# Pillar 3 Annual Report 2024

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 2024 (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 2024 and NBG in 2023, Basel III)**

**17.1%**

| | |
|---|---|
| 2023 | 18.2% |
| 2024 | 17.1% |

Minimum regulatory requirement for 2024 – 14.9% (2023 – 14.5%)

**Cost of credit risk ratio (IFRS)**

**0.4%**

| | |
|---|---|
| 2023 | 0.7% |
| 2024 | 0.4% |

-0.3 ppts y-o-y

**Liquidity coverage ratio (IFRS Based NBG in 2024 and NBG in 2023, Basel III)**

**138.6%**

| | |
|---|---|
| 2023 | 125.2% |
| 2024 | 138.6% |

Minimum regulatory requirement – 100%

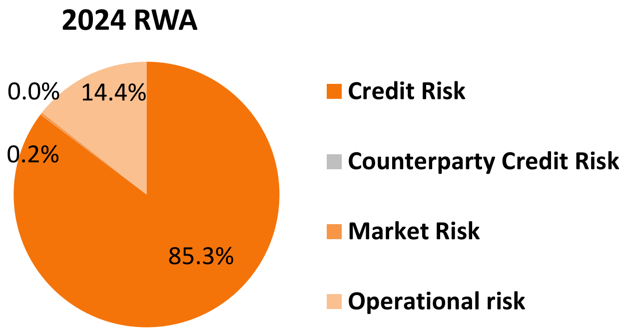
**Net stable funding ratio (NBG, Basel III)**

**130.7%**

| | |
|---|---|
| 2023 | 130.4% |
| 2024 | 130.7% |

Minimum regulatory requirement – 100%

**Risk Weighted Assets**[1]




| Risk Weighted Assets | 2024 kGEL | 2023 kGEL |
|---|---|---|
| Credit Risk | 24,804,087 | 19,591,519 |
| Counterparty Credit Risk | 10,099 | 12,610 |
| Market Risk | 71,174 | 123,504 |
| Operational risk | 4,195,233 | 3,335,276 |
| | **29,080,593** | **23,062,909** |

At 31 December 2024, the Bank's Basel III CET1, Tier 1 and Total capital adequacy ratios stood at 17.1%, 20.5% and 22.1%, respectively, all comfortably above the minimum required levels of 14.9%, 17.0% and 19.9%, respectively. The risk-weighted assets increased by 26.1% y-o-y at 31 December 2024, reflecting the increase in interest-earning assets during the year.

On 26 June 2024, the Board of JSC Bank of Georgia declared a final dividend for 2023 of Georgian Lari 9.73 per share. On 26 August 2024, the Board of JSC Bank of Georgia declared an interim dividend for 2024 of Georgian Lari 8.62 per share. On 7 February 2025, the Board of JSC Bank of Georgia declared a final dividend for 2024 of Georgian Lari 3.59 per share. This would make a total dividend paid in respect of the 2024 earnings of GEL 21.94 per share.

The Bank's liquidity and funding positions have remained strong, the Bank's liquidity coverage ratio was 138.6% and net stable funding ratio was 130.7% at 31 December 2024, comfortably above the minimum required levels.

The loan portfolio quality has been stable during the period resulting in cost of credit risk ratio 0.4% in 2024.

### 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 |

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

## 2. Ownership and Group Structure

### 2.1. Ownership

As at 31 December 2024, 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. On 25 March 2025, JSC BGEO repurchased 0.44% non-controlling interest in JSC Bank of Georgia increasing its ownership to 100%. The consideration of GEL 28,448 was fully paid by JSC BGEO on 26 March 2025.

JSC BGEO Group is wholly owned by Lion Finance Group PLC (former Lion Finance Group PLC), a public limited liability company incorporated in England and Wales (the "LFG") which represents the ultimate parent company of the Bank. Lion Finance Group PLC is listed on the London Stock Exchange's main market in the Equity Shares (Commercial Companies) category and is a constituent of the FTSE 250 index. Ticker: BGEO.

As at 31 December 2024 and 2023, the following shareholders owned more than 3.0% of the total outstanding shares of LFG. Other shareholders individually owned less than 3.0% of the outstanding shares.

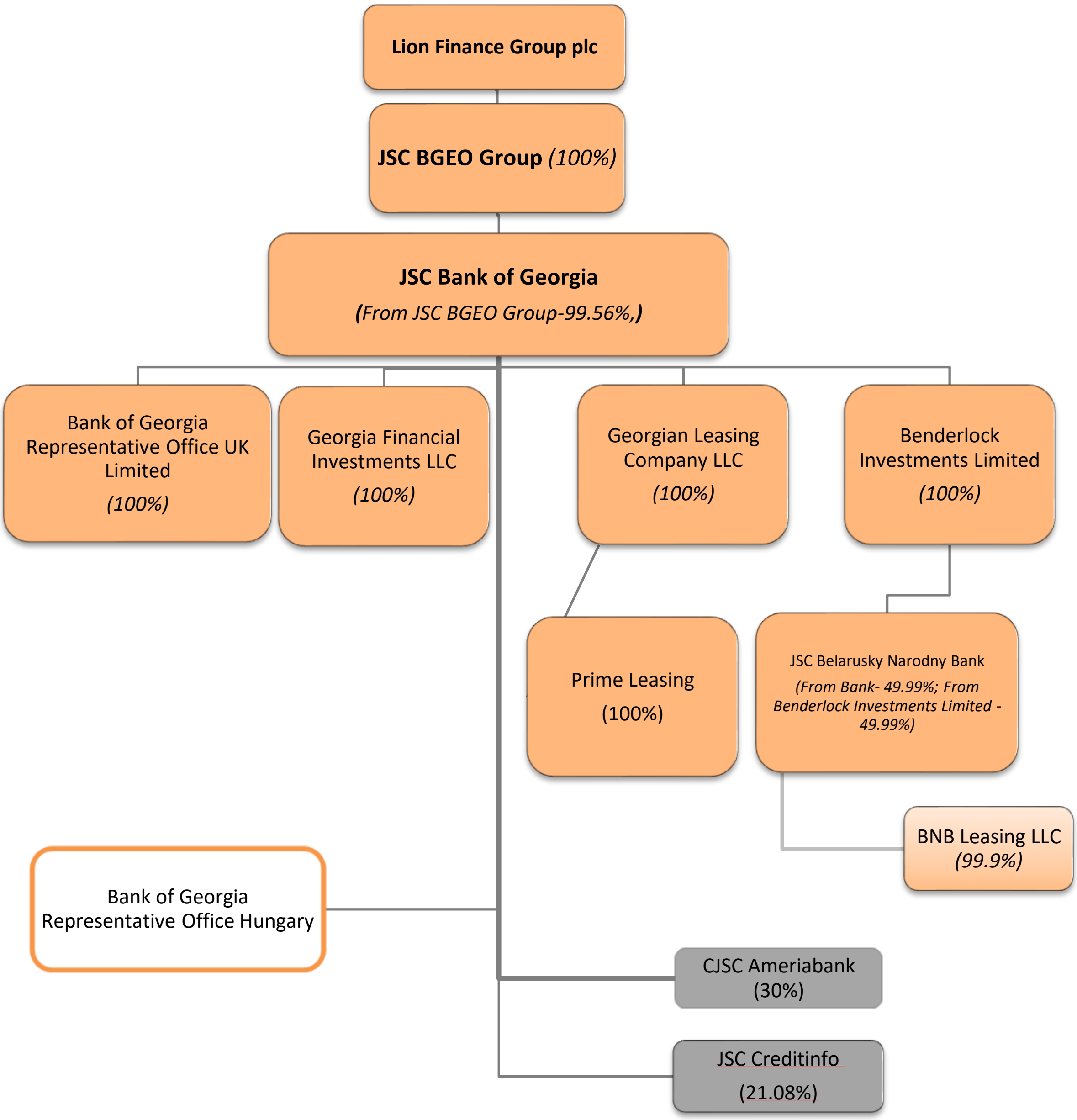
| Shareholder of LFG | 31 December, 2024 | 31 December, 2023 |
|---|---|---|
| JSC Georgia Capital** | 19.23% | 19.71% |
| JP Morgan Asset Management | 4.68% | 4.04% |
| Dimensional Fund Advisors (DFA) LP | 4.33% | 4.11% |
| BlackRock Investment Management (UK) | 4.19% | 3.58% |
| Vanguard Group Inc | 3.78% | 3.33% |
| M&G Investment Management Ltd | 3.28% | 4.84% |
| Others | 60.51% | 60.39% |
| **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 LFG 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 Lion Finance Group PLC is greater than 9.9%.*

