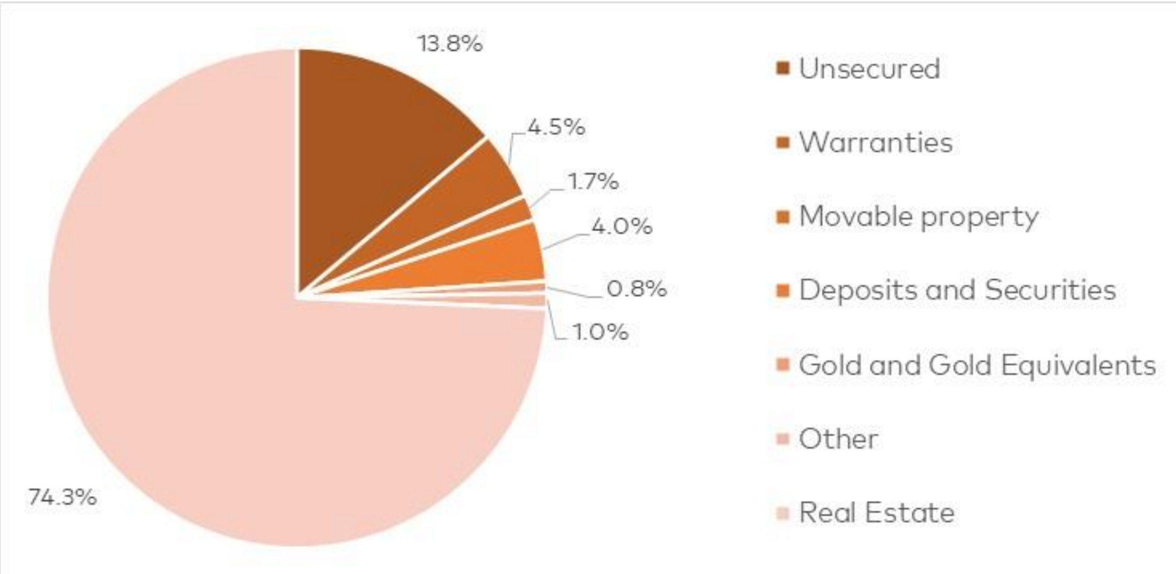
Restructuring and collections: The Bank provides solutions to help borrowers experiencing financial difficulties to meet contractual obligations. Cases are managed on an individual basis by the Collection teams, with the circumstances of each customer considered separately.

When a customer surpasses an agreed-upon limit or fails to make a regular monthly payment, the Bank contacts the customer and asks her to remedy the position. If the issue is not resolved, the Collection teams may initiate a loan restructuring process, modifying the contractual payment terms to support customers and transfer loans back to the performing category.
For unsecured retail loans overdue for more than 30 days, restructuring alternatives are automatically offered through digital channels.

Helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome. However, where a solvent outcome is not possible, insolvency may be considered as a last resort.

Recovery process is initiated when a borrower enters default on their lending facility and the Bank demands full repayment. The main aim is to negotiate a loan recovery strategy with the borrower by offering acceptable terms for cash payments, or to negotiate repayment through collateral sale or repossession. If the Bank and the borrower cannot agree acceptable terms, the collateral repossession process is initiated, which may include court, arbitration or notary procedures.

Below is presented the credit risk concentration per respective mitigation instruments, which shows that the Bank is well secured mostly by real estate, followed by warranties, movable property, deposits and securities:



ECL measurement: The Bank uses the ECL model of IFRS 9 to determine loss allowances, acknowledging its forward-looking nature. The model follows a conventional approach that involves dividing the estimation of credit losses into its components: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Under IFRS requirements, allowance for credit losses is based on ECL associated with the probability of default in the next 12 months, unless there has been a significant increase in credit risk since loan origination – in such cases, allowance is based on ECL over the lifetime of an asset. Allowance for credit losses is based on forward-looking information, considering past events, current conditions and forecasts of economic parameters.

The Bank uses a three-stage model for ECL measurement:

- Stage 1 if, at the reporting date, exposure is not credit-impaired and credit risk has not increased significantly since initial recognition. The Bank recognises a credit loss allowance in an amount equal to a 12-month ECL.
- Stage 2 if, at the reporting date, exposure is not credit-impaired and credit risk has increased significantly since initial recognition. The Bank recognises a credit loss allowance in an amount equal to lifetime ECL.
- Stage 3 if, at the reporting date, exposure is credit impaired. The Bank recognises a loss allowance in an amount equal to lifetime ECL, reflecting a PD of 100% for those financial instruments that are credit impaired.

The Bank determines ECL of financial assets on a collective basis, and for individually significant loans on an individual basis, when a financial asset or a group of financial assets is impaired. The Bank creates ECL provisions considering a borrower's financial condition, days past due, changes in credit risk since loan origination, forecasts of adverse changes in commercial, financial or economic conditions affecting the creditworthiness of the borrower, and other qualitative indicators – such as external market or general economic conditions. If ECL subsequently decreases, the previously recognised loss is reversed by an adjusted ECL account.

Under the Bank's internal credit loss allowance methodology, which is based on IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Credit Risk Management departments assess all defaulted significant loans individually. Non-defaulted significant loans are given a collective assessment rate. For the purpose of collective provisioning, all loans are categorised into homogenous groups (such as mortgage, consumer, and micro loans).

Counterparty risk: By performing banking services, including lending on the inter-bank money market, settling a transaction on the inter-bank FX market, entering into inter-bank transactions related to trade finance, or investing in securities, the Bank is exposed to the risk of loss due to failure of a counterparty to meet its contractual obligations. To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty based on an external credit rating and overall risk profile, as well as country limits to manage concentration. Counterparty credit risk exposures are monitored daily and any breaches are escalated in line with escalation policies to Bank's Executive Management. As at 31 December 2023, 95.4% of the Bank's inter-bank exposure was to 'Investment Grade' banks (based on Fitch, Moody's and Standard and Poor's assessments).

Other products: The Bank also offers guarantees and letters of credit, which may require that the Bank makes payments on customers' behalf. Such payments are collected from customers based on the terms of the product. The risks related to these products are managed and mitigated with the same policies and controls as loan-related risks.

Liquidity and funding risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Funding risk is the risk that the Bank will not be able to access stable and diversified funding at an acceptable cost.

Mitigation

Governance: The governance of funding and liquidity risk management is overseen by the ALCO, which approves the liquidity risk management framework and liquidity risk appetite, and ensures its implementation throughout the organisation. The Bank's funding and liquidity risk governance follows a three-lines-of-defence structure to set a clear division of responsibilities as well as an independent risk control challenge process. The Treasury department and the Asset and Liability Management (ALM) unit are the first line of defence, responsible for managing the Bank's liquidity and funding positions, maintaining access to funding markets, and managing the liquidity buffer. The CFRM unit serves as the second line of defence and is responsible for developing and maintaining policies, standards, and guidelines for funding and liquidity risk management, and developing the risk appetite. Furthermore, the CFRM is responsible for conducting risk profile reviews and communicating results to the ALCO.

Risk appetite: The Bank has developed a set of risk appetite statements outlining its risk tolerance and defining its risk appetite in alignment with the principles of liquidity adequacy. The liquidity risk appetite statements are translated into a range of metrics approved by the Bank's Supervisory Board and reviewed at least annually, enabling the identification of potential deviations from the desired risk profile and triggering proactive risk management actions if these boundaries are breached.

Funding and liquidity management: Liquidity risk is managed through the ALCO-approved liquidity risk management framework, which models the ability of the Bank to meet its payment obligations under both normal and stress conditions. The framework is reviewed regularly to ensure its appropriateness given the Bank's current and planned activities, and encompasses sets of limits on various liquidity indicators, closely monitored by the ALCO. The Bank performs weekly liquidity forecasts and applies scenario analysis and stress testing to ensure it holds adequate stock of liquidity. Additionally, the Bank has developed a liquidity contingency plan defining risk indicators for different scenarios and mitigation actions to identify emerging liquidity concerns at an early stage.

The Bank conducts a comprehensive assessment of funding risk associated with the balance sheet, encompassing both quantitative and qualitative analyses of the behavioural characteristics of its assets and liabilities, along with an examination of funding concentration.The concentration of funds by currency, maturity, commodity, and counterparty is monitored regularly and, where concentrations do exist, is managed as part of the planning process and limited by the internal funding and liquidity risk management framework, with analysis regularly provided to the ALCO.

Liquidity stress testing: The Bank's ILAAP includes liquidity stress-test/scenario analysis framework to assess the sufficiency of the Bank's liquidity buffers to withstand potential liquidity shocks. The framework includes idiosyncratic, systemic and combined scenarios to test the sensitivity of the Bank's liquidity position to each of them. Shocks are designed to include all key liquidity-related items and factors.

Monitoring and reporting: The Bank monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to the Bank. Furthermore, the Bank delivers biweekly forecasts and monthly updates on liquidity risk to Executive Management. The liquidity risk is integrated into the risk profile dashboard, subject to review by the Risk Committee, and is also a topic of discussion during joint sessions of the Risk and Audit Committees. The reports included EY's view of the judgments made by management, compliance with international financial reporting standards and the external auditor's observations and assessment of the effectiveness of internal controls over financial reporting.

Funding and liquidity developments: The Bank maintains a diverse funding base comprising short-term sources of funding (including Retail Banking and CB customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources (including Retail Banking and CB term deposits, borrowings from international credit institutions and long-term debt securities). At 31 December 2023 42.2%, 48.0% and 9.8% of the Bank's long-term funding sources were deposits, amounts owned to credit institutions, and debt securities respectively. The Bank maintains a comfortable buffer on top of the liquidity coverage ratio (LCR) requirement of 100% mandated by the NBG. A strong LCR enhances the Bank's short-term resilience. The Bank also holds a comfortable buffer on top of the net stable funding ratio (NSFR) requirement of 100%, providing stable funding sources over a longer time span. This approach is designed to ensure the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. Notably, the LCR and NSFR measures as implemented by the NBG are already more conservative than the minimum levels required under the Basel III framework. At 31 December 2023 the Bank's LCR ratio stood at 125.4% (versus 132.4.0% at 31 December 2022 and its NSFR ratio was 130.4% (versus 131.9% at 31 December 2022).

Client deposits and notes are one of the key sources of funding and the majority (61.4% as at 31 December 2023) of our deposits come from a stable retail customer base linked to our strong retail franchise. The Bank uses LCR as a liquidity risk management tool in accordance with the international standard, implying run-off rates based on deposit type and concentration to properly account for potential deposit run scenario. It is worth to note that the NBG imposes LCR outflow rates stricter than international standards, corresponding to the severe stress. At 31 December 2023, 92.0% of the Bank's client deposits and notes respectively had contractual maturities of one year or less (90.3% at 31 December 2022), of which 64.6% and were payable on demand (66.8% at 31 December 2022). As of the same dates, the ratio of net loans to client deposits and notes was 98.6% and 92.3% respectively, and the ratio of net loans to client deposits and notes and DFIs was 89.3% and 83.8% respectively.

The Bank has strong support from international financial institutions IFIs. The Bank signed a number of new local and foreign currency long-term borrowings during 2023 – approximately USD 115.1 million in total, part of which was drawn down during 2023. At 31 December 2023, the Bank had approximately GEL 50 million undrawn long-term facilities from DFIs with maturity of up to 7 years, as well as a strong pipeline to secure resources needed for the next 12 months.

Capital Risk

Capital risk is the risk of failure to deliver business objectives, or meet regulatory requirements or market expectations due to insufficient capital.

Mitigation

Governance: The ALM unit executes daily capital risk management decision making, while the CFRM establishes the capital risk management framework and challenges its effective implementation.

The Bank's capital position and capital planning is continuously monitored by the Supervisory Board to ensure prudent management and timely actions when necessary.

Risk appetite: The Bank has capital risk appetite presented as different types of Bank-level limits and approved by the ALCO and the Supervisory Board. In the process of limit setting the following aspects are considered:

- expectations regarding regulatory requirements for capital adequacy;
- existing capital levels and medium-term strategic plans that might potentially impact capital adequacy;
- capital distribution policy;
- Internal Capital Adequacy Assessment Process (ICAAP) results;
- enterprise-wide risk appetite and business strategy; and
- recovery plan.

The risk profile relative to risk appetite is monitored and reported monthly to the Bank's Executive Management (ALCO) and quarterly to the Supervisory Board.

Capital management: The Bank maintains an actively managed, robust capital base to cover the risks inherent to its business. Capital risk management is underpinned by the Capital Management Policy outlining key principles of capital management, monitoring and control, defining roles and responsibilities of the three lines of defence, and defining capital mitigation plans in line with the risk appetite framework.

The Bank's ICAAP is approved by the Supervisory Board. Its main aim is to ensure the Bank maintains sufficient capital levels to cover material risks to capital from both a normative (supervisory) and economic (internal) perspective. The Bank conducts an internal assessment of material risks annually to evaluate the amount, type, and distribution of capital necessary to cover these risks. The Bank actively monitors early-warning indicators as part of the regulatory recovery plan, designed to identify emerging capital concerns at an early stage so mitigating actions can be taken in a timely manner. The Bank sets internal capital management buffers above regulatory requirements, both at the Supervisory Board and the ALCO levels.

Capital stress testing: Capital stress testing plays a vital role in the Bank's risk management processes by allowing the examination of severe but plausible stress scenarios and their impact on the capital position. The results of capital stress test analyses are used to inform various aspects of the Bank's risk management and capital planning processes. Specifically, these outcomes are considered in the following areas:

- Capital planning: The findings from stress testing help determine the appropriate level of capital that needs to be maintained to withstand adverse events and meet regulatory requirements.

- Risk appetite statements: By incorporating the results of stress tests, the risk appetite statements ensure the Bank sets appropriate boundaries and limits for managing capital-related risks.

- Capital management buffer: Capital stress test analyses assist in defining the capital management buffer.

Planning and forecasting: The Bank updates capital forecasts twice a month, based on updated business expectations, portfolio quality forecasts, market conditions, the latest trends and anticipated changes in the Bank's medium-term strategy. The Bank's capital distribution plans are discussed with and approved by the ALCO and are continuously monitored and approved by the Board of Directors. The ALM unit is responsible for initiating and coordinating capital distribution plans and operations on capital elements, such as attraction of capital instruments. It prepares various scenarios, assesses impact on planned capital and presents to the ALCO/Board of Directors.

Market risk

Market risk is the risk of financial loss due to fluctuations in fair value or future cash flows of financial instruments due to changes in market variables. It arises from mismatches of maturity or currency between assets and liabilities, all of which are exposed to market fluctuations.

Mitigation

Governance: The governance of market risk management at the Bank is overseen by the ALCO and the Supervisory Board, which approves the Bank-level market risk appetite and ensures its implementation throughout the organization. The Bank's market risk governance follows a three-lines-of-defence structure to set a clear division of responsibilities and an independent risk control process. The responsibility for identifying, measuring, monitoring and controlling market risk lies with the Bank's respective business units. The CFRM unit serves as the second line of defense and is responsible for developing and maintaining policies, standards and guidelines for market risk management, and setting the risk appetite. Furthermore, the CFRM is responsible for conducting risk profile reviews and communicating results to the ALCO.

Risk appetite: The Bank has currency exchange and interest rate risk appetite presented as different types of limits approved by the ALCO and the Supervisory Board. In the process of limit setting, the following aspects are considered:

- exchange rate volatility dynamics;
- availability of currency instruments on the market;
- existing and expected levels of capital;
- historical volatility of interest rates;
- current interest rate risk profile and medium-term strategic plans that may affect the risk profile; and business strategy and enterprise-wide risk appetite.