## 2.2. Group Structure

Lion Finance Group plc, its core subsidiary – JSC Bank of Georgia and its other subsidiaries make up a group of companies mainly incorporated in Georgia and Armenia (together referred to as the "**Group**"). For information about the companies incorporated within the Group, please see Lion Finance Group PLC Annual Report 2024, available as of the date of this Report on LFG's official website – https://lionfinancegroup.uk/.

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 2024, 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. Consideration transferred for the investment was KGEL 248,859 which was fully settled by the end of 2024.

# 3. Governance

## 3.1. Corporate Governance Framework

### 3.1.1. The Bank

The Bank's corporate governance structure includes the General Meeting of Shareholders (GMS), the Supervisory Board, and the Management Board, each with distinct responsibilities under Georgian law and the Bank's Charter. The GMS, as the highest governing body, appoints the Supervisory Board, which oversees corporate governance and supervises the Management Board, responsible for daily operations.

The Bank's ultimate parent, Lion Finance Group PLC, sets the Group's strategy. In line with Georgia's Corporate Governance Code for Commercial Banks (Order #215/04 of the President of the NBG, dated 26 September 2018) (as amended)) ("CGC"), the Supervisory Board has four committees: Audit, Risk, Nomination & Corporate Governance and Remuneration Committee, ensuring effective oversight. Previously the list of the committees also included the Special Committee, initially established per regulatory requirements to oversee post-demerger processes in 2018, however it was dissolved in late 2024, with regulatory agreement after its purpose was fulfilled.

### 3.1.2. The Group

As an ultimate parent company, LFG PLC's Board of Directors oversees strategy, risk management, and internal controls. It includes Non-Executive Directors from the Bank's Supervisory Board, the Bank's General Director as Group CEO and Executive Director, and the Supervisory Board Chairman as LFG Chairman.

Lion Finance Group follows a mirror board structure, where the same members serve on both the LFG Board and the Bank's Supervisory Board, with identical roles in Audit, Risk, Nomination, and Remuneration Committees. This structure ensures effective governance across the Group.

## 3.2. Shareholder Engagement and Functions of GMS

As per the Charter, the annual General Meeting of Shareholders (GMS) is held at least once a year, within three months after the annual audit. If a GMS is convened, details are published on the Bank's website and public registry portal at least 21 days in advance.

The GMS agenda includes approval of the annual report, financial accounts, dividend distribution proposals, capital policy, and other matters raised by the Management Board, Supervisory Board, or shareholders, in line with Georgian law and the Charter.

**GMS Quorum**

- First GMS: Requires at least 50% of voting shares or representatives.
- If no quorum: A second GMS is called with the same agenda, requiring at least 25% attendance.
- If still no quorum: A third GMS is held, which proceeds regardless of attendance.

**Extraordinary GMS (EGMS)**

An EGMS can be called by the Management Board, Supervisory Board, or shareholders holding at least 5% of issued shares. Shareholders with 5% or more may request an EGMS one month after the last GMS, with the Management Board publishing the decision within 10 days.

**Matters Reserved for Shareholders**

Under Georgian law and the Charter, shareholder authority includes:

- Charter amendments and Bank reorganization
- Bank liquidation and appointment of a liquidator
- Approval of financial reports, audit selection, and dividend distribution
- Changes to capital and share redemption
- Election, removal, and remuneration of Supervisory Board members
- Legal action decisions against management
- Approval of major transactions (exceeding 50% of the Bank's asset value)

All other decisions fall under the authority of the Supervisory Board and Management Board.

**Regulation of Bank Shareholders under NBG Rules**

Under the Banking Law, individuals convicted of serious crimes cannot hold more than 10% of a commercial bank's share capital. The NBG may impose additional compliance requirements.

Anyone acquiring over 10%, 25%, or 50% must obtain NBG approval, which is issued within one to three months. Transactions exceeding 10% without approval are null and void. The NBG can request disclosure of shareholders over 10%, suspend voting rights, or require share reductions if financial stability is at risk.

Shareholders reducing holdings below 10%, 25%, or 50% must notify the NBG. Banks must quarterly disclose direct shareholders over 1% and beneficial owners over 5%. Shareholders over 10% must annually declare their holdings.

### 3.3. The Supervisory Board and its Committees

The Supervisory Board is collectively responsible for the Bank's long-term success, setting its strategy, overseeing risk management and internal controls, and ensuring sustainable value for shareholders. It upholds corporate governance best practices and considers the interests of stakeholders, including employees, customers, and the broader community.

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 receives reports and recommendations from time to time on any matter which it considers significant to the Bank.

The Supervisory Board 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$ 70.0 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.

The Board has ultimate supervisory responsibility for the management of risk. The Chief Risk Officer is responsible for the risk management framework. This includes establishing policy, monitoring risk profiles, and identifying and managing risk. Bank of Georgia operates based on the industry standard three-lines-of-defence model. All roles below the Chief Executive fall within one of the three lines, and all employees are responsible for understanding and managing risks within their individual roles and responsibilities.

The Supervisory Board is responsible for reviewing the Bank's system of internal controls and confirming its adequacy and effectiveness. The Audit and Risk Committees play key roles in assessing the strength and effectiveness of the risk management and internal control systems.

With respect to internal controls over financial reporting, our financial procedures include a range of system, transactional and management oversight controls. Each quarter, the CFO 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 auditor and Head of Internal Audit attend Audit Committee meetings, and the Audit Committee meets them regularly both with and without the presence of Executive Management. Our Audit and Risk Committees monitor internal controls over operational and compliance risks.

The Supervisory Board approves risk appetite, key policies, and reviews quarterly risk reports. It also ensures that ESG matters are integrated into the Bank's strategy.

The Supervisory Board's competences and duties are governed by the Bank's Charter, a public document accessible via webpage of LEPL National Agency of Public Registry of Georgia. This includes responsibilities related to management oversight, strategic decision-making, risk management, and governance structures. The Board meets quarterly, with additional meetings as needed, and receives updates from senior management, risk, audit, and legal functions.

**Committees**

The Supervisory Board has delegated authority to various Committees to manage specific tasks and ensure efficient operations, independent oversight, and consideration of financial, audit, internal control, and risk issues. The Charter outlines key responsibilities, and the Committees' activities are regularly reviewed. All Supervisory Board members are invited to attend Committee meetings.

The Committees are:

- **Audit Committee**: Oversees the Bank's financial reporting, internal and external audits, and risk management processes. It specifically oversees and challenges management on its internal control and risk management systems in relation to the financial reporting process. The Audit Committee meets quarterly, with extraordinary meetings if needed.
  **Members: Jonathan Muir (Chair), Hanna Loikkanen, Cecil Quillen**
- **Risk Committee**: Focuses on risk oversight, reviewing the Bank's risk appetite, exposure, and policies. It monitors critical risks like credit, market, and operational risks. The Risk Committee reviews the Bank's risk policies on a regular basis, usually quarterly, 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.
  **Members: Véronique McCarroll (Chair), Tamaz Georgadze, Mariam Megvinetukhutsesi**
- **Nomination and Corporate Governance Committee**: Reviews Supervisory Board composition and succession planning, ensuring diversity and balance. It also assesses the Board's effectiveness.
  **Members: Mel Carvill (Chair), Jonathan Muir, Hanna Loikkanen, Cecil Quillen, Véronique McCarroll, Tamaz Georgadze, Mariam Megvinetukhutsesi**
- **Remuneration Committee**: Recommends remuneration policies for executives, ensuring alignment with long-term success and shareholder interests.
  **Members: Cecil Quillen (Chair), Mel Carvill, Hanna Loikkanen, Tamaz Georgadze**

Previously the list of the committees also included the Special Committee, initially established per regulatory requirements to oversee post-demerger processes in 2018, however it was dissolved in late 2024, with regulatory agreement after its purpose was fulfilled.

**Supervisory Board Composition, Diversity, and Independence**

The company is committed to fostering a diverse and inclusive environment, recognizing that diversity enhances effective governance and decision-making. To reinforce this commitment, the company has adopted a dedicated Diversity & Inclusion Policy, ensuring a balanced and inclusive approach to leadership and decision-making. The policy follows a structured methodology, incorporating both qualitative and quantitative criteria to assess diversity, including gender, professional background, skills, and experience, ensuring a well-balanced and inclusive leadership approach.

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 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.

As at 31 December 2024, the Supervisory Board consisted of seven members following Alasdair Breach's resignation. Board members serve three-year terms and are reappointed without restrictions. The Bank values diversity in skills, experience, gender, and nationality. At the end of 2024, 43% of the Supervisory Board were women, and eight nationalities were represented. The Board follows the CGC, ensuring at least 40% gender diversity and that at least one-third of members are independent. Each member's independence is assessed regularly.

### Supervisory Board and Committee Meeting Attendance

| Member | Supervisory Board | Audit Committee | Risk Committee | Nomination and Corporate Governance Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Mel Carvill | 8/8 scheduled and 7/7 ad hoc | N/A | N/A | 4/4 scheduled | 4/4 scheduled and 3/3 ad hoc |
| Tamaz Georgadze | 8/8 scheduled and 7/7 ad hoc | N/A | 4/4 scheduled and 1/1 ad hoc | 4/4 scheduled | 4/4 scheduled and 3/3 ad hoc |
| Hanna Loikkanen | 8/8 scheduled and 7/7 ad hoc | 4/4 scheduled and 5/5 ad hoc | N/A | 4/4 scheduled | 4/4 scheduled and 3/3 ad hoc |
| Véronique McCarroll | 8/8 scheduled and 7/7 ad hoc | N/A | 4/4 scheduled and 1/1 ad hoc | 4/4 scheduled | N/A |
| Mariam Megvinetukhutsesi | 8/8 scheduled and 7/7 ad hoc | N/A | 4/4 scheduled and 1/1 ad hoc | 4/4 scheduled | N/A |
| Jonathan Muir** | 8/8 scheduled and 6/7 ad hoc | 4/4 scheduled and 4/5 ad hoc | N/A | 4/4 scheduled | N/A |
| Cecil Quillen | 8/8 scheduled and 7/7 ad hoc | 4/4 scheduled and 5/5 ad hoc | N/A | 4/4 scheduled | 4/4 scheduled and 3/3 ad hoc |
| Alasdair Breach* | 2/2 scheduled and 3/3 ad hoc | N/A | 1/1 scheduled | 1/1 scheduled | 1/1 scheduled and 1/1 ad hoc |

*Alasdair Breach retired on 15 March 2024
** Jonathan Muir was unable to attend two ad hoc meetings during the year due to pre-existing commitments. He had access to all relevant materials prior to the meeting and provided comments prior to and after the meeting.

### Committee meeting topics during 2024

Key Audit Committee meeting topics during 2024 were:

| March | June | September | December |
|---|---|---|---|
| • Internal Audit performance.<br>• Internal Audit KPIs and KBOs.<br>• Internal Audit plan progress and findings.<br>• Compliance with new Global Internal Audit Standards.<br>• Internal Audit Plan.<br>• Finance and accounting update, including external audit tender.<br>• Ongoing litigation update.<br>• 2023 Management Report and Accounts<br>• External Auditor update including non-audit fees. | • Internal Audit progress and findings.<br>• Internal Audit Plan update.<br>• New Global Internal Audit Standards update.<br>• Finance and accounting update, including external audit findings and repossessed assets valuation approach.<br>• Ongoing litigation update.<br>• External Auditor update, including interim reporting and external audit tender. | • Internal Audit progress and findings.<br>• New Global Internal Audit Standards update.<br>• Internal quality assessment.<br>• Finance and accounting update, including valuation approach and external audit tender.<br>• Ongoing litigation update.<br>• External Auditor update.<br>• External Auditor effectiveness review.<br>• Committee effectiveness review. | • Internal Audit progress and findings.<br>• Internal Audit Plan and budget.<br>• Internal Audit engagement results.<br>• New Global Internal Audit Standards update.<br>• Internal quality assessment.<br>• Finance and accounting update, including stress testing.<br>• Ongoing litigation update.<br>• External Auditor update, including the external audit plan, fees and independence.<br>• NBG data protection requirements.<br>• External audit tender update.<br>• Data protection update. |

Key Risk Committee meeting topics during 2024 were:

| March | June | September | December |
|---|---|---|---|
| • Risk Report.<br>• Risk Appetite statement, metrics, annual re-approval and introduction of additional AML metrics.<br>• Information security risk management.<br>• Approval of financial risk policies.<br>• 2024 risk KBOs. | • Risk Report.<br>• Stress-testing framework.<br>• Impact of current geopolitical environment on risk.<br>• ICAAP and ILAAP reports.<br>• Resolution plan update.<br>• Risk culture survey. | • Risk Report.<br>• Current risk outlook.<br>• Committee effectiveness review. | • Risk Report.<br>• Corporate loan book deep-dive analysis.<br>• International sanctions risk update.<br>• Liquidity update.<br>• Environment, social and climate risk methodology update.<br>• Stress testing. |

Key Nomination and Corporate Governance Committee meeting topics during 2024 were:

| March | June | September | December |
|---|---|---|---|
| • The NBG Supervisory Board member independence rule.<br>• Board succession planning.<br>• Employee Voice meeting update.<br>• Progress of external evaluation actions. | • Board skills matrix.<br>• Board composition.<br>• Board diversity.<br>• Board succession planning.<br>• Internal evaluation process.<br>• Progress of external evaluation actions. | • Board skills matrix.<br>• Board succession planning.<br>• Executive management succession planning.<br>• Board composition changes.<br>• Management promotion.<br>• Workforce diversity.<br>• Internal evaluation results.<br>• Terms of reference review.<br>• Committee effectiveness review. | • Board succession planning.<br>• Board composition.<br>• Executive management succession planning and skills analysis.<br>• Management promotions.<br>• ESG oversight.<br>• Board and executive management diversity.<br>• Audit and Risk Committee cross-membership.<br>• Internal evaluation actions review. |