The risk profile relative to risk appetite is monitored and reported monthly to the Bank's Executive Management and quarterly to the Supervisory Board.

Market risk management: The general principles of the Bank's market risk management policy are set by the ALCO. The ALCO sets limits on market risk exposures by currencies and closely monitors compliance with the Bank's risk appetite framework. Exposures and risk metrics are regularly tested for various plausible scenarios.

The Bank's currency risk is calculated as an aggregate of open positions and is controlled by daily monitoring of open currency positions and the value-at-risk (VAR) historical simulation method based on 400-business-day statistical data. In addition, open positions in all currencies except for Lari are limited to a maximum of 1% of the Bank's total regulatory capital as defined by the NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% 'tolerance threshold'.

To minimize interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (Net Interest Income (NII) before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium.

Within limits approved by the Bank's Supervisory Board, ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. As per a regulatory requirement, the Bank assesses the impact of interest rate shock scenarios on economic value of equity (EVE) and NII. The Bank's EVE sensitivity with respect to Tier 1 capital remains comfortably below the maximum regulatory limit. At 31 December 2023, the Bank's EVE ratio stood at 7.6%, below the maximum limit of 15.0%. EVE and NII sensitivities are further limited by the Supervisory Board risk appetite. In addition, the ALCO sets limits on EVE and NII ratios by currency with respect to CET1 capital and monitors those monthly. NIM sensitivity is also analysed by currency and is limited by the Supervisory Board and ALCO levels. The Bank's interest rate risk measurement practices were reviewed by an independent consultant as part of the NBG initiated assessment of the banking sector and were rated as satisfactory.

In the wake of upward trends in market interest rates, the Bank actively performs various stress tests and scenario analyses to assess the potential impacts of interest rate shocks on portfolio quality and profitability.

Prepayments: The Bank reviews prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product individually, applying the historical rates to the outstanding carrying amount of each loan product as of the reporting date, and then multiplying the product by its weighted average effective annual interest rate. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

Regulatory and legal risk

Regulatory and legal risk is the risk of financial loss, regulatory censure, criminal or civil enforcement action or damage to the Bank's reputation as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Mitigation

Governance: The Compliance department serves as a second line of defence and reports directly to the CRO. It is responsible for establishing the compliance policy, methodologies and minimum standards for the entire Bank, and plays a critical role in instructing, advising, and challenging the first line of defence in managing compliance risks. It coordinates identification, assessment, documentation, reporting and mitigation of compliance risks associated with the Bank's processes and products. The department is focused on promoting a strong compliance risk culture through trainings and internal communication.

The Legal department reports directly to the Chief Legal Officer. Its principal aim is to ensure the Bank's activities conform to applicable legislation and that possible losses from the materialisation of legal risks are minimised. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, planning and implementing all necessary actions to mitigate identified legal risks.

Compliance risk management framework: The Bank maintains compliance policies and procedures enabling the integration of compliance risk management principles across the operations in line with relevant regulations. These policies set the principles and standards for managing compliance risks across the Bank and define key roles and responsibilities of an independent compliance function. Our compliance risk management framework and policies are subject to review by the Bank's Internal Audit function. Adherence to the policies is mandatory for all employees and, to increase awareness, the Bank runs a mandatory compliance training programme. The training is easily accessed online and assigned to each person according to their role. The compliance programme is integrated with our HR management system, and each manager has daily access to their staff's compliance trainings status. Reminders are sent regularly to employees who do not complete training in a timely manner. Additionally, relevant process owners receive quarterly Bank-wide reports and, when needed, escalate issues accordingly.

Regulatory change management: In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes during our formal risk identification and assessment processes. Our legislative and regulatory change management system is designed such that changes in laws and regulations are proactively identified by the Legal and Compliance departments. In addition, we maintain a standardised process to design and implement appropriate changes by generating workflows, assignments, tasks, and automated follow-ups.

As part of the regulatory change management process, we engage in constructive dialogue with legislative and regulatory bodies where possible, and seek external advice on potential changes in legislation. We have a formal link and a coordinated communication process with the NBG. Significant regulatory and legal changes as well as material regulatory inspections are regularly discussed with the Bank's Audit Committee.

Related party transactions monitoring: The Bank ensures related party transactions are identified, assessed and monitored in line with the requirements of the NBG. The Board receives reports on transactions annually, while results are communicated to the CRO on a monthly basis.

Conduct risk

Conduct risk is the risk that the conduct of the Bank and its employees towards customers will lead to poor or unfair customer outcomes or adversely affect market integrity, will damage the Bank's reputation and competitive position.

Mitigation

Governance: The Bank assigns various departments and divisions the responsibility for managing, mitigating and eliminating conduct risk throughout the Bank's interactions with clients and stakeholders. Collaboration between the Compliance, Human Capital Management, and Legal functions is essential in establishing a cohesive conduct risk management framework. These departments work together to support business lines and other departments in the following ways:

- Developing policies and procedures that promote responsible conduct and compliance with applicable laws and regulations.
- Fostering a strong culture of ethics and integrity within the organization by conducting employee training and promoting a values-based culture that prioritises responsible behaviour towards clients and stakeholders.
- Establishing controls and processes to monitor and manage conduct-related risks, ensuring adequate measures are in place to prevent misconduct and enhance operational resilience.

Treating customers fairly: Our Code Conduct and Ethics and Customer Protection Standard cover all stages of the product and services lifecycle. They include requirements related to transparent product offerings and clear and accurate communications to enable customers to make informed decisions. The Customer Rights Protection unit serves as a second line of defence, ensuring the Bank's processes are compliant with applicable laws and regulations and in line with internal policies and procedures.

We disclose all features and terms and conditions for our products and services so our customers can make informed decisions. The Legal function serves as a second line of defence and reviews the Bank's marketing communications as well as the compliance of products and services from a legal and regulatory perspective.

Customer claims management: We have a Customer Claims Management procedure to effectively handle customer complaints and concerns. The Customer Claims Management and Support Centre function reviews and manages all incoming claims. Claims related to the Code of Conduct and Ethics violations are reviewed by the Compliance Committee to ensure they are properly handled and remediation plans are in place. Furthermore, the Compliance department reviews all customer complaints. Recurring claims potentially indicating a systemic issue and reports received through the whistleblowing platform are investigated and reported on a quarterly basis to the Audit Committee.

Financial crime risk

Financial crime risk is the risk of knowingly or unknowingly facilitating illegal activity, including money laundering, fraud, bribery and corruption, tax evasion, sanctions evasion, the financing of terrorism and proliferation, through the Bank.

Mitigation

Governance: Financial crime risk governance follows a three-lines-of-defence structure to set a clear division of responsibilities and an independent risk control challenge process. The responsibility for identifying, measuring, monitoring, and controlling financial crime risk lies with the respective business units within the Bank that may be exposed to the risk of financial crime, sanctions evasion, money laundering and financing of terrorism in the course of their business activities. The AML and Sanction Compliance department, under the CRO, serves as the second line of defence and is responsible for developing and maintaining policies, standards, guidelines and internal compliance systems – monitoring the risks of sanctions evasion, money laundering and financing of terrorism within the Bank and overseeing the processes of risk identification, assessment, and management. Additionally, an AML/Sanction Compliance Committee has been created for continuous control and oversight of money laundering, terrorism financing and sanction evasion risks.

The Tax Reporting and Tax Risks Management unit, under the CFO, focuses on effective assessment and management of tax risks and the Bank's relationship with the tax authorities, provides practical advice and ensures tax compliance across the Bank.

Monitoring and Reporting: The Bank's financial crime risk management programme aims to ensure all business units, support functions and subsidiaries consider the impact of their activities on the risk profile and take effective measures to ensure alignment with the Bank's risk-taking approach for financial crime. We aim to prevent harm to customers and the economy caused by criminals and terrorists, and actively monitor our exposure to financial crime risks, reporting all issues in a timely and proactive manner.

Continuous risk management and regular reporting to the Risk Committee and the Board facilitate the recognition and communication of potential financial crime risks. The review and assessment of both quantitative and qualitative dashboards are conducted to gauge whether the level of financial crime risk is managed effectively. Financial crime risks are on the regular agenda of the Risk and Audit Committees joint sessions.

Anti-money laundering: We have an AML/counter-terrorist financing (CTF) framework that reflects a risk-based approach towards money laundering / financial terrorism (ML/FT) risks. The framework complies with the local legislation, international standards (Financial Action Task Force recommendations) and international financial sanctions programmes. To strengthen our ability to detect and prevent financial crime, we continue to enhance our ML/ FT risk management function. We have updated policies and procedures to make our ML/FT risk management activities more robust, and we have invested significant resources to improve our ML/FT risk management capabilities - including implementing best practice screening and filtering tools supported by advanced analytics and transaction monitoring solutions, as well as reinforcing the staff dedicated to the AML function.

Bribery and corruption: Bribery and corruption risks are integral components of our financial crime framework and are encompassed within the client and third-party due diligence processes as well as the monitoring measures. We are committed to preventing bribery and corruption by implementing appropriate policies, processes and effective controls. We expect all our employees to adhere to our Code of Conduct and Ethics.The Bank has zero tolerance towards non-compliance with anti-bribery and anti-corruption policies and procedures.

All employees receive annual mandatory training on anti-bribery and anti-corruption policies and procedures, including information on how to use the Bank's anonymous whistleblowing channel.

Sanctions compliance: The Bank has a robust sanctions compliance policy, which requires strict adherence to the relevant prohibitions and restrictions provided in the US, UK, EU and other relevant sanctions programmes. Russia and Belarus were designated as high-risk jurisdictions, meaning that the Bank has limited risk appetite in relation to customers from and transactions related to these countries. In particular, customers from Russia and Belarus are subject to enhanced due diligence measures, while transactions related to these jurisdictions are subject to enhanced sanctions screening. We have also enhanced our cooperation with the Regulator and other relevant Government authorities and partner financial institutions in Georgia to monitor and mitigate sanctions-related risks at both sector and country levels.

Due diligence: The Bank continues to improve customer due diligence practices and transaction monitoring capabilities, including monitoring supported by risk-based scenarios, handling alerts and reporting suspicious activities where required. Our KYC procedures for customer screening and transaction monitoring ensure compliance with international financial and economic sanctions regulations as well as procedures for verifying customer identity to protect the Bank against money laundering and terrorism financing. High-risk clients- including politically exposed persons and virtual asset service providers, those subject to adverse media coverage or performing unusual or crypto currency-related transactions, or those living and working in countries or sectors with an inherently higher risk of financial crime- undergo additional due diligence. To manage risks associated with crypto-currency we have restricted international transactions related to virtual assets or involving virtual asset service providers. The Bank has zero tolerance towards Russian and Belarusian clients who are involved in crypto-currency-related activities.

Fraud risk: To mitigate fraud risk we have implemented the following measures:

- Know Your Employee procedures, including screening requirements at recruitment, employment and departure stages of employment, providing a clear understanding of an employee's background and actual or potential conflicts of interest;
- mandatory training for all new employees to increase awareness regarding fraud risk;
- communication channels to inform our customers about fraud risk.

Information security and data protection risks

Information security risk is the risk of loss of confidentiality, integrity, or availability of information, data, or information systems, and reflects the potential adverse impacts to operations.

Data protection risk is the risk presented by personal data processing- such as accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data stored or otherwise processed, which may result in financial loss, reputational damage, or other significant economic or social adverse impacts.

Mitigation

Governance: Information security risk governance follows a three-lines-of-defence structure to set a clear division of responsibilities as well as an independent risk control challenge process. The Information Security department represents the first line of defence, following internal policies and procedures regarding information security, and performing routine risk assessments, vulnerability scans and penetration tests to identify potential vulnerabilities within our systems and infrastructure.

In this manner, the Information Security department prevents unauthorised access attempts and maintains real-time monitoring to promptly detect and respond to any potential security incidents.

The Information Security Compliance and Risk Management unit serves as a second line of defence under CRO. It conducts regular risk assessments associated with third parties and conducts regular monitoring and reporting of identified risks to the relevant parties. The unit provides oversight, guidance, and support to the Bank's business units, ensuring information security risks are identified, assessed and managed effectively, and monitors compliance with internal policies and external regulations.

Risk appetite: Information security risk is measured against predefined risk appetite metrics and thresholds. By establishing risk appetite, we aim to minimise our exposure to data and security breaches to achieve our main strategic objectives: (i) delivering excellent customer experience; and (ii) maintaining the Bank's financial strength.

The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Monitoring and reporting: We use key risk indicators and metrics to track the effectiveness of our information security programme. Regular analysis of these metrics allows us to identify trends, areas for improvement and potential risks requiring additional attention.

We provide monthly reports on information security risks and incidents to Executive Management and quarterly to the Board of Directors. These reports offer a comprehensive overview of the Bank's security, significant incidents, risk mitigation efforts and the effectiveness of controls.

The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Information security is on the Risk Committee's regular agenda, and we engage external auditors to conduct cybersecurity audits.

The following controls enable us to mitigate information security and data protection risks:

Zero-day attacks: We regularly monitor zero-day vulnerability announcements that may affect our systems. If such a vulnerability is detected, the designated team ensures it is attended to as soon as possible. Moreover, we employ a 'defence in depth' approach, meaning we have multiple complementary security layers. If one mechanism fails, another will be activated immediately to prevent an attack imposing damage.

Customer-targeted phishing: Malicious actors may carry out successful customer-targeted phishing attacks through fake websites, social networks, emails and other channels. We focus on improving our information security controls to detect unauthorised access to customers' accounts, and run awareness-raising campaigns to help our customers and the wider public recognise phishing and respond appropriately.

Supply chain cyber-attack: Malicious actors may gain unauthorised access to our third-party service providers' systems. The Bank focuses on mitigating this risk by:

- integrating information security and data protection due diligence in the provider's selection process, to determine the level of risk posed by a potential third-party service provider;
- ensuring necessary contractual and technical controls are implemented to mitigate identified risks, prior to engaging with third-party service providers; and
- monitoring existing third-party service providers at least annually to assess the fulfilment of agreed information security and data protection requirements. The termination of a relationship is subject to exit procedures to ensure the protection of the confidentiality, integrity and availability of the Bank's information.

Failure by employees to adhere to our policies, procedures and technical controls: Employee training is one of the key components of information security and data protection risk management across the Bank. We continuously focus on equipping our employees with relevant knowledge and the right tools to prevent, identify, mitigate and report information security incidents.

Annual training is mandatory for all relevant employees, and includes a tailored course on mitigating information security risks while working remotely. We provide continuous, role-based data protection training to keep employees aware of data protection risks and to explain their role in mitigation.

We initiate quarterly phishing campaigns to test our employees' ability to detect such attacks and respond appropriately. Periodically, we send awareness emails and share posts on current information security threats through internal communication channels. Although there have been phishing attempts against employees, there have been no major incidents.

Finally, we recognise that, regardless of our efforts to enhance information security controls Bank-wide, in limited cases there may be a justified business need for controlled exceptions to existing policies, procedures and technical controls. we have improved our approach to information security exception management, which allows noted flexibility, a holistic view of overall risks resulting from the exceptions, and their proactive management.

Access management: We have role-based access control, contributing to the automation of employee onboarding and existing employee rotation processes, enabling the restriction of network access based on the roles of individual users-in line with the principle of least privilege, which the Bank follows. We also conduct a semi-annual privileged user evaluation process. We monitor and update access rights on an annual basis in each department.