Key Remuneration Committee meeting topics during 2024 were:

| February/March | April/June | September | December |
|---|---|---|---|
| • CEO Performance review against KPIs.<br>• Senior management bonuses.<br>• Employee bonus overview.<br>• 2024 KPIs and targets set. | • Remuneration policies<br>• KPI discussion. | • Remuneration policies.<br>• CEO contract terms.<br>• Committee Effectiveness review. | • Review of Employment Market Analysis on Salaries and Pay Practices. |

**Succession Planning and Board Appointment Procedures**

Supervisory Board members are appointed by cumulative voting at the GMS. Shareholders can recommend candidates, but certain individuals (e.g., convicted of crimes) cannot be elected. The Nomination Committee ensures the Board maintains the right balance of skills, diversity, and experience, and manages succession planning. In 2024, the Committee reviewed Board composition, tenure, and diversity, focusing on future retirements and ensuring compliance with independence requirements.

**Induction, Training, and Development**

New Supervisory Board members undergo an induction program, covering their roles, legal obligations, and Board functions. Ongoing training is provided throughout the year, including updates on regulatory changes, such as those related to conflicts of interest, ESG guidelines, and data protection. Supervisory Board members also have access to independent professional advice, funded by the Bank.

**Evaluation of the Supervisory Board's Performance**

The Supervisory Board continually evaluates its performance to enhance its effectiveness. Apart from the annual self-evaluation, the members of the Supervisory Board are subject to mandatory external effectiveness evaluation performed by an independent third party. The latest external evaluation was conducted in 2023. There has been no external evaluation of the Supervisory Board for 2024.

### 3.4. Management Board and Executive Management Team

As at the date of this report, information on members of Bank of Georgia's Management Board and Executive Management, their roles and responsibilities as well as their professional backgrounds is accessible via Bank website at https://bankofgeorgia.ge/en/about/management.

The Management Board of Bank of Georgia comprises the following individuals:

| Management Board member | Current position |
|---|---|
| Archil Gachechiladze | General Director |
| Sulkhan Gvalia | Deputy General Director, Chief Financial Officer |
| David Chkonia | Deputy General Director, Chief Risk Officer |
| David Davitashvili | Deputy General Director, Data and Information Technology |
| Mikheil Gomarteli | Deputy General Director, Strategic Project Direction |
| Eter Iremadze | Deputy General Director, Premium Banking |
| Zurab Kokosadze | Deputy General Director, Corporate Banking |

The business address for all the Management Board members is 29a Gagarini Street, Tbilisi 0160, Georgia.

The directors are nominated by the General Director and are evaluated and approved by the Supervisory Board, subject to, in case of Deputy General Directors, regulatory clearance. The selection process focuses on expertise, integrity, and diversity to ensure effective governance. Regular reviews help maintain a well-balanced and skilled Management Board. The General Director and the members of the Supervisory Board assess and discuss the performance of each member of the Management Board as well as broader Executive Management and due attention is given to the areas of development and improvement for each of such directors, both in terms of hard and soft skills.

**Responsibilities of the Management Board**

The Management Board and the broader Executive Management Team are responsible for the day-to-day management of the Bank, with specific functions outlined in the Charter. Except for ad hoc delegations, the powers and duties of the Management Board and the Supervisory Board are clearly defined as per Georgian banking laws as well as the Charter and internal governing documents of the Bank. Any ad hoc delegation is duly recorded and kept in the minutes of the Supervisory Board. The Management Board is accountable to the shareholders and the Supervisory Board, and its members are appointed and dismissed by the Supervisory Board. 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.

**Key Responsibilities of the Management Board:**

- Oversee the Bank's daily operations
- Prepare agenda items for the GMS and Supervisory Board meetings, draft resolutions, and provide necessary information
- Present the business plan, budget, profit and loss forecast, and investment plans to the Supervisory Board for approval
- Manage lending, settlement, financing, cash services, security, accounting, reporting, and internal controls
- Make decisions on branch and service centre operations and ensure proper task fulfilment by branch managers
- Review internal audit and external inspection reports and make decisions
- Implement resolutions from the GMS and Supervisory Board
- Develop and enforce policies and regulatory documents
- Manage recruitment, training, and remuneration of employees
- Convene extraordinary general meetings when necessary
- Other tasks assigned by the Supervisory Board or GMS

- Ensure compliance with the Bank's Charter and applicable laws

**Role of the General Director**

The General Director leads the Management Board and is responsible for:

- Acting independently on behalf of the Bank (subject to Supervisory Board consent)
- Chairing Management Board meetings
- Supervising the implementation of decisions by the Management Board, Supervisory Board, and GMS
- Assigning tasks to Management Board members and issuing relevant directives
- Submitting recommendations on employee remuneration and bonuses for Supervisory Board approval
- Appointing and dismissing employees as per the recruitment plan
- Delegating tasks as needed to other Management Board members or department heads

Along with the powers and duties of the Management Board, approval of the Supervisory Board is required for:

- Major acquisitions, disposals, or transactions exceeding specific thresholds (e.g., stakes, real estate, investments, borrowing)
- Establishment or liquidation of branches
- Major changes to banking activities
- Adoption of business strategy, budget, and development plans
- Approval of significant contracts or expenditures
- Determination of top management remuneration
- Determining and approving internal policies for lending, investing, asset management, etc.
- Redemption of Bank's shares as per applicable laws

## 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 the Bank operates within acceptable risk tolerances, as set by the Board's risk appetite, with its governance structure and three lines of defence providing a foundation for continuous oversight.

**Key components of 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 it remains within risk appetite. |
| | Active Risk Management: identification, measurement, mitigation, reporting | |
| **Internal Controls** | Policies and Procedures | 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. |
| | Control Activities | |

**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 the overall risk appetite and specific limits or triggers. The Bank then prioritises risks and decides 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 the Bank's risks and respective mitigating actions are reviewed quarterly (or 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, which defines the level and types of risk that the Bank is willing to take, while informing the financial planning process and guiding strategic decision making. 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.

To develop risk culture, the Bank focuses on giving employees the awareness and capabilities to manage risk. The Bank provides a wide range of training programmes to its 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 the Bank keeps its 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.

### 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. 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 the grievance mechanism, which is part of the Bank's 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 the Bank faces. 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 the Bank's 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 2024 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 2024 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 units 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.

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. The Bank regularly assesses the vulnerabilities of its 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:

- **ICAAP/ILAAP stress testing**: The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) is to estimate and maintain an adequate level of internal capital and liquidity, sufficient to cover all key risks that the banks face, or might face in the future, including under a stress scenario.

- **Viability stress testing**: The aim of this stress test is to assess the impact of plausible but severe stress scenarios on the Group's financial position. Scenario assumptions for all relevant macroeconomic and financial market variables are set, and potential impacts are assessed against the viability of the Group. Viability stress test is performed at least annually and reported to the Audit Committee and the Board of Directors.
- **Reverse stress testing**: The aim of this stress test is to assess what level of disruption might cause the Group to fail. Failure in this context is defined as the level of loss that would lead to the breach of core capital ratios.
- **Ad-hoc stress testing**: Scenarios that capture the current economic conditions, specific exposures facing the bank, and update analysis of potential future extreme events related to macroeconomic factors. Frequency of stress testing depends on material changes in the operating environment of the Bank.
- **Regulatory stress-tests**: Mandated by the regulator, 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.
- **Recovery Plan stress testing**: Mandated by the regulator, this stress test evaluates the bank's ability, along with its chosen recovery measures, to overcome extreme stress situations that result in the breach of certain indicators' threshold levels.