The Bank does not allow the granting of privileged access rights to third parties without a valid and justified business need. Even in such cases, third parties with privileged access rights are required to use multi-factor authentication, and the Bank manages and monitors their activities through a privileged access management solution.

Information security incident response: To successfully mitigate the above-mentioned key risks we have further aligned our incident response plan with the industry standard and accepted best practices as provided by the National Institute of Standards and Technology in its Computer Security Incident Handling Guide. We also conduct continuous breach and attack simulations, allowing us to see our network through the eyes of malicious actors, verify our defences and security configuration, and continuously monitor and improve our defensive posture. We have enhanced our capabilities by implementing a vandal-protected backup storage. As a result, neither external nor malicious internal threat actors can harm the Bank's core database backup.

We are also in the process of refining our information security incident response plans. We use additional metrics such as mean time to detect, mean time to respond and false positive ratio- to better track the performance of our Security Operations Centre. These metrics are tracked with respect to the entire Security Operations Centre and each of its team members.

Data protection policies: We maintain a comprehensive set of data privacy policies and standards to ensure we operate in compliance with applicable privacy regulations and state-of-the-art principles. These policies and procedures outline privacy principles and standards we observe while processing personal data, and are:

- regularly revised to ensure they reflect current legal, regulatory, best practice and internal policy requirements;
- annually reviewed and approved by relevant governance bodies; and
- aligned with recognised industry standards.

Effective implementation of the privacy strategy requires a strong organisational structure. To this end, we have appointed the industry's pioneering Data Protection Officer ('DPO') whose responsibilities include but are not limited to:

- providing recommendations to the Bank's employees to ensure compliance with the requirements of applicable legislation;
- researching data processing procedures within the Bank and evaluating their compliance with applicable legislation;
- advising and assisting business units on privacy matters, particularly when implementing a new process or product;
- liaising with the supervisory authority regarding privacy matters; and
- drafting and maintaining internal policies and procedures as well as awareness programmes on privacy matters.

Privacy matters are considered in all new processes and projects. We are increasingly seeing employees proactively engaging the DPO and undertaking data privacy impact assessments which ensure our projects comply with data protection legislation when they go live.

Transparency: Transparency is a core element of our privacy programme. Our customers are informed in simple language about our privacy practices, including how we collect, use, disclose, transfer and protect their personal information. Our privacy commitments are reflected in our Privacy Statement.

Reporting: The DPO reports to the Audit Committee at least twice a year on the status of the Bank's privacy strategy implementation. As a result, the Bank's Executive Management and Supervisory Board remain up to date on privacy matters at all times.

Operational risk

Operational risk is the risk of financial and non-financial loss resulting from inadequate or failed internal processes, people and systems or from external events.

Mitigation

Governance: Responsibility for the management of operational risks is determined by the 'three-lines-of-defence' model. The first line of defence is represented by business units responsible for identification and assessment of operational risks and establishing appropriate controls to mitigate them. The Operational Risk department is a second line of defence responsible for oversight and risk guidance within the Bank. Third line of defence is internal audit, independently assessing operational risk and events in business processes throughout the Bank.

The Operational Risk Committee is the decision-making body overseeing operational risk profile and monitoring operational risk management programme activities. The Committee reviews key items for risk taking decisions and monitors the follow-ups of mitigation action plans.

Risk appetite: The Bank has established an operational risk appetite to effectively manage all operational risks. It defines the level and categories of operational risk the Bank is willing to accept in order to achieve its strategic objectives.

The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Operational risk framework: the Bank has implemented policies and procedures and has established an operational risk framework for anticipating, mitigating, controlling and communicating operational risks and the overall effectiveness of the internal control environment across the Bank. The Operational Risk department develops and maintains a framework and comprehensive set of policies and standards reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards – such as Basel and the European Banking Authority (EBA) – and made available to all relevant employees through internal channels. The operational risk framework includes: the risk and control self-assessment (RCSA) programme; key risk indicators; operational risk event analysis; the scenario analysis programme; risk monitoring and reporting; business continuity management programme; risk awareness; and training programmes.

Risk and control self-assessment: The RCSA aims to identify and assess operational risks in relation to business processes and products. Analysis of business processes identifies the impact of operational risk factors, vulnerabilities and weaknesses in existing processes, and potential threats that might have materialised in the form of financial or reputational impact for the Bank.

For the assessment of operational risks the Bank applies an approach involving a detailed study and analysis of existing business models, procedures and guidelines regulating business processes, including controls built in at the system levels. The inherent and residual operational risks are assessed using the following parameters: likelihood of events; quantitative impacts; and qualitative impacts.

Identified operational risks are classified, aggregated by business lines and business processes, and registered in the operational risk management system. Identified control functions and existing risk mitigation tools are also classified and registered in the operational risk management system.

Scenario analysis: The Bank maintains a scenario analysis programme as a separate tool to identify, analyse and measure a range of scenarios, including low probability and high severity events – some of which could result in severe operational losses.

Scenario analysis involves workshop meetings attended by subject matter experts including senior management, business management and senior operational risk staff, to develop and analyse the drivers and range of consequences of potential events. Inputs to the scenario analysis include relevant internal and external loss data, information from self-assessments, control monitoring framework, forward-looking metrics and root-cause analyses.

RCSA and Scenario analysis assessment techniques are based on a Loss Distribution Approach (LDA), which aims to evaluate the potential range of financial loss impact and the likelihood of loss distribution. LDA calculates the expected loss amount and VAR using the 'Monte Carlo simulation' method.

Monitoring and reporting: The Operational Risk department regularly reviews and monitors the assessments of operational risks. Reviews of risks affecting key business processes are conducted annually and findings are submitted in the form of reports.

The Management Board and the Operational Risk Committee regularly review and monitor the actual operational risk profile against the agreed levels of risk tolerance and risk appetite. The Operational Risk Management Committee monitors the risk profile to ensure appropriate actions are taken regarding breaches of risk appetite limits.

The department reports quarterly to the Risk Committee. The risk report includes information about the current risk profile, risk appetite limits and breaches, together with risk-taking activities and mitigation plans.

We have designed internal controls that ensure the Bank has efficient and effective operations, safeguards its assets, produces reliable financial reports and complies with applicable laws and regulations. The Bank continuously develops the control environment in business processes – including through segregation of duties, preventive tools integrated in the systems, system of limitation and powers, restriction of user's rights, risk insurance, among many others.

Business resilience and continuity: the Bank has established a business continuity plan appropriate for the nature, size and complexity of our operations. The program considers different scenarios to which the Bank may be susceptible, including system and technology failures.

- The Bank performs business impact analyses and risk assessment, identifying business processes that are critically important for the banking activity, identification of threats to business activities and risk assessment of potential financial and reputational impacts related to significant threats.
- The Bank identifies and reassesses critical business operations, cyclically or as needed, key internal and external dependencies, and appropriate resilience levels. The identified plausible disruptive scenarios are assessed for their financial, operational and reputational impact, and the resulting risk assessment is the foundation for recovery objectives and measures – and ultimately for continuity and recovery plans.

The Bank has established business continuity and disaster recovery plans for each critical business process, which is a combination of procedures and arrangements aimed at ensuring retention or prompt resumption of continuation of the Bank's critical business processes.The Bank continuously performs business impact analyses, testing, training and awareness programmes, communication and crisis management programmes.

Operational risk analysis: The Bank has an operational risk event and loss data management process to identify and record the operational risk of financial and non-financial events. Internal operational loss data provides significant information for assessing the Bank's exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insight into the causes of large losses and whether control failures are isolated or systematic.

The Bank applies the method of operational risk events and loss database analysis. The Bank maintains comprehensive operational risk event data on all material events experienced by the Bank.

Awareness programmes: We conduct awareness campaigns and mandatory training to help our employees identify existing and potential risks. The Bank's fraud awareness programme remains a key component of its fraud control environment, and awareness of fraud risk is supported by mandatory training for all colleagues.

Human capital risk

Human capital risk is the risk of failure to deliver on the Bank's strategic objectives, operational disruption, financial loss and/or reputational damage as a result of ineffective human capital management.

Mitigation

Governance: Human capital risk is identified, assessed, and managed by the Human Capital Management function. It establishes policies, procedures, and frameworks to guide risk management efforts and ensures compliance with relevant laws and regulations. It also monitors and reports on human capital risks to Executive Management and the Supervisory Board.

Risk Appetite: We have defined bank-level human capital risk appetite, which is presented in a form of different types of limits and is approved by the Supervisory Board. Our human capital risk appetite considers various factors, including business goals, culture, and workforce dynamics. The risk profile relative to risk appetite is monitored and reported monthly to the Executive Management and quarterly to the Supervisory Board.

Monitoring and reporting: We monitor human capital risk through a series of quantitative and qualitative indicators, including ongoing deep interviews with individual employees, Bank and team/division level eNPS, engagement scores, internal mobility, retention, employee turnover measures. We discuss and design action plans based on the results of different surveys and measures.

Key people risk metrics are reported quarterly to the Risk Committee and monthly to the Executive Management. Also, all violations of ethical principles and standards related to the Code of Conduct and Ethics and Standards of Professional Conduct for Commercial Banks are reported quarterly to the Audit Committee.

Mitigation: The Bank takes the following mitigating actions with respect to human capital risk:

- We attract young talent by participating in job fairs and running extensive internships and student development programmes. We actively partner with leading Georgian business schools and universities to recruit top talent in different fields. We have a student development programme, Leaderator, that gives talented undergraduates the opportunity to have a 360° view of the Bank in action, work on real projects, and receive coaching and support from the Bank's executives and middle managers. The programme also helps us to attract IT, digital and data science and analytics students as it guarantees high qualification and fast professional growth within one of the best tech teams in Georgia.
- We offer our employees learning and personal development opportunities to enhance their competencies and skills throughout their careers, and support their career progression. Internal mobility remains a priority in our talent strategy to ensure having the right person in the right position at any given time.
- We develop our leadership pool through various programmes and activities, including through Leadership Coaching for senior managers in individual and group format, New Managers' programme – a special introductory course for employees recently appointed to managerial positions and team leads. We also ensure professional and personal development of existing managers, conducting regular needs analysis and offering designed leadership development programmes. Our development programmes are aligned with Performance Management Process – setting and monitoring KPIs/KBOs, contributing to developing a feedback culture. In 2023, employees from non-managerial pool participated in this process as well. We leverage our leadership development to mitigate risks associated with the departure or absence of well-qualified and experienced individuals. Our succession planning process ensures necessary support of our talent pipeline for now and in the future for key positions, including at the senior manager and executive levels. We offer competitive remuneration and benefits packages and support work-life balance. We monitor employee pay trends via labour market compensation surveys in the financial sector. Our remuneration structure is based on employee performance reviews. Introducing yearly performance management system via KPIs/KBOs at all levels, inclusive non-managerial ones, enabled further transparency of performance-based employee annual bonus schemes, and setting and managing clearer and properly aligned expectations. We continue to fine-tune our job architecture and grading structures by further advancing the job levelling project to ensure our remuneration system and practices are fair, clear and transparent for employees, allowing them to fairly plan their career moves and progression. We have forums and communication channels enabling employee voices to be heard across the organisation, including a CEO vlog on Workplace – regular live sessions with employees on current developments, Employee Voice meetings with the Board of Directors, town hall meetings and agile quarterly business reviews (QBRs).
- We ensure that HR policies and practices are developed and implemented to support our business activities and are in line with Georgian legislation and relevant international standards. We regularly review our policies and procedures to ensure that they reflect best practices, organisational changes, and legal requirements.

- We offer hybrid working arrangements, giving a majority of back-office employees the flexibility to combine working from home with working from the office.

Model risk

Model risk is the risk of potential adverse consequences arising from decisions based on model results that may be incorrect due to the use of inaccurate assumptions, inappropriate variables, weak algorithms and/or low quality data.

Mitigation: The Bank is actively enhancing the model risk management framework, which is continuously reviewed and refined to adequately address key model risks. The Bank's Model Risk Management Policy (MRM) further defines:

- the segregation of roles and responsibilities of those involved in the model development lifecycle, including ownership of model development, independent oversight and approval; and
- key controls with respect to data integrity, model development, validation, implementation, back-testing and monitoring.

In 2023, as part of the Bank's engagement with global management consulting company McKinsey & Company, the MRM framework was revised and refined to align with best practices

Governance: The Bank's model risk and control structure is based on the 'three-lines-of-defence' approach. Model Risk Owners in the first line are responsible for model approval and ongoing performance monitoring. The Bank's independent Risk function, in the second line, is responsible for validating new models and monitoring their compliance with regulatory requirements by focusing on the soundness of the algorithms used, the model's predictive ability and complexity, sustainability, consistency with business objectives, assumptions, and data quality.

Monitoring and reporting: The Bank maintains a structured model development lifecycle including recalibration. All significant new models or material changes to existing significant models are validated by an independent risk function and authorised by the Chief Risk Officer. Significant model-related issues are reported to the Bank's Supervisory Board, and the Bank's Executive Management is aware of major model risks.

Further, to ensure effective model performance, the Bank has implemented automated processes for the ongoing monitoring of model performance. Based on the significance of model risk, automated notifications are generated on a model's performance for relevant stakeholders cyclically (monthly, quarterly and ad hoc). Model performance monitoring is carried out by model owners and supervised by model validators, enabling prompt action to be taken in addressing any issues related to inadequate model performance and identifying and rectifying control deficiencies or vulnerabilities.

Model risk mitigation: To manage this risk, the Bank employs the following strategies:

- Refining or redeveloping models: When necessary, models are refined or redeveloped to account for changes in market conditions, business assumptions, or processes. This ensures the models remain accurate and aligned with the evolving landscape.

- Adjustments to model outputs: Quantitative adjustments or those based on expert opinion may be applied to the outputs generated by the models. These help address any known limitations or biases and improve the accuracy of the results.

- Process enhancements: The Bank may introduce enhancements to the processes in which model outputs are used. By implementing additional controls, validation measures or complementary methodologies, the risk levels associated with model outputs can be further limited.

By employing these mitigation measures the Bank aims to minimise the impact of model risk and ensure the models used in its business activities provide reliable and accurate assessments and decisions.

Strategic risk

Strategic risk is the risk that the Bank will be unable to execute its business strategy and create value for its stakeholders as a result of poor decision-making, ineffective resource allocation, or a delayed or ineffective response to the changes in the external environment.

Mitigation:

Strategic Planning: The Bank has a sound corporate governance framework and its strategy is approved by its Board of Directors. Customer-centricity, people and culture, brand strength, and data and AI-driven decision-making are key enablers of the Bank's sustainable value creation. The Bank assesses and monitors strategic risk implications in its day-to-day activities, ensuring they respond appropriately to internal and external factors.

The Bank conducts an annual strategic planning process to review its performance against targets discuss the internal and external environment, and develop a short and medium-term strategic plan, considering potential financial and non-financial risks. This process is supported by risk appetite statements, a capital plan and a recovery plan.

In 2024, the Group extended its investments into Armenia through the acquisition of Ameriabank. As we expand our geographic footprint, we recognise that this introduces new emerging risks that require proactive monitoring and mitigation. This investment remains exposed to various risks, encompassing political and economic uncertainties, sanctions implications, foreign currency fluctuations, and regulatory challenges. These factors will hold particular significance as we provide further disclosures in 2024, especially regarding our collaboration with Ameriabank.