### 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. The Bank continues to assess climate-related risks, both transitional and physical, for its 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. The Bank assesses sensitivities of certain portfolios towards macroeconomic factors and geopolitical scenarios, enabling to take portfolio-related actions if necessary, including increasing monitoring and changing credit risk appetite.

The unresolved war in Ukraine and ongoing military conflict in the Middle East contribute to elevated geopolitical risks. Georgian economy is considerably exposed to these risks due to its reliance on imported goods and foreign direct investment, as well as external sector inflows generated by exports, international tourism and money transfers.

The possibility of a global increase in tariffs and greater trade uncertainty may lead to slower global growth and tighter financial conditions, inducing capital outflows from developing economies such as Georgia. Worsened risk appetite among international investors may cause increased foreign-currency debt burden and depreciation pressures on local currencies.

Remaining political polarisation and uncertainty after the October 2024 Parliamentary elections in Georgia may weigh on consumer and business sentiments and the overall performance of the domestic economy. In Armenia, narrow export base and heavy dependence on a single trading partner make the domestic economy vulnerable to external shocks.

**Mitigation**: According to Georgian legislation, effective from January 1, 2025, loans of up to GEL 500,000 can only be issued in GEL if a borrower's income is also in GEL. 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 2024 19.1% of Bank of Georgia's Retail Banking (RB) gross loans, 40.4% of SME Banking gross loans, and 71.7% of CB gross loans were denominated in foreign currency. Meanwhile, 3.6% of Retail Banking gross loans, 2.2% of SME Banking and 38.9% 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.

### 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 involve 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.

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 6.8% of gross loans to customers, factoring and finance lease receivables at 31 December 2024 versus 7.6% at 31 December 2023.

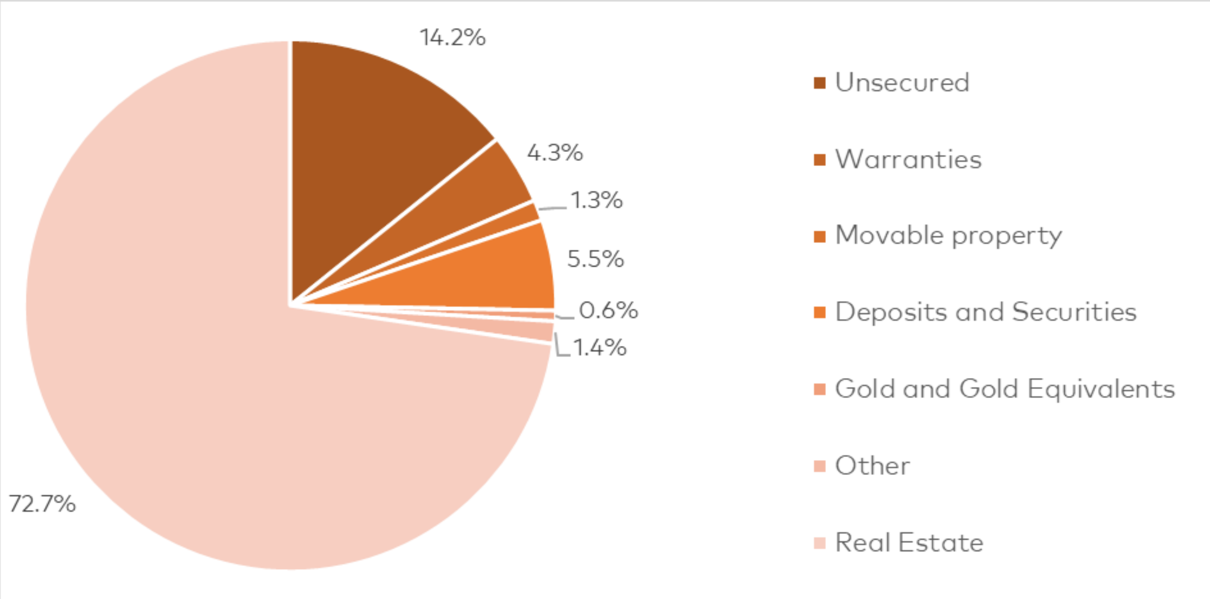
The Bank provides updates monthly to Executive Management and quarterly to the Board of Directors on the Bank's exposures and loan portfolio quality, and detailed information on the largest CB borrowers. In addition to these recurring updates, some point-in-time analyses are occasionally performed upon 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 2024, 81.7% of BOG's gross loans to customers 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 support to borrowers experiencing financial difficulties to help them meet their contractual obligations. Cases are managed on an individual basis by the Collections teams, which may initiate a loan restructuring process, modifying the contractual payment terms to support customers and subsequently 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. The recovery process is initiated when a borrower enters the event of default. If a mutual agreement cannot be achieved between the borrower and the bank, 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, (b) exposure has been defaulted or (c) financial instrument represents POCI – 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 divides its credit risk portfolio into POCI financial instruments and all other financial instruments. The POCI financial instruments are purchased or originated financial assets that are credit-impaired on initial recognition. They remain in their category until derecognition (even if cured). Lifetime expected credit losses are recognised for the POCI financial assets, even if the financial instrument no longer meets the default criteria.

For all other instruments 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 but 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 is impaired. ECL for non-defaulted significant loans is assessed collectively. 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.

**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 2024, 95.5% of the Bank's inter-bank exposure was to 'Investment Grade' banks (based on Fitch, Moody's and Standard and Poor's assessments).

### 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 at the Bank is overseen the ALCO, which approves the liquidity risk management framework and liquidity risk appetite, and ensures their implementation. Ultimately, risk appetite statement receives approval from the Supervisory Board. Respective structural units from the Finance direction, as the first line of defence, are responsible for managing liquidity and funding positions, maintaining access to funding markets and managing the liquidity buffer. Respective structural unit from the Risk function serves as the second line of defence and is responsible for developing and maintaining policies, standards and guidelines for funding and liquidity risk management, developing the risk appetite, conducting risk profile reviews and communicating results to the respective ALCOs.

**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. 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 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.

**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.

**Funding and liquidity developments:** The Bank maintains a diverse funding base comprising short-term funding (including RB and CB deposits, inter-bank borrowings and borrowings from the central bank) and longer-term funding (including RB and CB term deposits, borrowings from international financial institutions and long-term debt securities). Client deposits and notes are key sources of funding for the Bank. At 31 December 2024, 39.0%, 42.2% and 18.8% of the Bank's long-term funding sources were deposits, amounts owed to credit institutions, and debt securities respectively. The Bank maintains strong liquidity and funding positions, with its LCR and NSFR ratios well above the minimum regulatory requirement of 100%. As at 31 December 2024, LCR was at 138.6% and NSFR at 130.7%.

The Bank has strong support from international financial institutions (IFIs) and private asset/fund managers, and maintains a strong pipeline to secure funding resources 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 Board receives quarterly updates on the capital position of the Bank during its regular meetings as well as during discussions and meetings related to the approval of quarterly results. The Board also reviews the impact of different scenarios on the Bank's capital position prior to making decisions on capital distribution.