Monitoring: We conduct annual strategic review sessions involving executive and senior management Throughout the year, the performance against key strategic objectives as measured by KPIs is monitored and assessed by the Executive Management quarterly. The Bank takes corrective measures to mitigate risks arising from significant variance. In addition, Executive Management holds monthly meetings to discuss the competitive landscape and the Bank's competitive positions, including any changes versus prior periods, and any actions if required. Key strategic areas and/or projects are periodically discussed in working groups comprising executive, senior and middle management.

Periodic strategic challenging reviews: Our strategic options or decisions are systematically discussed and challenged by the Board of Directors, including during the Board's annual strategy sessions.

Reputational risk

Reputational risk is the risk of damage to stakeholder trust and our brand image due to negative consequences arising from internal actions or external events.

Mitigation:

Risk appetite: We acknowledge that reputational risk is an inherent aspect of our operating environment, with public trust being a crucial consideration when determining the level of reputational risk the organisation is willing to accept. We have defined Bank-level reputational risk appetite through a quantitative measure. The risk profile relative to risk appetite is monitored and reported monthly to Executive Management and quarterly to the Supervisory Board.

Mitigation: To mitigate potential reputational risks, effective systems and controls are in place to ensure high levels of customer service and compliance. For each material risk identified at any level of the business, the risk is measured, mitigated and monitored in accordance with our policies and procedures.

To protect and maintain the strength of our brand, our Marketing team monitors media coverage daily and Bank's legal team makes sure marketing communications are fully compliant with internal policies, and reviews and confirms the compliance of products and services from a legal and regulatory perspective. The Bank regularly tracks and measures customer satisfaction with both internal and external surveys, and monitors its compliance with risk appetite limits, reporting to Executive Management monthly.

We also engage with our customers on information security-related matters through multiple channels, including our website, digital platforms and text messages. We regularly create and share content, including articles, interactive games and questionnaires through various media. We support and contribute to the development of information security in Georgia by regularly participating in collaborative efforts with our financial industry peers, law enforcement authorities, regulatory bodies and the Government to share knowledge and prevent negative impacts.

To prevent inaccurate or misleading reporting that could damage the Bank's reputation by losing trust of our stakeholders, we have a well-documented reporting process with strong controls for fairness and transparency. Oversight from internal and external audits, as well as the Board of Directors ensures our reporting is Trustworthy.

Climate-related risk

Climate-related risk is the risk of financial loss and/or damage to the Bank's reputation as a result of accelerating transition to a lower-carbon economy and/or the materialisation of actual physical damage as a result of acute or chronic weather events. Among other things, transitional and physical risks may impact the performance and financial position of our customers and their ability to repay their loans.

Mitigation:

Governance: The Bank implements climate risk governance through the Environmental and Social Impact Committee comprising executive and senior management. The Committee is responsible for monitoring the Bank's climate, environmental and social risks and impacts arising primarily as a result of our lending activities. The Committee meets quarterly and reports to the Supervisory Board twice a year.

The Environmental and Climate Risk Management department is a risk function that is part of the Bank's second line of defence. It reports progress and performance in the area of environmental, social, and climate-related risk management to the Environmental and Social Impact Committee, and is responsible for:

- developing policies and procedures and ensuring implementation of the Bank's environmental, social and climate risk management policies;
- monitoring the Bank's environmental, social, and climate risk profile and performance in relation to the Bank's lending activities;
- ensuring data consolidation with respect to environmental, social, and climate-related risks associated with the Bank's loan book;
- spreading ESG awareness throughout the Bank; and
- handling environmental, social, and climate-related communications.

Climate-related risks mitigation: We have integrated climate-related risks into our risk management framework and business resilience assessments. We are working on each of the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

We have focused on mitigating climate-related risks by:

- reassessing climate scenarios and deepening our knowledge of climate change and climate policy in Georgia; identifying and addressing sector- and location-specific climate risks for our business clients, as part of loan appraisal and origination process, as well as the environmental and social risk management process;
- collecting relevant data, including on output produced and energy consumed, and calculating Scope 3 financed emissions for some GHG-intensive corporate clients;
- calculating Scope 3 financed emissions through the Joint Impact Model in 2023 as a potential solution; identifying opportunities for greening Georgia's economy, to help the Bank understand where and how to offer green financing and to discuss transformational opportunities with clients and lenders;
- identifying and reporting on transactions aligned with the NBG's Green Taxonomy (from January 2023), including in climate-relevant sectors;
- raising climate awareness across the Bank by implementing training for bankers and risk managers from CB and MSME departments; and
- facilitating climate-related disclosure.

We are actively working to enhance our climate change risk management and plan to implementing the following actions in 2024:

- assessing the materiality of climate risks on the Bank's portfolios against selected climate change scenarios;
- enhancing the methodology on credit portfolio screening for climate-related physical and transition risks;
- enhancing the measurement approach, inputs and assumptions used for Scope 1-3 calculation;
- developing a climate risk stress-testing framework; and
- assessing the financial impacts of climate-related risks on the Bank's financial position, financial performance and cash-flows over the medium and long term.

4.1. Strategy

The key strategic targets of BoGG plc, the Group's parent, are as follows: (i) achieving ROAE of at least 20% each year; (ii) achieving annual growth in its loans to customers and finance lease receivables portfolio of approximately 10%; and (iii) achieving an annual capital distribution of between 30% and 50% of annual profits via dividends and a share buyback and cancellation programme.
To achieve these targets, the Group intends to pursue the following strategic objectives:

- **Be the main bank in its customers' daily lives and increase customer engagement by leveraging its leadership positions in digital channels and the payments business.** The Bank is focused on (i) being relevant in customers' daily lives with its products and services; (ii) increasing customer engagement across all of its business segments by further developing its award-winning digital channels for retail as well as business clients, rolling out new products and increasing the availability of products in digital channels, thus supporting increasing digitalisation; and (iii) growing its payment business by maintaining its leadership position in the payments business and leveraging digitalisation and its loyalty programme, to support a growing share of cashless payments in the economy.
- **Delivering an excellent customer experience.** The Bank is focused on maintaining a customer-centric culture. Customer-centricity means creating products and delivering experiences that and fulfil customers' needs and wants, and continuously improving product and service quality based on customer feedback. Customer experience is an important strategic differentiator, and the Bank aims to continue to build on the progress it has achieved during the past few years.

Year in review: empowering individuals

Our retail customer base is diverse, encompassing individuals ranging from school students to high-net-worth individuals. To stay relevant to our clients, we have developed distinct offerings tailored to various needs.

In Mass Retail Banking, the majority of our clients use subscription packages – S, M or L. In 2023, in Premium Banking, we introduced a new subscription option – SOLO X – designed for customers who appreciate the SOLO lifestyle and banking services but do not require a personal banker. This differentiation in packages has successfully attracted more customers.

Through BOG APP – Bank of Georgia's retail financial superapp, we not only provide core banking products to our clients, but also offer non-banking products, including investment accounts, public transport cards, and insurance marketplace. This diverse product range enhances the variety of our offerings, fostering increased client engagement. Despite offering different services to various customer segments, our commitment to delivering the best customer experience and ensuring high levels of customer satisfaction remains consistent.

As of December 2023, the number of monthly active retail clients reached 1.8 million, a y-o-y increase of 10.8%. Notably, 75% of active retail clients are monthly active digital users. This reflects the extensive adoption of Bank of Georgia's market-leading retail digital channels.

Our digital ecosystem

The cornerstone of our digital ecosystem is a global award-winning financial superapp – BOG APP. We aim to use other digital channels for client acquisition and then migrate our customers to BOG APP because we envision BOG APP as the go-to channel for our increasingly digital customer base.

We aim to transform the everyday experiences of our customers by enabling them to effortlessly discover and secure daily banking services and relevant products with a single touch, all within our financial superapp.

BOG APP has evolved during the past two years, often in response to customer feedback that we continuously track, analyse and share monthly with Executive Management. For example, in 2023, we added the possibility to cancel or prolong deposits to the app. Previously, customers whose deposits were about to expire had to contact a banker or come to a branch if they did not wish the deposit to be prolonged. This issue came up in customer surveys as a pain point, and now customers can see in the app when their deposit is about to expire shortly and they can take action themselves directly from the app. If they wish to prolong it, they can prolong it on similar or different terms, or they can cancel it so that the money saved will be transferred to the current account after expiry.

When Bank of Georgia was in the initial stages of digital transformation, we focused on making sure that more and more transactional activity happens outside of branches and moves to BOG APP. Lately, more focus has been directed towards moving product sales to digital channels by designing straightforward digital journeys for different products.

We have achieved good levels of digitalisation in unsecured consumer loans, and saw improvements in deposits digitalisation during 2023. Digitising card sales has been a challenge mainly because we lacked a simple and efficient card delivery process. We are in the process of designing the card delivery process to make it more efficient for the Bank as well as for the customers.

2023 was a successful year for our retail digital channels. The number of digital MAU increased to 1,357K (up 21.0% y-o-y) and Digital DAU reached 691K (up 29.5% y-o-y) as at December 2023. It is noteworthy that our clients are becoming more engaged with our financial superapp, as reflected by the increasing Digital DAU:Digital MAU ratio – which stood at 50.9% (up 3.3 ppts y-o-y) – and the share of Digital MAU in total active retail customers, which increased to 75.0% (up 6.3 ppts y-o-y) as at December 2023. In the fourth quarter the percentage of products sold digitally rose to 70.3% (up 25.1 ppts y-o-y), partly boosted by gamification in BOG APP. To maximise their points in the game, customers were assigned tasks such as purchasing a product via the app or completing a digital transaction, which significantly boosted digital sales. Several improvements were implemented throughout the year, including streamlining the deposit prolongation flow – further contributing to the increased share of products sold digitally. Customer satisfaction with our digital channels remained at a high level – the CSAT score was 92% for BOG APP and 84% for iBank as at December 2023. In response to customer feedback we also launched dark mode in BOG APP.

In 2024, we will focus on digital acquisition of new clients, including the transition of adults from sCoolApp to BOG APP, as well as boosting the engagement of current clients by reimagining the offers page and using AI-generated offers. In addition, we plan to streamline the card delivery process for clients who prefer physical cards. We strive to execute all projects with UX consistency and high quality. Considering the increasing pace of digitalisation as well as the growing share of transactional activity happening outside of branches, Bank of Georgia's Retail Banking strategy entails a gradual transformation of transactional branches into full-scale branches where customers will be offered a full spectrum of banking products together with advice. This transformation will result in a gradual reduction of transactional branches. The number of total branches at 31 December 2023 was 189 (207 at 31 December 2022). Out of 189 branches, 98 were so-called transactional branches (down 17.6% y-o-y).

Payments – a daily touch point with our retail customers

Payments are an integral part of retail customers' daily experience – oftentimes so seamlessly embedded that they happen multiple times a day without users giving too much thought to the process. Being relevant in customers' daily lives means for us being dominant in the payments business, with excellent customer experience and innovative payments methods. Our main competitor in this area is cash, which, despite increasing digitalisation, is still widely used for payments. We believe cashless payments benefit people – not just because they easier and safer, but also because they open up other possibilities, including: (a) rewards (such as cashback, discounts, and more loyalty points), (b) greater visibility of our customers' needs and preferences, enabling us to make more personalised offers,(c) greater control over personal finances, giving people a clear and full view of where and how they spend their money – so they can better manage personal finances. The Personal Finance Manager is available in our financial superapp.

During the past few years, we have significantly increased the number of retail customers who used Bank of Georgia's cards to make at least one payment within one month – we call this Payments Monthly Active User or Payments MAU. As at 31 December 2023, Bank had 1,249 thousand payment MAU.

In 2023, Bank of Georgia launched BNPL for in-store payments, on top of already offering BNPL online. BNPL allows customers to split a purchase into 4 equal payments spread across four months to be paid back over time, with no interest. Our customers can activate and see their BNPL limits in our financial Superapp. A list of merchants where BNPL works as a payment method is also displayed in the app. BNPL is a payment method, not a loan – although BNPL limits are generated only for those customers who are eligible – we perform income checks and make sure the payment to income ratio is within the regulatory limits. 35 thousand customers used BNPL in 2023 and payback overdue rate stood at 1.24%.

Lifestyle and rewards

Bank of Georgia's loyalty programme is a driving force behind increasing cashless payments and customer loyalty. Our different lifestyle offers are tailored to the needs and preferences of specific segments. Besides mass retail customers, we have special offers for sCool Card holders, Student Card holders, and Premium Banking (SOLO and WM) clients. As clients make transactions within BOG's acquiring network (physical POS and online), they accumulate either PLUS points when using debit cards or MR points when using American Express credit cards. Mass retail clients attain different status levels based on their activity with the Bank, with higher levels unlocking greater benefits. This approach not only encourages cashless transactions but also strenghtens customer stickiness. We changed the programme in 2021, from product-based upgrades to product and payment-based upgrades – with the clear objective to make daily banking a cornerstone. We offer a variety of benefits to our loyalty programme members, including – discounts, cashback and PLUS points. One of the main aspects of the value proposition is the personalization. of lifestyle offers. In 2023, we remained committed to strengthening the Bank's advanced analytics and AI capabilities, aiming to improve efficiency, customer satisfaction and loyalty.

We celebrate the PLUS birthday each year. Customers who accumulate PLUS points throughout the year gain access to exclusive offers and benefits on these days. This year, on July 5th 2023, customers exchanged their accumulated PLUS points for an exclusive benefit – a 50% discount on any product of their choice across more than 100 different merchant stores. This gesture is our way of expressing gratitude to our loyal customers, enhancing their PLUS experience with tangible rewards. PLUS Birthday event is extra driver for increased engagement among customers, creating incentives for points accumulation throughout the year.
At SOLO, we go beyond just partnering with merchants for lifestyle offers. We not only offer special deals, but also create experiences in travel, entertainment, education and wellbeing for our premium segment customers. In 2023, in response to customer feedback, we expanded our range of SOLO offers to better reflect the diverse preferences and requirements of our customers. Additionally, we introduced more specialised offers, tailored specifically to individual tastes and needs of our customers.

During 2023, responding to high demand from our customers, we significantly expanded the number of SOLO events and projects and we dedicated ourselves to enhancing the quality of event content. As a result, we achieved a remarkable 83% year on year increase in attendance at these events. We are committed to provide enriching and engaging experiences for our valued customers.

Lending journey

Bank of Georgia's core business activity is lending – and, as we say, we're a profitable fintech with a balance sheet. Lending, when done well, is key to monetisation of increasing customer engagement. We aim to create simpler end-to-end customer journeys for loans, increasing access to finance while doing so responsibility, in line with prudent risk management practices and within our risk appetite.

Digital lending

Moving product sales to digital channels is one of the ongoing focus areas for Bank of Georgia's digital agenda. Digitalisation of the lending process is a big part of the current efforts to design more efficient processes with an excellent user experience. Lending processes are different for different Retail client subsegments and different products. Bank of Georgia's digital lending gained speed in 2021 when we redesigned the unsecured consumer lending flow in digital channels, as a result the share of unsecured loans activated digitally reached 76.5% as at December 31, 2023.

Self-employed borrowers

During 2022-2023, we focused on supporting self-employed retail customers and making sure they have access to the same products and services as other retail customers. However, their irregular income posed challenges for income validation, requiring detailed questionnaires to determine credit eligibility. In 2023, we redesigned the income validation process to eliminate the need for long questionnaires and instead relied on advanced models in the back to fill out and analyse the necessary financial data.