Across the Bank, respective structural units from Finance, as the first line of defence, execute daily capital risk management decision making, while respective risk management unit, as the second line of defence, establishes capital risk management frameworks and challenges their effective implementation.

**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.

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.

**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.

## 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. Respective structural unit from Risk function serves as the second line of defence and is responsible for developing and maintaining policies, standards and guidelines for market risk management, and setting the risk appetite. Furthermore, it 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.

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 2024, the Bank's EVE ratio stood at 9.5%, 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.

## Compliance and Conduct Risks

Compliance risk is the risk of legal and/or regulatory sanctions and/or damage to the Bank's reputation as a result of its failure to identify, assess, correctly interpret, comply with and/or manage regulatory and/or legal requirements.

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:** Compliance risks are managed by the respective structural unit within Legal department, which serves as the second line of defence. It is responsible for challenging the first line of defence in managing compliance risks, establishing compliance policy and methodologies, and coordinating the identification, assessment, documentation, reporting and mitigation of compliance risks associated with the Bank's processes and products.

**Compliance risk management framework:** The Bank maintains compliance policies and procedures setting the principles and standards for managing compliance risk, and defines key roles and responsibilities of independent compliance functions. Compliance risk management frameworks and policies are subject to review by Internal Audit. The institution runs a mandatory compliance training programme integrated in the HR management system to increase employee awareness of compliance risk.

**Regulatory change management:** In line with its integrated control framework, the Bank carefully evaluate the impact of legislative and regulatory changes during its formal risk identification and assessment processes. The Banks's legislative and regulatory change management system enables to promptly identify the amendments of laws and regulations and prepare accordingly. In addition, the Bank maintains a consistent process to design and implement appropriate changes by generating formalised action plans and ensuring follow-up. The efficiency of the regulatory change management process is additionally ensured by cooperating and conferring with regulatory bodies either directly or through the Banking Association.

**Related party transactions monitoring:** The Bank ensures related party transactions comply with the "arm's length" principle, as defined by the regulator. The terms of such transactions are pre-determined under a special internal act – any deviations require approval from the Supervisory Board. Certain cases – such as aggregate risk positions exceeding 500,000 GEL, collateral replacement and similar scenarios – also require Supervisory Board approval. Additionally Supervisory Board and the NBG receive quarterly reports to monitor these transactions.

**Conduct risk management framework:** The Bank's Customer Protection Standard covers all stages of the product and services lifecycle, setting out requirements related to transparent product offerings and clear and accurate communications so customers can make informed decisions. The Bank's Customer Claims Management procedure handles customer complaints and concerns effectively, and respective unit from Legal function serves as the second line of defence – ensuring complaint management is undertaken effectively and in compliance with applicable customer protection laws, regulations and internal policies and procedures. Claims related to Code of Conduct and Ethics violations are reviewed by the bank-level Compliance Committee to ensure they are properly handled and remediation plans are established.

### 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. Respective structural unit 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.

Respective structural 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. The Bank aims to prevent harm to customers and the economy caused by criminals and terrorists, and actively monitor its exposure to financial crime risks, reporting all issues in a timely and proactive manner.

The risks associated with AML/CFT and sanctions evasion are reported to Executive Management monthly. Quarterly reporting to the Joint Risk and Audit Committee facilitates the awareness of financial crime risks at Board level. Both quantitative and qualitative dashboards are analysed to ensure effective actions are taken to mitigate risks.

**Anti-money laundering:** The Bank has AML/Counter Financing of Terrorism (CFT) frameworks that reflect a risk-based approach. The Bank ensures compliance with local and relevant foreign legislation in all jurisdictions where financial institutions belonging to the Bank conduct operations, integrating international standards and recommendations developed by the Financial Action Task Force (FATF) and other pertinent international organisations.

The Bank has allocated substantial resources to enhancing its Money Laundering and Terrorist Financing (ML/TF) risk management capabilities. This includes the implementation of advanced analytics and transaction monitoring solutions to detect suspicious activity, as well as the strengthening of offline reporting mechanisms. The reporting processes for Cash Transaction Reports (CTR) and Suspicious Transaction Reports (STR) are fully automated.

Furthermore, the Bank has intensified their mandatory training programmes for employees, aiming to elevate their expertise in AML and CFT regulatory requirements.

In 2024, the Bank approved new AML risk appetite metrics. These metrics are subject to enhanced monitoring and periodic review to ensure ongoing compliance with the defined risk appetite.

**Bribery and corruption:** Bribery and corruption risks are integral components of financial crime framework and are encompassed within the client and third-party due diligence processes as well as the monitoring measures. The Bank is 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 understand and adhere to the ABC Policy through internal communications, awareness campaigns, and structured training programs. All employees complete mandatory ABC training as part of onboarding and then once in every two years. Training includes a test to ensure comprehension and a signed acknowledgment of key topics, reinforcing accountability.

**Sanctions compliance:**

The Bank maintains comprehensive policies, procedures and risk mitigation measures to comply with international sanctions frameworks enforced by key jurisdictions and bodies such as the United States (Office of Foreign Assets Control), European Union, United Kingdom (HM Treasury), and United Nations Security Council. These protocols undergo routine evaluations to ensure alignment with current sanctions regimes. The Bank upholds a stringent zero-tolerance policy towards sanctioned individuals, transactions, and funds associated with sanctioned entities, and any clients or transactions connected to the Russian military-industrial base.

To enhance due diligence in the light of rapidly evolving sanctions regimes, the Bank has bolstered its transaction screening and onboarding processes. The Bank has implemented advanced tools for machine screening of pertinent transaction documentation to detect potential violations of sanctions. Furthermore, the Bank uses an online solution that facilitates a fully automated screening of all transactions against sanctions lists, encompassing OFAC, the European Union, the United Kingdom, the United Nations and other comparable global databases.

**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. The Bank conducts AML/CFT and Sanctions risk assessments, including an assessment of inherent risk, the effectiveness of controls, and residual risk.

The customer risk assessment process is fully automated and ensures comprehensive management of customer risks across the entire business relationship lifecycle. The Bank’s current client base undergoes a rigorous and periodic due diligence process. During the onboarding process, comprehensive information regarding a corporate client’s ownership structure, ultimate beneficial owners and sources of funds and wealth is meticulously gathered.

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 enhanced due diligence. To manage risks associated with crypto currency, the Bank has restricted international transactions related to virtual assets or involving virtual asset service providers.

**Fraud risk:** To mitigate fraud risk the Bank has 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 the 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:** Respective structural unit from the Information Security function 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 systems and infrastructure. In this manner it prevents unauthorised access attempts and maintains real-time monitoring to promptly detect and respond to any potential security incidents.

Respective structural unit from the Risk function serves as a second line of defence., which regularly assesses the design and operational effectiveness of security controls. This unit provides oversight, guidance and support to business units, ensuring information security risks are identified, assessed and managed effectively, and monitor 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, the Bank aims to minimise its exposure to data and security breaches. The risk profile relative to risk appetite is monitored and reported monthly Executive Management and quarterly to the Supervisory Boards.

**Monitoring and reporting:** The Bank's Internal Audit function, on a risk-based approach, provides independent assurance on the adequacy and effectiveness of risk management, internal controls and systems.

Information security is on the Risk Committee's regular agenda, and the Bank engages external third parties to conduct cybersecurity audits and penetration tests on a regular basis.