Savings – encouraging a savings culture

As a leading organisation in Georgia, fostering a robust savings culture within our community is not just a financial imperative; it's also a commitment to empowering individuals and supporting economic resilience as savings are a key component of people's financial health. We believe that by encouraging savings, we help foster a sense of security and empowerment among individuals. By providing simple products and services to promote savings and make savings easier, we equip our retail customers with the tools they need to face financial uncertainties and achieve their small or big goals. During 2023, we made our savings products more flexible and accessible for our customers, with a focus on encouraging the use of digital channels. We provided employees at our branches with an extra incentive to educate customers on opening digital deposits through BOG APP. We also continued to offer higher rates on deposits opened through BOG APP. For Premium Banking (SOLO) customers, we have an upgraded savings product, 'Premium'. SOLO clients receive a higher return on this deposit, with rates linked to the monetary policy rate. Throughout the year, more customers used a digital piggy bank – accumulating money by automatically transferring a pre-defined amount after every purchase.

Investments – an alternative savings method

At the end of 2021 Bank of Georgia, together with the Bank of Georgia Group PLC's subsidiary JSC Galt & Taggart (G&T) and in partnership with a US brokerage house DriveWealth LLC, launched a retail brokerage platform – BOG Investments – in Bank of Georgia's mobile application, enabling access to the US stock market. BOG Investments offers our retail customers low-cost trading and fractional trading options. Throughout 2023, we enhanced BOG Investments by adding two new functionalities: Account reactivation – users can now reactivate their deactivated accounts, eliminating the need for them to create new accounts, which previously used to be a time-consuming process. Instant cash out – previously, it took around four business days to transfer funds to a user's bank account after he or she sold shares. In 2023, we enhanced this process, cutting the wait time from four days to just two. Now, users can enjoy instant cash outs of up to $5,000 directly from our investment platform. In 2023, our focus was on increasing awareness of our investment platform through gamification within BOG App. Additionally, we implemented educational content tailored to give users the comprehensive knowledge of fundamental investment concepts. Consequently, our efforts led to a significant increase in active users, with the number reaching c.45K in 2023 compared with c.19K in 2022.

sCoolApp

We believe that initiating financial education during childhood is profoundly meaningful, setting young people up for a secure and prosperous financial future. Bank of Georgia is focused on seamlessly onboarding children and young people into the formal financial system, equipping them with critical financial literacy skills and offering support through accessible daily banking solutions and tailored lifestyle offers. We offer a free account and a daily banking card, sCool Card, to school students, and a free and specially designed mobile app – sCoolApp. sCoolApp is the first financial application for children in Georgia, with an average user age of 14. We surpassed our 2023 year-end target of 70k sCoolApp MAU, reaching up to 90k school students as at December 2023.

sCool Card benefits

- Can be ordered on our website or through the app
- Free card
- Free SMS, mobile and internet banking
- Free public transportation in Tbilisi and Rustavi;
- discounts in Zugdidi and Batumi;
- public transportation discounts when integrated into the e-wallet system

- No fee on BOG ATM withdrawal
- Loyalty programme: accumulation of sCool points

Students

For years Bank of Georgia has focused on onboarding and increasing engagement with university students in Georgia. According to an independent third-party research, we are the most trusted and top-of-mind bank for young people aged 18-24 in Georgia[2]. Everyone in this age group is aware of Bank of Georgia. Ten Georgian universities are enrolled in Bank of Georgia's payroll programme. Our partnerships with universities enable us to reach more students and involves different activities, including: Distributing Student Cards directly from university buildings, Designing student spaces, Financial support in organising student graduations and anniversaries and Short-term internship programmes for students, along with 'Leaderator' – Bank of Georgia's flagship programme for motivated undergraduates.

Fulfilling business customer needs

We serve a broad spectrum of business clients, including small and medium-sized enterprises (SMEs) and large corporate clients. We understand that each business is a unique entity, influenced by its own distinct characteristics – be it the intricacies of its business model, the scale of its operations, or the financial landscape it navigates. Just like people, businesses evolve and grow – and so do their needs. Customer-centricity for us means listening to different businesses and understanding their needs to design financial solutions that support our clients at different stages of their business development journeys.
We strive to be more than just a provider of banking products for our clients – we want to be a trusted partner for businesses, offering a comprehensive suite of products and services including value-added services such as personalized advisory and access to business education and insights. Deepening customer relationships is one of our top priorities and increasing engagement among our business customers is a focus area for both SME and Corporate Banking directions.

Coverage of business clients

We are committed to delivering excellent customer service to our business clients through various channels and touchpoints, with a particular focus on improving the digital experience. Bank of Georgia has different coverage models for SME and Corporate business customers. SME clients can be served in a variety of ways, including through dedicated relationship managers who offer personalised support and provide end-to-end assistance, and remote bankers who can handle client requests remotely. Some customers are served fully through digital channels. In 2020, Bank of Georgia opened its first special business branch, 4B, in Tbilisi. In 2023, a second 4B branch opened in Tbilisi – further strengthening our commitment to the SME segment. 4B serves as a hub for fostering networking opportunities among businesses, and it is a special place where business clients can meet their relationship managers, hold meetings, and participate in different events that Bank of Georgia hosts throughout the year.

Our business digital ecosystem

Central to our dedication to operational excellence through digitalisation are our award-winning digital channels for business clients - a mobile app called Business mBank and an internet banking platform called Business iBank. Since the launch of Business iBank and mBank, we have continually refined and improved these platforms to provide simple and user-friendly digital experiences to our business customers and support them in managing daily operations as well as in making more informed business decisions.

[2] Based on independent research conducted by IPM Georgia. "Top-of-Mind" refers to the first brand that comes to a person's mind when they are asked an unprompted.question about particular industry or category. The figure presented reflects the average of the last four weeks of the fourth quarter.

How we measure success

While we consistently strive to enhance digital channels and increase the range of products available digitally, we see more upside and room for further improvement. While transactionally business customers have become highly digital, with more than 95% of daily transactions happening outside of physical branches, we still need to work on designing end-to-end digital product journeys. Unlike in retail, business lending is still at an early stage of digitalisation, and it will continue to be one of the main focus areas going forward. Our aspiration is to move core products to digital channels, and the recent developments are just the first steps towards a more digital product selling process.

Merchant solutions

2023, Bank of Georgia led the charge in empowering businesses across the country, commanding over 50% of the market share in payment processing. By prioritising user experience and service quality, we focused on increasing digital payments by encouraging more individuals to use cashless payment methods and expanding our network of merchants. We also empower merchants to embrace the digital age, driving the exponential growth of e-commerce in Georgia.

Business Manager – responding to business needs

In 2023 we introduced Business Manager – a digital platform equipped with merchant solutions vital for supporting business operations and development. Running the daily operations effectively and growing sales are two of the few critical questions that business customers grapple with and need answers to. Bank of Georgia's Business Manager is a digital platform combining three merchant solutions that are designed to help businesses answer these questions.

Supporting businesses with new financial products and increasing digitalisation

Lending is one of the key enablers of profitable growth for SME Banking. Whilst in Retail Banking, Bank of Georgia made significant strides forward in lending digitalisation, in SME Banking, there is still a lot of work to be done to increase the share of digital lending. We have begun to shift from a traditional way of loan disbursements to using digital channels for loan activations. Two years ago, this was almost non-existent, with the share of digital loans close to zero. In the beginning of 2024, it reached almost 10%. While this figure is low considering Bank of Georgia's digital ambitions and progress in Retail, it still reflects process and product improvements made in SME Banking during 2023, with more upside going forward. Some of the main initiatives aimed at digitising lending product activations in SME Banking included:

1. Digital tender guarantees: launching tender guarantees of up to GEL 15,000 in digital channels (applicable to Corporate Banking as well).
2. Fast loans: enabling SMEs to see preapproved limits in digital channels and activate a loan right away.
3. Digital signature: having simplified loan procedures, SME clients can now digitally confirm loan contracts, activating loans automatically without a branch visit. This simplified process currently works only if a borrower already has a collateral contract at the Bank.

5. Sustainable Business

Empowering people by creating sustainable opportunities

We believe in shared success. Sustainability for us means acting in ways that empower our customers, our employees and our communities, and doing the business the right way, following the highest standards of corporate governance and robust risk management practices. This ensures we effectively mitigate the negative impacts we may have, directly or indirectly, on the economy, people, and the environment and that we contribute to the sustainable development of the communities where we operate.

Bank of Georgia is a leading financial institution in Georgia, providing innovative products and solutions to more than 1.8 million active customers. Innovation and responsibility go hand in hand, and we recognise the role the Bank can play in supporting sustainable development and inclusion in all its forms. We believe understanding and managing ESG risks is crucial to maintaining our financial strength, so our approach to ESG has been integrated in the work we do across the business. The management of ESG-related issues is subject to the governance and oversight of our Executive Management team and the Board of Directors.

We continue to make progress in understanding climaterelated risks and opportunities, and putting in place practices to identify, assess, monitor and manage climaterelated issues, focusing on the Bank's loan portfolio, as the main risks and impacts are associated with lending. We continue to support our business customers in their transition towards greener and more sustainable ways of doing business.

For more information about the Bank's environmental, social and corporate governance, please see JSC Bank of Georgia's Management Report 2023, available as of the date of this Report on JSC Bank of Georgia's official website – [www. bankofgeorgia.ge](www.bankofgeorgia.ge).

6. Capital Requirements and Regulatory Capital

6.1. Capital Requirements

The current NBG capital regulation is based on Basel III guidelines of the Basel Committee of Banking Supervision ("BCBS"), with regulatory discretion applied by the NBG due to the specifics of the local banking industry. Below is the description of Pillar 1, Pillar 2 and Pillar 3 requirements applicable since the end of the transitional period, within the Basel III based NBG framework.

Pillar 1 requirements (including combined buffer requirements):

The December 2017 amendments to the regulation on capital adequacy requirements for commercial banks made Pillar 1 minimum requirements in Georgia compatible with the Basel III framework established by the BCBS. The amendments included:

- the separation of the 2.5% capital conservation buffer, which was previously merged with minimum capital requirements (Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital). Therefore, the updated minimum regulatory capital requirements are currently:
  - Common Equity Tier 1 Capital adequacy ratio of at least 4.5%;
  - Tier 1 Capital adequacy ratio of at least 6.0%; and
  - Total Capital adequacy ratio of at least 8.0%,

(the "**NBG (Basel III)**" ratios); and

- the introduction of a requirement that banks hold an additional 'combined buffer' through Common Equity Tier 1 Capital, consisting of capital conservation (2.5%), countercyclical (within the range of 0-2.5%, currently set at 1%, to be reviewed quarterly based on the prevailing financial and macroeconomic environment) and systemic buffers. Initially set at 0%, the countercyclical buffer rate was increased to 1% by the NBG in March 2023. Commercial banks are required to adhere to the increased countercyclical capital buffer rates as follows: by 15 March 2024, at a rate of 0.25%; by 15 March 2025, at a rate of 0.5%; by 15 March 2026, at a rate of 0.75%; and by 15 March 2027, at a rate of 1%.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process. The requirements deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency-induced risk buffer, a credit portfolio concentration buffer, a net stress-test buffer, and a net GRAPE buffer. Effective from 1 January 2023, a CRA buffer was added to the aforementioned list of Pillar 2 buffer as part of the transition to IFRS to reduce the credit risk caused by insufficient expected credit losses, and to determine an adequate capital buffer.

The NBG has introduced a credit portfolio concentration buffer (consisting of nominal concentration and sectoral concentration risk buffers) from 1 April 2018, and the net stress test buffer became effective from 1 October 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 Capital of 4.5%, Tier 1 Capital of 6.0%, and Total Capital of 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 (except for the net stress-test and CRA capital buffers) should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Capital. The net stress-test and CRA buffers are required to be held 100% through CET 1 Capital.

In 2023, the NBG moved to IFRS for regulatory capital calculation purposes, as a result, a new Pillar 2 capital requirement was introduced, the CRA, which should be fully satisfied on all capital levels.

As a result of the changes to the regulations relating to capital adequacy requirements introduced by the NBG, as of 31 December 2022, the Bank was subject to the following minimum capital requirements:

- Common Equity Tier 1 Capital ratio of 11.6% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 2.1%);
- Tier 1 Capital ratio of 13.8% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 2.8%); and
- Total Capital ratio of 17.2% (comprising core Total Capital requirement of 8.0% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 4.2%).

As of 31 December 2023, the minimum capital requirements applicable to the Bank increased, due to IFRS transition, i.e. the replacement of the NBG (Basel III) Common Equity Tier 1 Capital Adequacy Ratio, NBG (Basel III) Tier 1 Capital Adequacy Ratio and NBG (Basel III) Total Capital Adequacy Ratios, from 2023 with the IFRS-NBG (Basel III) Common Equity Tier 1 Capital Adequacy Ratio, IFRS-NBG (Basel III) Tier 1 Capital Adequacy Ratio, IFRS-NBG (Basel III) Total Capital Adequacy Ratio:

- a Common Equity Tier 1 Capital ratio of 14.5% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 5.0%);
- a Tier 1 Capital ratio of 16.7% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 5.7%); and
- a Total Capital ratio of 19.6% (comprising core Total Capital requirement of 8.0% and combined buffer of 5.0% (Pillar 1 requirements), and Pillar 2 requirements of 6.6%).

Capital requirements that the Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time.

Pillar 3 requirements

In June 2017, the NBG adopted a Regulation on Disclosure Requirements for Commercial Banks under Pillar 3 (NBG Decree No 92/04), requiring commercial banks to disclose qualitative and quantitative information about their regulatory capital elements, RWAs, remuneration of senior management, and other material issues, within the framework of Basel III. Pillar 3 quarterly and annual reporting forms are available on the official website of the NBG. According to the amendment incorporated into the aforementioned decree on 1 June 2021, banks are required to disclose information related to ESG issues in the annual reporting of Pillar 3. This disclosure should adhere to the reporting and disclosure form approved by the same order.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, based on various economic and financial considerations, the NBG has imposed at times identical and at times differentiated reserve requirements for domestic and foreign currencies.

Pursuant to NBG Decree No 10/04 dated 11 February 2011 (as amended), the effective minimum reserve requirement is currently set at 5% for Lari funds with a remaining term of up to 365 days. The minimum reserve requirement for foreign currency funds is determined individually for each commercial bank, depending on the level of dollarisation of deposits. Specifically, the minimum reserve requirements for:

(1) foreign currency borrower funds with a remaining term of 365 to 730 days are set: (i) at 15% - if the dollarisation ratio of bank deposits is 70% or more; (ii) at 10% - if the dollarisation ratio of bank deposits is 40% or less, (iii) based on specific formula, if the dollarisation ratio of bank deposits is between 40 to 70%; and

(2) for foreign currency funds other than those covered under point (1) above are set: (i) at 20% - if the dollarisation ratio of bank deposits is 70% or more; (ii) at 10% - if the dollarisation ratio of bank deposits is 40% or less, (iii) based on specific formula, if the dollarisation ratio of bank deposits between 40 to 70%.

The following liabilities are not subject to minimum reserve requirements: liabilities from swap and repo transactions and secured deposits received from the Georgian Ministry of Finance (as amended by NBG Decree No 111/04 dated 28 July 2017), subordinated loans, borrowed funds from the NBG and Georgian commercial banks (inter-bank loans), borrowed Lari funds (including non-standard certificates of deposit with a remaining term of over 365 days), borrowed foreign currency funds (including non-standard certificates of deposits with the remaining term of more than 730 days), and standard certificates of deposits (i.e. Lari-denominated certificates of deposit with a contractual maturity of not less than three months) issued by a bank, as well as overnight and on-call deposits received from non-resident commercial banks. If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence is caused by the reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

Decree No. 90/04, adopted by the NBG on 31 May 2023, relates to the Establishment of the Minimum Requirement for Own Funds and Eligible Liabilities. Although the calibration of MREL is not directly linked to prudential requirements, some of its components refer to capital requirements and capital instruments issued by banks to comply with their prudential requirements (including buffer requirements) are also eligible to be counted towards MREL requirements, together with the bank's bail-inable senior instruments. MREL for systemic DSIBs was determined at the following rates:

- from 1 January 2024, at a rate of 10%;
- from 31 December 2025, at a rate of 15%; and
- from 31 December 2027, at a rate of 20%.