The following controls enables the Bank to mitigate information security and data protection risks:

**Zero-day attacks:** The regularly monitors zero-day vulnerability announcements that may affect its systems. If such a vulnerability is detected, the designated team ensures it is attended to as soon as possible. Moreover, the Bank employs a 'defence in depth' approach, meaning it has 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. The Bank focuses on improving its information security controls to detect unauthorised access to customers' accounts, and run awareness-raising campaigns to help the customers and the wider public recognise phishing and respond appropriately.

**Supply chain cyber-attack:** The Bank mitigates the risk of supply chain cyber-attacks by performing due diligence on third-party providers, ensuring necessary security and data protection controls are in place before engagement and conducting annual monitoring to assess compliance with these requirements. Exit procedures are followed to protect the confidentiality, integrity and availability of information.

**Failure by employees to adhere the Bank's policies, procedures and technical controls:** Employee training is one of the key components of information security and data protection risk management in the Bank.

Annual training is mandatory for all employees and includes a tailored course on mitigating information security risks while working remotely. The Bank runs quarterly phishing campaigns to test employees' ability to detect such attacks and respond appropriately.

**Access management:** The Bank has 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. The Bank also conducts a semi-annual privileged user evaluation process and 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 the Bank has further aligned its 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. The Bank has enhanced its 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.

**Personal data protection:** In response to legal changes regarding personal data protection in Georgia, the Bank has undertaken several measures to enhance data protection and compliance: policy and procedure updates, process reviews, training programmes and customer communication.

## 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. This encompasses human capital risk, which refers to the potential failure to achieve the Bank's strategic objectives, leading to operational disruption, financial loss, and/or reputational damage due to ineffective human capital policies and/or processes.

### 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. Respective structural unit from Risk function 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.

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:** 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.

The Bank has also 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. 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:** The Bank monitors 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. The results of different surveys and measures are used to design action plans.

**Operational risk framework:** The Bank has implemented policies and procedures and has established operational risk frameworks for anticipating, mitigating, controlling and communicating operational risks and the overall effectiveness of the internal control environment. Operational risk management units maintain a framework and a 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 NIST, and made available to all relevant employees through internal channels.

Various policies, processes, and procedures are in place to control and mitigate operational risks, including but not limited to:

- Risk and control self-assessment (RCSA) programme – to identify and assess operational risks in business processes and products;
- New products assessment – to identify and assess potential operational risks related to new products before launch, offering recommendations for risk mitigation during the product design phase;
- Scenario analysis programme – to identify, analyse and measure a range of scenarios, including low-probability and high-severity events;
- Risk monitoring and reporting, conducted by structural units from the Risk function – to monitor the actual operational risk profile against the agreed levels of risk tolerance and risk appetite;
- Business continuity management programme, which represents business continuity and disaster recovery plans for each critical business process – a combination of procedures and arrangements to make sure critical business processes are uninterrupted in the Bank;
- Risk awareness and training programmes, including awareness campaigns and mandatory training – to help employees identify existing and potential risks.

The Bank also employs several measures to manage human capital risk:

- Using various recruitment channels and collaborating with top universities to attract top talent. Leaderator programme offers young people real project experience, mentorship and a path to start their careers at the Bank.
- The Bank focuses on succession planning and building a strong leadership pipeline for senior roles. Employees work with their managers to create yearly development plans based on performance feedback and 360° reviews. Internal mobility is encouraged to retain top talent.
- The Bank offers competitive pay and benefits while promoting work-life balance. Pay trends are monitored through industry surveys and performance reviews determine compensation. Job structures and grading are regularly updated for clearer career paths.
- The Bank prioritises transparent communication and has grievance policies in place to ensure issues are addressed promptly and fairly. Employee Voice meetings with the Board of Directors support the exchange of ideas, concerns and facilitate discussion of employee views at the Board level.
- Hybrid working arrangements remain an option for the majority of back-office employees, ensuring a flexible and productive work environment.

### 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:

- Three lines of defence: A clear segregation of roles and responsibilities throughout the model lifecycle and model inventory governance among model owners (first line), an independent MRM function (second line), and Internal Audit (third line).
- Key controls: Standards covering data integrity, model development, documentation, validation, monitoring, revalidation, backtesting, model inventory management, as well as comprehensive model risk assessment and reporting.

In 2023, the Bank collaborated with McKinsey & Company to revise its MRM framework, aligning it with industry 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:** Material model-related issues are approved by the CRO and are reported to the Supervisory Board.

The Bank conducts continuous monitoring of model performance and has automated processes that generate notifications for relevant stakeholders on a regular basis (monthly, quarterly and ad hoc), with model owners overseeing performance and model validators supervising the process.

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

- Refining or redeveloping models: Models are refined or redeveloped in response to changes in market conditions, business assumptions or processes, to maintain accuracy and relevance.
- Adjustments to model outputs: Adjustments, including expert-opinion-based revisions or the application new restrictions, are made to improve model accuracy and address biases or limitations.
- Process enhancements: Additional controls or validation measures are introduced to further reduce model risk.

### 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.

In March 2024, the Group entered Armenia through the acquisition of Ameriabank. As the Group expands its geographic footprint, it recognises that this introduces new emerging risks that require proactive monitoring and mitigation. The investments in new geographies introduce new strategic risks – including that of failure to realise the upside potential from the acquisition and/or failure to integrate new subsidiaries successfully into the Group. The integration of Ameriabank has been a regular discussion topic during Board meetings and is one of the key focus areas for the Group's Executive Management.

**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.

**Focus on customers and innovation:** To mitigate strategic risks, the Bank maintains a strong focus on incorporating customer feedback in decision making and scanning the competitive landscape globally to ensure the Bank rolls out relevant and innovative products and offerings. These initiatives not only address current needs but also create a strong foundation for future client growth.

**Monitoring:** The Bank conducts 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:** 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/or brand image due to negative consequences arising from internal actions or external events.

**Mitigation:**

**Risk appetite:** The Bank has defined 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 internal policies and procedures.

To protect and maintain the strength of the brand, 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.

The Bank also engages with its customers on information security-related matters through multiple channels, including website, digital platforms and text messages. The Bank regularly creates and shares content, including articles, interactive games and questionnaires through various media. The Bank supports and contributes to the development of information security in Georgia by regularly participating in collaborative efforts with 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 its stakeholders, the Bank has 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 the 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 the Bank's 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 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:

- Conducting research on environmental and social risk assessment methods.
- Implementing and updating environmental and social policies, procedures and methods.
- Identifying, assessing, managing and mitigating environmental and social risks for the Bank's clients, based on a standardised due diligence process.
- Identifying climate-related opportunities and classifying green loans.
- Calculating financed emissions.
- Supporting other departments to implement environmental and social and climate-related tasks.
- Preparing environmental and social disclosures.

**Climate-related risks mitigation:** The Bank has integrated climate-related risks into its risk management framework and business resilience assessments. The Bank is working on each of the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

The Bank has focused on mitigating climate-related risks by:

- Identifying and addressing sector- and location-specific climate risks for business clients, as part of loan appraisal and origination processes, as well as the environmental and social risk management process;

- Expanding climate scenario analysis toolkit and deepening the knowledge of climate change and climate policy in Georgia and the global implications;

- Collecting relevant data, including on output produced and energy consumed, and calculating Scope 3 financed emissions for some GHG-intensive corporate clients;

- Identifying and reporting on transactions aligned with the NBG's Green Taxonomy (from January 2023);

- Developing sectoral E&S policies to address specific high-risk industries which may have high adverse impact on people and/or the environment.

- Facilitating climate-related disclosure; and

Raising climate finance awareness among clients and implementing training for employees.