DSIBs are obligated to submit their calculations of compliance with the MREL requirement to the NBG on a monthly basis. For February 2024, the actual MREL ratio of the Bank was 17.7%. This is calculated as the ratio of the sum of eligible liabilities and capital instruments to the sum of regulatory capital and total liabilities (less liabilities that are part of regulatory capital). Bail-inable instruments are technically defined as those which include contractual acknowledgement of the NBG's bail-in powers and the Bank started to incorporate contractual recognition of bail-in into all of its senior instruments and intends to continue this policy. According to the Management's calculations, if all potentially bail-inable instruments of the Bank would include contractual recognition of bail-in, the Bank's MREL ratio would increase by approximately 4.5 percentage points to 22.2% from 17.7% for February 2024. In the case of breach of the MREL requirement, the NBG may define specific plans for DSIBs to achieve compliance and/or impose monetary fines and/or apply supervisory measures. Although the NBG regulations do not provide that breaches of the MREL requirement directly lead to restrictions on payments under Additional Tier 1 Capital instruments (including the Notes), the NBG is entitled to impose such restrictions for any related breaches of regulatory capital requirements under the Applicable Banking Regulations.

6.2. Regulatory Capital

Under the Pillar 1 Regulation, Tier 1 Capital is the going-concern capital which consists of instruments that have the capacity to unconditionally absorb losses as they arise, allowing the Bank to remain in business. The instruments allow for payments to be fully discretionary (non-payment is not an event of default) and for full principal loss absorption. Tier 2 Capital is the supplementary source of the capital base.

The table below shows the components of the Bank's Tier 1 and Tier 2 Capitals and respective capital adequacy ratios and requirements:

In GEL thousands	31 December 2023	31 December 2022
Qualifying common share capital	27,994	27,994
Share premium on qualifying common share capital	150,787	202,329
Accumulated other comprehensive income	34,891	20,397
Retained earnings	4,209,878	2,902,923
Common Equity Tier 1 Capital prior to regulatory adjustments	**4,423,549**	**3,153,643**
Revaluation reserves on assets	(34,984)	(20,397)
Intangible assets (Including Goodwill)	(166,556)	(142,286)
Investments in own shares	(11)	(10)
Investments in subsidiaries/affiliates (Commercial Organizations)	(9,538)	(5,320)
Investments in the capital of banking, financial and insurance entities	(12,518)	(2,882)
Common Equity Tier 1 Capital: regulatory adjustments	**(223,607)**	**(170,895)**
Common Equity Tier 1 Capital	**4,199,942**	**2,982,748**
Additional Tier 1 capital	**403,410**	**405,300**
Tier 1 capital	**4,603,352**	**3,388,048**
Subordinated Debt	499,018	397,194
General Reserves	-	221,038
Tier 2 Capital prior to regulatory adjustments	**499,018**	**618,232**
Tier 2 Capital	**499,018**	**618,232**
Total Regulatory Capital	**5,102,370**	**4,006,281**

Risk Weighted Assets	**23,061,905**	**20,279,424**
Common Equity Tier 1 ratio	18.2%	14.7%
Tier 1 ratio	20.0%	16.7%
Total capital adequacy ratio	22.1%	19.8%
Common Equity Tier 1 ratio requirement	14.5%	11.6%
Tier 1 ratio requirement	16.7%	13.8%
Total capital adequacy ratio requirement	19.6%	17.2%

On 31 May 2022, the Bank signed a US$ 50 million Additional Tier 1 Capital Perpetual Subordinated Syndicated Facility with the European Bank for Reconstruction and Development and Swedfund International AB as lenders. The amount was fully utilised as at 31 December 2022.

On 27 December 2023, the Bank signed a EUR 25 million subordinated facility agreement (Tier-2) with the Green for Growth Fund (GGF), Southeast Europe S.A., SICAV-SIF, and a EUR 20 million subordinated facility agreement (Tier-2) with the European Fund for Southeast Europe S.A., SICAV-SIF (EFSE). The amount was fully utilised as at 31 December 2023.

7. Remuneration

The Supervisory Board of the Bank approves the remuneration and other conditions of employment for each member of the Management Board of the Bank, while the remuneration rates of the Supervisory Board members are approved by the General Meeting of Shareholders.

Remuneration Committee

The Remuneration Committee was first established by the Supervisory Board in May 2006 and currently it consists of four independent members of the Supervisory Board. The Bank Remuneration Committee meets at least twice a year and reports to the Supervisory Board. The functions of the Remuneration Committee are discussed in 3.3 Section above.

As a Georgian Licenced Bank, the Bank is required to apply the remuneration principles as set out in the Order No 215/04 of the President of the National bank of Georgia (the "**NBG**") approving the Corporate Governance Code for Commercial Banks (the "**CGC**"). These harmonize Georgian CGC with regulatory provisions of EU law, in particular Directive 2013/36/EU as amended and EBA Guidelines on Sound Remuneration Policies under 2013/36/EU, with purpose to encourage Management Board towards sustainability and long-term focus and to align their personal objectives with the Bank's long-term interests. Further, as a member of the group of Bank of Georgia Group PLC ("**BOGG PLC**"), shares of which are admitted to London Stock Exchange main market for trading, the Supervisory Board and Remuneration Committee have taken into consideration the requirements of UK Corporate Governance Code (the "**UK Code**") and other UK legislation.

Policies

The Bank has: Workforce Remuneration Policy, Directors' Remuneration Policy, Material Risk Takers Remuneration Policy and Supervisory Board Remuneration policy approved by the Supervisory Board of the Bank on the recommendation of the Remuneration Committee. The policies have been effective since 1 January 2022.

The provisions contained in this remuneration policies are consistent with, and complementary to, the legal and regulatory requirements. They include, *inter alia*, forms of fixed and variable remuneration, if any, their combinations, ratios and limits, Key Performance Indicators/objectives, relation between the fulfilment of KPIs and volume of variable remuneration, schedules and periodicity of awards, adjustments prior to and after awarding variable remuneration as well as rules related to the payment of the relevant forms of remuneration. Each of the Policies are aligned around the main principles of remuneration**:**

- Promotion of the Bank's business strategy and long-term growth
- Promotion of the sound and effective risk management
- Clarity, Simplicity, and Transparency
- Alignment with shareholder experience

7.1. Supervisory Board Remuneration Policy

The table below sets out our Policy for the operation of Supervisory Board Members' fees and benefits at the Company. Each Supervisory Board Member also serves as Non-Executive Director of BOGG PLC. It is proposed that, if the Policy is approved, the Supervisory Board Member/ Non-Executive Director fees stated below will apply in each year that the Policy operates from the date of approval of the Policy.

The remuneration of supervisory board members shall be consistent with the level of contribution, taking into account factors such as effort and time spent and responsibilities of the supervisory board members. Their remuneration should not compromise their impartiality.

Remuneration of supervisory board members shall only include fixed compensation. Except for membership of the supervisory board, a board member may receive additional remuneration in cases when she/he is a chair/deputy chair of the board, member or a chair of board committees.

The difference between the highest annual remuneration (including additional remuneration) and the lowest annual remuneration of the board members shall not be more than 30% of the lowest. The deviations from this requirement are allowed only if and when specific waivers from NBG are obtained by the Supervisory Board.

Purpose and link to strategy	Operation	Opportunity
• To attract and retain high performing Supervisory Board Members with the requisite skills, knowledge, experience, independence and other attributes to add value to the Bank. • To reflect the responsibilities of time commitment dedicated by Supervisory Board Members.	• All fees are paid in cash on a quarterly basis. • Fees may be reviewed from time to time by the Board (but not necessarily changed), taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The Board reserves the right to structure the Supervisory Board Members' fee differently in its absolute discretion. • Supervisory Board Members receive a base fee. Additional Committee fees are payable to compensate for time spent discharging Bank duties and Committee duties. • There is no remuneration in the form of deferred share salary or discretionary deferred shares, pension contributions, benefits or any variable or performance-linked remuneration or incentives. • Supervisory Board Members are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.	• The maximum aggregate BOGG PLC fees for all Non-Executive Directors which may be paid under BOGG PLC's Articles of Association is GBP 750,000. • A specific maximum has not been set for the individual base cash fee. • The Senior Independent Supervisory Board Member receives a higher base fee which reflects the extra time commitment and responsibility. • The Chairman receives a fee which reflects the extra time commitment and responsibility. The Chairman does not receive Committee fees. • The fees paid to each Supervisory Board Member will be disclosed in the relevant reporting year's Annual Report of BOGG PLC and Pillar 3 annual report of the Bank.

Pension Contributions

The Bank is required to comply with pension requirements set by the Georgian laws, which may change from time to time. Pension provision is the same for all employees in the Bank in Georgia. In line with current Georgian legislation, Director and the Bank each contribute 2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.

Term of contracts and notice periods

Each Supervisory Board member is appointed for 3 years, with the possibility for re-appointment. At the BOGG PLC Board level, Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM. The letters of appointment for Non-Executive Directors provide for a one-month notice period although the Bank may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Supervisory Board Member/Non-Executive Director has committed any serious breach or non-observance of his or her obligations to the Bank, is guilty of fraud or dishonesty, brings the Company or him/herself into disrepute or is disqualified as acting as an Supervisory Board Member/ Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Supervisory Board Member/ Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

Business expenses

Directors may be reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

7.2. Directors' Remuneration Policy

This Policy entered into force and has been applicable since 1 January 2022.

Fixed Remuneration

The fixed remuneration is based on predetermined criteria and is not performance-related. The fixed remuneration shall be sufficiently high to enable the Bank to pay variable remuneration in a flexible way, including non-payment of the variable component of the remuneration.

The amount of the Fixed Remuneration is based on the relevant professional training and experience and is commensurate with the individual Management Board member's duties and responsibilities, and the remuneration customary for the specific function.

Apart from reflecting the role and required duties, skills, experience and individual contribution to the Bank of the Management Board, fixed remuneration is to be structured in such a way that:

1. It duly reflects the Company's commitment to closely align Directors' and shareholders' interests to promote long-term value creation and share price growth;
2. It is competitive and in line with the market, and that the Company is in a position to recruit and retain high-calibre Management Board members.

The Fixed Remuneration includes, in particular:

1. The Base Salary;
2. The Annual Salary Paid in Shares; and
3. Any additional and fringe Benefits.

The level of the Base Salary and Annual Salary Paid in Shares are set in the Directors' service agreements, and will be no more than the Remuneration Committee considers reasonable based on Director's duties, skills and experience. The Remuneration Committee has the discretion to change the split of the Fixed Remuneration between the Base Salary and the Annual Salary Paid in Shares.

The Supervisory board will review the amount of Fixed Remuneration annually, in order to align the remuneration practices throughout the Bank, between the Management Board, MRTs (Material Risk Takers), workforce, and to remain competitive on the market with the remuneration practices and may increase it as appropriate.

The Base Salary

The level of the Base Salary for Directors is fixed in their respective service agreements. The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal or if there is a significant change in circumstances and the Directors and Remuneration Committee agree to consequent changes in their agreements, for example the implementation of a new remuneration policy, or in order to align the remuneration practices throughout the Bank, between the Management Board, MRTs (Material Risk Takers), workforce, and to remain competitive on the market with the remuneration practices and may increase it as appropriate. The Base Salary is paid monthly, per the terms agreed in the respective service agreement.

Annual Salary Paid in Shares

The level of Annual Salary Paid in Shares for Directors is expressed and fixed in monetary terms in their respective service agreements. The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal or if there is a significant change in circumstances and the Directors and Remuneration Committee agree to consequent changes in their agreements.

The Annual Salary Paid in Shares is paid by award of in the form of nil-cost options to shares of BOGG PLC, the number of which is determined by dividing the monetary amount of the Annual Salary Paid in Shares set in the service agreement, by the average price of the BOGG PLC shares at the market closes on London Stock Exchange of the five business days prior to 25th December immediately preceding date of the award, which shall be on the first business day of January each year.

The nil-cost options are awarded annually in respect of the work year, and are usually expected to be awarded towards the beginning of the work year. The Annual Salary paid in shares is also subject to pro rata lapse in the event an incomplete year is worked.

The nil-cost options awarded as Annual Salary Paid in Shares in respect of a work year will vest on 1 January of the year immediately following the award year, and will be subject to a retention/ holding period of 4 more years, as per table below:

	Work Year	Grant Point	2nd Year	3rd Year	4th Year	5th Year	6th Year
Example year	2024	Jan-24	Jan-25	Jan-26	Jan-27	Jan-28	Jan-29
Vesting of Annual Salary Paid Shares		Grant	100%				
Retention of Annual Salary Paid in Shares				40% released from Holding	20% released from Holding	20% released from Holding	20% released from Holding

Upon vesting, the Directors also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

The Annual Salary Paid in Shares is fixed salary, therefore, it is not subject to any performance targets or measures, neither it is subject to discretion of the Remuneration Committee or Supervisory Board, or any malus or clawback provisions, apart from natural pro-rata lapse in case of work for an incomplete year. The fact that the Annual Salary Paid in Shares is subject to holding requirements and therefore, it may increase or decline in value depending on the Bank performance over the five-year total vesting and holding period, is aligning the Directors' interests directly and naturally with those of shareholders, however, not subjecting the Directors to any discretion of the Supervisory Board or Remuneration Committee in that regard, or to any performance qualifiers.

Additional and Fringe benefits

The fixed remuneration may also include additional or fringe benefits, which are primarily non-cash. Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain a high-calibre talent. Benefits include: life insurance; health insurance; incapacity/disability insurance; directors' and officers' liability insurance; company car and driver; mobile phone costs. Other benefits, e.g. relocation compensation, may be provided from time to time if considered reasonable and appropriate. There is no prescribed maximum on the value of benefits payable to Directors. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Director is based.

Variable Remuneration

The Annual Bonus, in the form of the Variable Remuneration as described in this Policy may be granted to a Directors, in respect of the worked year, in the context of overall Bank performance, to motivate and reward Directors in relation to their contribution to the achievement of the KPIs set for them by the Remuneration Committee towards the beginning of the year. The Variable Remuneration takes the form of performance-based remuneration solely in the form of deferred shares (no cash), and by such structure, closely aligns the interests of Directors with shareholders, avoids inappropriate risk taking for short-term gain and encourages long-term commitment to the Bank.

There is no contractual right to the Variable Remuneration and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Bank's performance is unsatisfactory.

Pre-conditions for the Remuneration Committee to consider the award of Discretionary Share award to the Management Board in any given year are the following:

- No active prohibition on the granting or payment of variable remuneration by the relevant regulator;
- The legally required Capital Adequacy Ratios (CET1, Tier1, Total) are achieved and all relevant capital and buffer requirements that are necessary for regulatory purposes are met; and
- The granting and payment of variable remuneration will not result in breach of such requirements.

Performance Criteria for award of Variable Remuneration

Provided that the pre-conditions described above are met, the Remuneration Committee will make the determination on number of shares to be awarded annually as the Variable Remuneration in respect of the Directors and will consider the defined maximum opportunity, the Bank's performance and the individual's KPIs when making a determination.

Performance measures are chosen to reflect strategic priorities for the Bank and will be chosen by the Remuneration Committee annually towards the beginning of the performance year. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Directors is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:

- financial results;
- strategic objectives; and
- people and culture objectives.

The Remuneration Committee will normally determine the number of shares to be awarded annually based on:

1. Performance of the Management Board and the Bank as a whole ("**Shared KPIs**");
2. The individual Directors' achievement of their KPIs set for the work year ("**Individual KPIs**");
3. Key business objectives of the relevant business sector/organisational unit for which the Management Board member is responsible("**KBOs**");

Each of the above normally includes both financial and non-financial metrics, which are chosen in line with (i) the bank's strategy, (ii) with a view of alignment with shareholder interests; and (iii) on the basis of the actual role of the relevant Management Board member's oversight/business functions.

Variable Remuneration of the Directors who are responsible for the control functions, shall not be based on financial results of the business line they oversee or monitor.

If appropriate, where a strategic change or change in business circumstances so requires, Supervisory Board and/or Remuneration Committee may alter the model of determination of the weighed performance of a Director or Management Board, introduce/change weighing levels attributed to different components, or adopt alternative measures to determine performance altogether.

Determination of Shared KPIs

BOGG PLC discloses in its annual report the Group's Annual KPIs, which are the main indicators per which the Supervisory Board measures the success of the Bank as well. The KPIs are closely aligned with the Bank's medium-term strategy and are drawn up with the purpose to ensure that the Bank delivers on its key strategic targets.

2024 KPIs include:

- Return on Average Equity (ROAE)
- Cost to Income ratio
- Cost of Risk ratio
- Profit before tax (PBT)
- Lowest team member performance
- NPS
- eNPS
- ESG/impact metrics
- Individual Key Business Objectives.

The KPIs may be subject to modification to further align them with group strategy, and the thresholds and targets of KPIs are normally set by the Remuneration Committee of the BOGG .

Supervisory Board leans on the BOGG Group's Annual KPIs in determining the Shared KPIs for Management Board Members, and sets them each year, with particular focus on alignment with strategic objectives of the Group and shareholder interests.

Determination of Individual KPIs

The Individual KPIs are determined for each individual Management Board member towards the beginning of the year, taking into account their role and attached duties and responsibilities. When determining the individual criteria, Supervisory Board/Remuneration Committee will take into account that performance criteria should:

- be derived from the business and risk strategy, objectives, values and long-term interests of the Company;
- meet regulatory requirements, especially regarding risk orientation;
- contain both financial and non-financial objectives, in an appropriate proportion, provided that Variable Remuneration of the Directors who are responsible for the control functions, shall not be based on financial results of the business line they oversee or monitor;
- prevent inappropriate short-term success orientation;
- be ambitious enough to ensure due contribution to achievement of strategic objectives;
- be formulated in clear and comprehensible terms;
- contain clear baseline and target levels and have a relative weighting.

When determining the individual performance criteria for the Chief Risk Officer and other Directors who oversee/carry control functions, appropriate consideration should be given to his or her control function, and it must be ensured in accordance with regulatory requirements that his or her objectivity and independence are not negatively affected by the individual setting of objectives.

KBOs

The KBOs are determined for each individual Management Board member as primary objectives the businesses/projects within their oversight/ responsibility need to achieve/complete during the year. They may relate to the achievement of strategic objectives (such as the implementation of strategic projects, introduction of measures to increase efficiency and/or optimization tools etc.), designation/implementation of various policies, implementation of compliance mechanisms, employee training/professional development, or Management Board members own professional development. The achievement of KBOs is determined on the basis of the actual final results of relevant project completion, and project completions status, which shall at least be assessed by the Supervisory Board/Remuneration Committee as "meeting the expectations".

Supervisory Board/Remuneration Committee may guide themselves in their exercise of such discretion with the project completion assessment data, where available, or the assessment of General Director, when other Management Board member's KBO achievement level is being determined.

Maximum opportunity of Variable Remuneration

The maximum opportunity that a Director may be awarded as Variable Remuneration for a given year is equivalent to 100% of the Director's Fixed Remuneration (Base Salary + Annual Salary Paid in Shares) during that year.

Supervisory Board and Remuneration Committee may, through the reference of the matter to BOGG PLC board, submit the proposal to the shareholders of BOGG PLC, to establish a ratio higher than the maximum annual Variable Remuneration opportunity, provided that annual Variable Remuneration does not exceed 200% of annual Fixed Remuneration.

The number of shares per the maximum bonus opportunity is calculated as follows: the amount of Fixed Remuneration (amounts of the Base Salary and the Annual Salary Paid in Shares) is translated into a number of shares using the most recent closing price at the time and date of the Remuneration Committee meeting at which the Discretionary Share Award is determined.

Determination of the amount of a Director's Variable Remuneration

Performance-based remuneration is awarded annually entirely in the form of nil-cost options over shares which are subject to vesting and holding for 5 years. The Bank does not award cash bonuses to Directors.

The Remuneration Committee retains discretion to apply adjustments to the amount of Variable Remuneration thus determined, in case it considers so necessary/advisable in light with market conditions, Bank's financial interests, or other strategic interests.

Award and Deferral of Variable Remuneration

Any Variable Remuneration will normally be granted following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the awards.

The vesting (deferral) and holding (retention) Schedule of any Discretionary Share award shall be the following:

	Work Year	**Award Point (year 0)**	**2nd Year (year 1)**	**3rd Year (year 2)**	**4th Year (year 3)**	**5th Year (year 4)**	**6th Year (year 5)**	**7th Year (year 6)**	**8th Year (year 7)**
Example year	2024	Mar-25	Jan-26	Jan-27	Jan-28	Jan-29	Jan-30	Jan-31	Jan-32
Vesting of Discretionary Share Award		40% vest immediately subject to 2 year holding		15% vest subject to 2 year holding	15% vest subject to 2 year holding	15% vest subject to 2 year holding	15% vest subject to 2 year holding		
Holding of Discretionary Share Award	-			40% released from holding		15% released from holding	15% released from holding	15% release d from holding	15% released from holding

Upon vesting the Directors also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

Ex post Risk Adjustments: Malus and Clawback

The Remuneration Committee conducts annual review of the sustainability of Management Board remuneration policy, and the assessment of Management Board Members' performance, during which, the Remuneration Committee may:

- If necessary, reduce or eliminate any outstanding (unvested) Variable Remuneration tranches ("**malus**");
- Reclaim Variable Remuneration components already paid out (vested) if certain conditions are met ("**clawback**").

Discretionary Share Awards may become subject to malus and/or clawback in the following circumstances:

- Variable Remuneration recipient no longer complies with the standards established by the Regulation on Commercial Bank Managers Fit & Proper Criteria approved by the Decree No. 50/04 of the Governor of the National Bank of Georgia of June 17, 2014;
- Misconduct in the performance or substantial failure to perform duties by the Directors, or material breach of applicable regulations and/or the Bank's internal policies;
- Significant financial losses, or serious damage to the reputation of the Bank caused by misconduct or gross negligence (including inaction) of the Directors; In case of clawback arrangements such downturn has to be caused by participation of the remuneration recipient;
- Significant failures/problems in terms of risk management in the bank/structural unit in which a recipient of remuneration works. In case of clawback arrangements such failures/problems have to be caused by the remuneration recipient;
- Downturn in financial performance (e.g. specific business indicators) of the structural unit. In case of clawback arrangements such downturn has to be caused by participation of the remuneration recipient;
- Material misstatement or material errors in the financial statements that relate to the area of responsibility of the Directors or can be attributed to action or inaction of the Directors' performance of their duties;
- Deliberately misleading the Bank in relation to financial performance on the basis of which the Variable Remuneration was issued;
- Significant increases in the bank's/structural unit's economic/regulatory capital requirements. In case of clawback arrangements such failures/problems have to be caused by participation of the remuneration recipient;
- Misconduct that contributed to the imposition of material regulatory or other similar sanctions; and
- Payments based on erroneous or misleading data, for which malus and clawback apply to Discretionary Share Awards for the year in question.

Clawback arrangements apply for up to two years from vesting.

Pension Contributions

The Bank is required to comply with pension requirements set by the Georgian laws, which may change from time to time. Pension provision is the same for all employees in the Bank in Georgia. In line with current Georgian legislation, Director and the Bank each contribute 2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.

Discretion of the Remuneration Committee

The Remuneration Committee retains a substantial degree of discretion in relation to discretionary share remuneration. This includes:

- The determination of the award, if any;
- Selection of KPIs, which may vary from year to year in order to align with strategy and financial objectives;
- Any adjustments required to the Directors' KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more KPIs becoming an inaccurate gauge of performance; and
- The discretion to override any formulaic outcomes when it considers it reasonable in the circumstances to do so prior to or upon vesting of discretionary deferred shares.

For the avoidance of doubt, the Bank shall not make an award (or shall reduce the amount of the award accordingly) to the extent that such award would cause a breach of the NBG's capital adequacy requirements and other regulatory ratios.

The Remuneration Committee has discretion to vary the vesting schedule of deferred share salary and discretionary deferred shares, if necessary, for example in the event of a statutory conflict of interest.

Equity compensation trust

The BOGG PLC group operates two employee benefit trusts, one for senior executives, and the other for employees below the executive level, which hold ordinary shares on trust for the benefit of employees and former employees of the Bank, and their dependents, and which is used in conjunction with the Bank's employee share schemes.

Business expenses

Directors may be reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

7.3. Workforce Remuneration Policy

The Policy is approved by the Supervisory Board of the Bank on the recommendation of the Remuneration Committee and applies to personnel of the Bank hired under employment contracts, other than those qualified as Material Risk Takers in accordance with JSC BOG Material Risk Takers Remuneration Policy. The Policy is subject to regular internal reviews and respective updates as required, which are to be approved by the Remuneration Committee of Supervisory Board at each such instance.

The Company's remuneration system is structured in the following categories:

- Fixed base remuneration which applies to all applicable personnel;
- Standard variable remuneration which applies to all personnel;
- Remuneration of Control Functions: internal audit, risk management and compliance.

Fixed base remuneration consists of cash salary and benefits to ensure that the Company attracts and retains talented and high-performing individuals.

Standard Variable Remuneration

The type and frequency of standard variable remuneration varies by positions and the Bank maintains full discretion as to the decision of awarding/granting any such standard variable remuneration on case by case basis according to employee's performance.

Short term incentives

The purpose of short term incentives is to motivate the workforce on attaining results in both the short and medium term, to contribute to the successful execution of the strategic plan. Short term incentives may be in the form of cash bonus or shares. The calculation, frequency and proportion of bonus distribution varies by positions. The Company uses quantitative and qualitative measures in such determination. Payment/granting frequency varies and it can be monthly, quarterly, semi-annual, annual and one-off. The bonus is distributed in proportions: 67% without deferral and 33% with deferral or 75% without deferral and 25% with deferral, in three equal instalments over three years or 100% without deferral. Deferral of bonus takes the form of savings account with the Bank or asset management/brokerage account with a broker, usually for a period of one year. Short term incentive is subject to adjustment and/or cancellation as described in clause 2.8 above. A Pay-for-performance structure is applicable for individuals in sales/client service positions who are remunerated on the basis of pre-defined quantitative and qualitative measures.

Long term incentives

The purpose of long term incentives is to motivate the workforce to achieve longer-term strategic objectives and to align performance with shareholder interests. The Company operates employee stock ownership plan (ESOP), via employee benefit trust, with vesting periods of three-years (unless shorter vesting period/accelerated vesting is decided by General Director/respective Deputy General Director) and the vesting condition of continuous employment with the Bank and subject to adjustment and/or cancellation terms.

Malus and clawback arrangements for reduction/reversal variable remuneration apply in the following circumstances:

a. misconduct in the performance or substantial failure to perform duties by the employee, or material breach of applicable regulations and/or policies;
b. significant financial losses, serious failure of risk management or serious damage to the reputation of the Bank caused by misconduct or gross negligence (including inaction) of the employee;
c. material misstatement or material errors in the financial statements that relate to the area of responsibility of the employee or can be attributed to action or inaction of the employee's performance of their duties;
d. deliberately misleading the Bank in relation to financial performance;
e. failure to continue to meet the applicable fitness and properness criteria;
f. material increase with respect to the required regulatory capital of the Bank that can be attributed to the action or inaction of the employee;
g. misconduct that contributed to the imposition of material regulatory or other similar sanctions; and
h. payments based on erroneous or misleading data, for which malus and clawback apply to deferred variable remuneration awarded for the year in question.

Principles of Remuneration for Control Functions within the Bank

a. The employees engaged in Control Functions are compensated in accordance with the achievement of the objectives linked to their functions, independently of the performance of the business areas that they control.

b. Remuneration of the head of Internal Audit (if their remuneration is not regulated by the JSC Bank of Georgia Material Risk Takers Remuneration Policy and internal audit personnel is defined by the Audit and Corporate Governance Committee to guarantee the independence of internal audit function and provide compensation system, allowing attraction of human resources with adequate skills, corresponding to the Bank's scale and complexity.
c. The methods used for determining the variable remuneration of Control Functions should not compromise staff's objectivity and independence.

Pension

All employees are eligible to participate in state pension scheme. The Bank makes pension payments in accordance with the terms and conditions defined by Georgian legislation.

7.4. Material Risk Takers Remuneration Policy

Material risk taker - a Bank employee defined according to the quantitative and qualitative criteria developed by the Bank based on the instructions for identifying material risk takers developed by NBG, whose professional activities have a significant impact on the bank's risk profile. Material risk takers should include at least:

- All direct reports of the General Director;
- An employee who has managerial responsibilities over the Bank's control functions or significant business unit;
- has managerial responsibilities over a significant business unit of the Bank, which shall be defined as a unit that A) has a significant impact on the bank's profitability and capital ratios; or B) is the main business line of the bank and related services, which are an important source of income or profit for the bank
- has the authority individually or in a group to independently carry out a credit risk transaction with a nominal value exceeding 0.5% of the Bank's Tier 1 capital, or directs such personnel
- may individually or in groups approve or veto new products, material processes or material systems
- an employee whose remuneration exceeds the remuneration of a member of the Directorate or Supervisory Board with a minimum remuneration;
- an employee whose annual remuneration exceeds GEL 500,000; Or
- an employee whose salary is within 0.3% of the highest paid in the Bank;

The List of MRTs shall be kept and updated (in accordance with NBG Instructions) as applicable by the Bank's HR & Compliance functions.

The Policy ensures that conflicts of interest related to remuneration can be largely avoided. The remuneration of control function MRTs, including performance-based components, do not create a risk to independence of such MRTs. If a potential conflict of interest situation should nevertheless arise, it must be resolved in line with legal and regulatory requirements, which provide for an obligation on the part of the MRTs and the Supervisory Board to disclose potential conflicts of interest, and refrain from participation in any matter where such conflict shall arise. Further, the Supervisory Board may designate appropriate measures to avoid, resolve and mitigate conflicts of interest once disclosed.

During the term of the MRT's employment, the MRT's remuneration shall consist of:

- **Fixed component** of remuneration, which shall be fixed in monetary terms and **may** consist of:
  - Cash Salary, fixed in monetary terms at the date of contract, to be paid monthly (the "**Base Salary**");
  - Salary, fixed in monetary terms, to be paid by award of the number of shares equivalent to the fixed monetary value as at the date of the award, which shall be at the beginning of each year, or the date of the start of the relevant MRT's contract if such is later during the year. Such award shall vest on the 1 January of the year following the award and shall be subject to holding (the "**Annual Salary paid in Shares**"); and

  - Any additional fringe benefits;
    (the "**Fixed Remuneration**") and
- **Variable component** of remuneration, which shall be performance based and fully discretionary and **may** consist of:
  - Cash bonus, which can be no more than 50% of total Variable Remuneration of the MRT and shall be subject to deferral as per schedule below (the "**Cash Bonus**");
  - Award of ordinary shares of BOGG PLC, normally made after the completion of BOGG PLC's annual audit, and subject to at least 3-year vesting schedule as described below (the "**Performance Based Share Award**" or the "**Discretionary Share Award**")
    (the "**Variable Remuneration**").
- **Pension contributions -** in accordance with applicable Georgian legislation.

The Base Salary

The level of the Base Salary for MRTs is fixed in their respective service agreements. The level of salary is reviewed when a service agreement is up for renewal or if there is a significant change in circumstances and the MRTs and the Bank agree to consequent changes in their agreements. The Base Salary is paid monthly, per the terms agreed in the respective service agreement.

Annual Salary Paid in Shares

The level of Annual Salary Paid in Shares, if applicable, for MRTs is expressed and fixed in monetary terms in their respective service agreements. The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal or if there is a significant change in circumstances and the MRTs and Remuneration Committee agree to consequent changes in their agreements, for example the implementation of a new remuneration policy.

The Annual Salary Paid in Shares is paid by award of in the form of nil-cost options to shares of BOGG PLC, the number of which is determined by dividing the monetary amount of the Annual Salary Paid in Shares set in the service agreement, by the average price of the BOGG PLC shares at the market closes on London Stock Exchange of the five business days prior to 25th December immediately preceding date of the award, which shall be on the first business day of January each year.

The nil-cost options are awarded annually in respect of the work year, and are usually expected to be awarded towards the beginning of the work year. The Annual Salary paid in shares is also subject to pro rata lapse in the event an incomplete year is worked.

The nil-cost options awarded as Annual Salary Paid in Shares in respect of a work year will vest on 1 January of the year immediately following the award year, and will be subject to a retention/ holding period of 3 more years, as per table below:

	Work Year	Grant Point	2nd Year	3rd Year	4th Year	5th Year
Example year	2023	Jan-23	Jan-24	Jan-25	Jan-26	Jan-27
Vesting of Annual Salary Paid Shares		Grant	100%			
Retention of Annual Salary Paid in Shares				1/3 released from Holding	1/3 released from Holding	1/3 released from Holding

Upon vesting the MRTs also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

The MRTs are obliged to adhere to the requirements of holding period, implying that they are not allowed to sell or otherwise dispose of the shares vested as Annual Salary Paid in cash, unless such shares are released from holding obligation in accordance with this Policy and the MRT's service agreement.

The Annual Salary Paid in Shares is fixed salary, therefore, it is not subject to any performance targets or measures, neither it is subject to discretion of the Remuneration Committee or Supervisory Board, or any malus or clawback provisions, apart from natural pro-rata lapse in case of work for an incomplete year. The fact that the Annual Salary Paid in Shares is subject to holding requirements and therefore, it may increase or decline in value depending on the Bank performance over the five-year total vesting and holding period, is aligning the MRTs' interests directly and naturally with those of shareholders, however, not subjecting the MRTs to any discretion of the Supervisory Board or Remuneration Committee in that regard, or to any performance qualifiers.

Additional and Fringe benefits

The fixed remuneration may also include additional or fringe benefits, which are primarily non-cash. Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent. Benefits include: life insurance; health insurance; incapacity/ disability insurance; mobile phone costs. Other benefits, e.g. relocation compensation, may be provided from time to time if considered reasonable and appropriate. There is no prescribed maximum on the value of benefits payable to MRTs. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the MRT is based.

Variable Remuneration

Annual Bonus, in the form of the Variable Remuneration as described in this Policy may be granted to a MRT, in respect of the worked year, in the context of overall Bank performance, to motivate and reward MRTs in relation to their contribution to the achievement of the KPIs set for them by the Remuneration Committee, Management Board, or relevant Director who is the direct supervisor or MRT, or the unit MRT works for, towards the beginning of the year.

There is no contractual right to Variable Remuneration and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Bank's performance is unsatisfactory.

Pre-conditions for the Remuneration Committee to consider the award of the Variable Remuneration to the MRTs in any given year are the following:

- No active prohibition on the granting or payment of variable remuneration by the relevant regulator;
- The legally required Capital Adequacy Ratios (CET1, Tier1, Total) are achieved and all relevant capital and buffer requirements that are necessary for regulatory purposes are met; and
- The granting and payment of variable remuneration will not result in breach of such requirements.

Performance Criteria for award of Variable Remuneration

Provided that the pre-conditions described above are met, the Remuneration Committee will make the determination on number of shares to be awarded annually as Variable Remuneration in respect of the MRTs and will consider the defined maximum opportunity (see below), the Bank's performance and the individual's KPIs when making a determination.

Performance measures are chosen to reflect strategic priorities for the Bank and will be chosen by the Remuneration Committee, Management Board, or the relevant Director to whom the MRT reports to annually towards the beginning of the performance year. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the MRTs is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:

- financial results;
- strategic objectives; and
- people and culture objectives.

The Remuneration Committee will normally determine the Amount of Variable Remuneration to be awarded annually based on:

1. Performance of the MRTs and their business/organisation unit and/or Bank as a whole ("**Shared KPIs**");
2. The individual MRTs' achievement of their KPIs set for the work year ("**Individual KPIs**");
3. Key business objectives of the relevant business sector/organisational unit for which the MRT is responsible ("**KBOs**");

Each of the above normally includes both financial and non-financial metrics, which are chosen in line with (i) the bank's strategy, (ii) with a view of alignment with shareholder interests; and (iii) on the basis of the actual role of the relevant MRTs' oversight/business functions.

Variable Remuneration of the MRTs who are responsible for the control functions, shall not be based on financial results of the business line they oversee or monitor.

If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the MRTs' performance, the Remuneration Committee, the Management Board, or the relevant Director to whom the MRT reports to may decide to base its assessment on alternative measures.

Determination of Shared KPIs

BOGG PLC discloses in its annual report the BOGG Group's Annual KPIs, which are the main indicators per which the Supervisory Board measures the success of the Bank as well. The KPIs are closely aligned with the Bank's medium-term strategy and are drawn up with the purpose to ensure that the Bank delivers on its key strategic targets.

2023 KPIs include:

- Return on Average Equity (ROAE)
- Cost to Income ratio
- Cost of Risk ratio
- Profit before tax (PBT)
- NPS
- eNPS
- Developing ESG, in line with the Group's five championed Sustainable Development Goals (SDGs) and with market best practice
- Individual Key Business Objectives.

The KPIs may be subject to modification to further align them with the BOGG Group strategy annually, and the thresholds and targets of KPIs are normally set by the BOGG PLC board.

Supervisory Board, Management Board, or the relevant Director to whom the MRT reports to would refer to the Group's Annual KPIs in determining the Shared KPIs for MRTs Members, and set them each year, with particular focus on alignment with strategic objectives of the Group and shareholder interests.

Determination of Individual KPIs

The Individual KPIs are determined for each individual MRT towards the beginning of the year, taking into account their role and attached duties and responsibilities. When determining the individual criteria, Supervisory Board/Remuneration Committee, Management Board, or the relevant Director to whom the MRT reports to will take into account that performance criteria should:

- be derived from the business and risk strategy, objectives, values and long-term interests of the Company;
- meet regulatory requirements, especially regarding risk orientation;
- contain both financial and non-financial objectives, in an appropriate proportion, provided that Variable Remuneration of the MRTs who are responsible for the control functions, shall not be based on financial results of the business line they oversee or monitor;
- prevent inappropriate short-term success orientation;
- be ambitious enough to ensure due contribution to achievement of strategic objectives;
- be formulated in clear and comprehensible terms;
- Contain clear baseline and target levels and have a relative weighting.

When determining the individual performance criteria for the Risks function MRTs and other MRTs who oversee/carry control functions, appropriate consideration should be given to his or her control function, and it must be ensured in accordance with regulatory requirements that his or her objectivity and independence are not negatively affected by the individual setting of objectives.

KBOs

The KBOs are determined for each individual MRT as primary objectives the businesses/projects within their oversight/ responsibility need to achieve/complete during the year. They may relate to the achievement of strategic objectives (such as the implementation of strategic projects, introduction of measures to increase efficiency and/or optimization tools etc.), designation/implementation of various policies, implementation of compliance mechanisms, employee training/professional development, or MRTs members own professional development. The achievement of KBOs is determined on the basis of the actual final results of relevant project completion, and project completions status, which shall at least be assessed by the Supervisory Board/Remuneration Committee, Management Board, or the relevant Director to whom the MRT reports to as "meeting the expectations".

Maximum opportunity of Variable Remuneration

The maximum opportunity that a MRT may be awarded as the Variable Remuneration for a given year is equivalent to 100% of the MRT's Fixed Remuneration (the Base Salary +, if applicable, the Annual Salary Paid in Shares) during that year.

Supervisory Board and Remuneration Committee may, through the reference of the matter to BOGG PLC board, submit the proposal to the shareholders of BOGG PLC, to establish a ratio higher than the maximum annual Variable Remuneration opportunity, provided that annual Variable Remuneration does not exceed 200% of annual Fixed Remuneration.

In addition to the above, if Remuneration Committee/Supervisory Board decides that the Variable Remuneration of a MRT shall be in the form of both Cash Bonus and Discretionary Share Awards, the Cash Bonus shall not be more than 50% of the total amount of Variable Remuneration to be granted.

Determination of the amount of a MRT's Variable Remuneration

Performance-based remuneration may be awarded annually, as Cash Bonus and/or Discretionary Share Awards which are subject to vesting and holding for at least 3years.

The Remuneration Committee retains the discretion to apply adjustments to the amount of Variable Remuneration thus determined, in case it considers so necessary/advisable in light with market conditions, Bank's financial interests, or other strategic interests.

Award and Deferral of Variable Remuneration

Any Variable Remuneration will normally be granted following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the awards.

If, the Variable Remuneration is granted in the form of Cash Bonus (which shall not be more than 50% of the total amount of Variable remuneration), the following vesting schedule shall apply to the Cash Bonus:

	Work Year	Grant Point (year 0)	2nd Year (year 1)	3rd Year (year 2)	4th Year (year 3)
Example year	2023	Mar-24	Jan-25	Jan-26	Jan-27
Vesting of Cash Bonus		40% vests immediately	20% vests	20% vests	20% vest

The vesting (deferral) and holding (retention) Schedule of any Discretionary Share Award shall be the following:

	Work Year	Grant Point (year 0)	2nd Year (year 1)	3rd Year (year 2)	4th Year (year 3)
Example year	2023	Mar-24	Jan-25	Jan-26	Jan-27
Vesting & holding of Discretionary Share Award		100% Granted; 40% vests immediately, subject to 6 (six) months holding period	20% vest with no holding period	20% vest with no holding period	20% vest with no holding period

Upon vesting the MRTs also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

MRTs are not authorized to apply any insurance related to the Variable Remuneration Awards and respective obligations and personal hedging strategies for the purpose of risk reduction. Prohibition of hedging and insurance shall apply to the deferred as well as retained Variable Remuneration.

The Remuneration Committee has discretion to vary the vesting schedule of Variable Remuneration, if necessary, for example in the event of a statutory conflict of interest.

Ex post Risk Adjustments: Malus and Clawback

The Remuneration Committee conducts annual review of the sustainability of MRTs remuneration policy, and the assessment of MRTs'performance, during which, the Remuneration Committee may, at referral of General Director, Management board, or relevant Director to whom the relevant MRT reports to:

- If necessary, reduce or eliminate any outstanding (unvested) Variable Remuneration tranches ("malus")
- Reclaim Variable Remuneration components already paid out (vested) if certain conditions are met ("**clawback**").

Variable Remuneration may become subject to malus and/or clawback in the following circumstances:

- Variable Remuneration recipient no longer complies with the standards established by the Regulation on Commercial Bank Managers Fit & Proper Criteria approved by the Decree No. 50/04 of the Governor of the National Bank of Georgia of June 17, 2014;
- Misconduct in the performance or substantial failure to perform duties by the MRTs, or material breach of applicable regulations and/or the Bank's internal policies;
- Significant financial losses, or serious damage to the reputation of the Bank caused by misconduct or gross negligence (including inaction) of the MRTs; In case of clawback arrangements such downturn has to be caused by participation of the remuneration recipient;
- Significant failures/problems in terms of risk management in the bank/structural unit in which a recipient of remuneration works. In case of clawback arrangements such failures/problems have to be caused by the remuneration recipient;
- Downturn in financial performance (e.g. specific business indicators) of the structural unit. In case of clawback arrangements such downturn has to be caused by participation of the remuneration recipient;
- Material misstatement or material errors in the financial statements that relate to the area of responsibility of the MRTs or can be attributed to action or inaction of the MRTs' performance of their duties;
- Deliberately misleading the Bank in relation to financial performance on the basis of which the Variable Remuneration was issued;
- Significant increases in the bank's/structural unit's economic/regulatory capital requirements. In case of clawback arrangements such failures/problems have to be caused by participation of the remuneration recipient;
- Misconduct that contributed to the imposition of material regulatory or other similar sanctions; and
- Payments based on erroneous or misleading data, for which malus and clawback apply to Variable Remuneration for the year in question.

Clawback arrangements apply for up to two years from vesting.

Pension Contributions

The Bank is required to comply with pension requirements set by the Georgian laws, which may change from time to time. Pension provision is the same for all employees in the Bank in Georgia. In line with current Georgian legislation, MRT and the Bank each contribute 2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.

Discretion of the Remuneration Committee

The Remuneration Committee retains a substantial degree of discretion in relation to Variable Remuneration. This includes:

- The determination of the award, if any;
- Selection of KPIs, which may vary from year to year in order to align with strategy and financial objectives;
- Any adjustments required to the MRTs' KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more KPIs becoming an inaccurate gauge of performance; and
- The discretion to override any formulaic outcomes when it considers it reasonable in the circumstances to do so prior to or upon vesting of discretionary deferred shares.
- Any decision of Remuneration Committee on the basis of this clause shall be described and reasoned in the relevant Remuneration Committee decision.

For the avoidance of doubt the Bank shall not award (or shall reduce the amount of the award accordingly) to the extent that such award would cause a breach of the NBG's capital adequacy requirements and other regulatory ratios.

The Remuneration Committee has discretion to vary the vesting schedule of Discretionary Share Award, if necessary, for example in the event of a statutory conflict of interest, subject at all times to compliance with the requirements of CGC and UK Code.

Equity compensation trust

The BOGG PLC group operates two employee benefit trusts, one for senior executives, and the other for employees below the executive level, which hold ordinary shares on trust for the benefit of employees and former employees of the Bank, and their dependents, and which is used in conjunction with the Bank's employee share schemes.

Business expenses

MRTs may be reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

There were 9 employees, excluding the Management and Supervisory board, whose remuneration for the 2023 fiscal year exceeded GEL 1 million.

References

The Bank	JSC Bank of Georgia
The Directors	Members of the Management Board
The "Report"	Pillar 3 Annual Report 2023
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
The "Charter"	Bank's charter
CRR	Article in REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms
GMS	General Meeting of Shareholders
IFRS	International Financial Reporting Standards
Management Board/Executive Management	Management Board of the Bank
Supervisory Board	Supervisory Board of the Bank