### 4.1. Strategy

JSC Bank of Georgia (the "Bank", "Bank of Georgia" or "BOG"), a systemically important and universal bank in Georgia, is a digital banking leader on the local market, serving more than 2.0 million monthly active retail customers and more than 115 thousand monthly active business clients as at 31 December 2024. Enabled by high levels of customer satisfaction and the strength of our customer franchise, we have consistently delivered a return on average equity above 20%. We focus on customer relationships – supporting our clients at every step of their journeys, creating products and services that fulfil their needs and delivering positive experiences across different touchpoints. We are committed to creating shared opportunities and building long-term value – underpinned by the highest standards of corporate governance and a strong risk management framework and guided by our purpose – helping people achieve more of their potential.

Bank of Georgia's business consists of three segments: (1) Retail Banking (RB) operations, comprising sub-segments that serve mass retail (Mass Retail), and mass affluent and high-net-worth clients (SOLO and Wealth Management, respectively, together referred to as Premium Banking); (2) SME (small and medium-sized enterprises) Banking operations, serving small and medium businesses; (3) Corporate Banking (CB) operations serving large businesses.

We have defined a few strategic objectives that are expected to underpin the sustainable value creation at the Bank:

1. **The main bank**: Being the main bank in customers' daily lives by leveraging the digital and payments ecosystems
2. **Excellent customer experience**: Anticipating customer needs and wants and providing relevant products and services
3. **Profitable growth**: Growing the balance sheet profitably and focusing on segments with high growth potential

Our medium-term targets include achieving a return on average equity of at least 20% each year and achieving annual growth in loans to customers, factoring and finance lease receivables portfolio of approximately 10%.

#### Year in Review: Empowering Individuals

We serve individual clients through the Retail Banking segment, which comprises Mass Retail and Premium Banking – with the latter consisting of our SOLO (mass affluent banking) and Wealth Management (WM) divisions. We served 2.0 million monthly active customers as at 31 December 2024.

Bank of Georgia maintained its leadership positions in retail banking throughout 2024, growing the customer franchise, reinforcing its competitive advantages in daily banking, and ensuring customers received high-quality service with personalised offerings and relevant products. The key drivers of customer franchise success and growth remained our globally acclaimed **digital channels**, **payments** solutions, and **loyalty** programme.

#### Portfolio dynamics

We demonstrated significant growth in both loans and deposits in the Retail Banking segment in 2024. Deposit growth of 12.2% y-o-y in constant currency further strengthened our leading market position – as at 31 December 2024, 45.4% of individual deposits were held at Bank of Georgia, up 0.1 ppts percentage points y-o-y. This leading position in retail deposits provides us with a stable funding source.

As at 31 December 2024, net loans to customers in the Retail Banking segment stood at GEL 10,203m, an increase of 19.5% y-o-y in constant currency. The main drivers of growth were consumer loans, followed by mortgages.
Portfolio risk parameters indicate a very healthy loan portfolio. The NPL ratio stood at 1.6% as at 31 December 2024, down 0.3 ppts y-o-y, while the cost of credit risk ratio was 0.4%, compared with 1.0% in 2023.

#### BOG APP – the go-to financial mobile app

The BOG App is the most popular financial application in Georgia, with 800 thousand retail customers using it daily and 1.6 million retail customers (equivalent to 43.2% of Georgia's population of 3.7 million) using it at least monthly. This level of adoption underscores the app's high market penetration. It is a comprehensive financial superapp that fulfils both financial and lifestyle needs of our clients.

Bank of Georgia was recognised at the World's Best Digital Bank by Global Finance in 2024. Our technological success has been underpinned by customer-centricity. We prioritise listening to our customers. We gather feedback through focus groups, surveys, usability testing, tree testing and other research methods to deliver relevant and innovative products. In 2024, to enhance our digital channels we conducted we conducted more than 200 research studies involving more than 30,000 participants.

More than 99% of all transactions happen outside of branches, while some product sales still happen in branches. Over the past few years, the share of products sold digitally has increased significantly, standing at 62% in the fourth quarter of 2024 (the decrease vs 70% in 4Q last year is due to the effect of gamification campaign in the fourth quarter of 2023, but the result is still significantly above the 45% average during the three quarters of 2023). While we made significant progress in loan and deposit offloading, significant number of cards are still ordered in branches. The card delivery process has also been a pain point for our customers. In 2024, we streamlined the card delivery process so that customers now receive automatic notifications at each step, such as when the courier is on the way, when the card is delivered, and so on. Couriers are now required to call customers at least an hour before delivery to confirm the delivery address. Additionally, the delivery company is obliged to make at least three delivery attempts. If all delivery attempts are unsuccessful, only then the card is returned to the branch.

During 2024, we addressed a number of customer requests. Improvements included enabling cash withdrawals with the Amex credit card added to the mobile wallet from the ATM or the QR code scanned with the BOG APP, sending SMS notifications for loan rejections, and providing 24/7 access to digital lending. We also added a video banking option to the app, allowing customers to call our contact centre for assistance if they encounter difficulties. In 2024, over 28,000 video calls were recorded.

Additionally, we integrated State Revenue Service features enabling customers to receive notifications from and make payments to the State Revenue Service. This service has been activated by more than 180,000 customers, highlighting its significance and value.

**Payments**

Developing our payments business remains one of the key strategic objectives supporting our position as "the main bank" in customers' daily lives. Highly developed payment systems offer several advantages: 1) when customers use card transactions instead of cash, it gives us an opportunity to better analyse their behaviour and provide more relevant banking products; 2) payments generate commission income, creating a stable and non-volatile revenue stream for the Bank; and 3) customers who use our payment services become more loyal and are highly likely to choose Bank of Georgia if they need other banking products.

Using Bank of Georgia for payments also offers advantages for our customers: 1) they accumulate loyalty points (PLUS or MR) for each transaction made at a BOG POS terminal; 2) they receive cashback or discounts at a variety of merchants; and 3) they have better visibility of their personal finances through the Personal Finance Manager embedded in the BOG APP.

Customers can make payments using a physical card as well as via Google Pay, Apple Pay, with PLUS or MR points, via QR code, and using Buy Now, Pay Later (BNPL).

We view cash as the primary competitor in the payments business. We have two main success criteria for the payments business - Payment MAU and the share of cash withdrawals in total transactions. Payment MAU measures the number of retail customers who used Bank of Georgia's card to make at least one payment within a month. We introduced cash withdrawals in total transactions as a KPI in 2023, with a target of 25% or lower (where lower is better). The cash withdrawals in total transactions in December 2024 was 25.3% (down 2.5 ppts y-o-y).

The BNPL service was launched for online sales in 2022 and in-store in 2023, and has gained popularity among our customers by allowing them to purchase items immediately and pay for them in interest-free instalments over four months. We consider BNPL a payment method but we set the maximum BNPL limit as GEL 5,000 – customers can activate and view their limits in the BOG APP. In 2024, 78 thousand unique clients used BNPL.

### Loyalty

Our flagship Loyalty programme, PLUS, is built on two main pillars: tiers and tier-linked benefits. Customers are assigned to tiers based on their banking activity, with each tier offering specific benefits. The primary benefit and key driver of customer engagement within these tiers is PLUS points.

Customers accumulate PLUS points with every debit card payment made at BOG POS terminals. These points can be redeemed for payments and used as regular currency.

Our second programme, Membership Rewards (MR), is linked to American Express credit cards. Customers earn MR points for every GEL spent via credit cards, which can be redeemed for payments or exchanged for PLUS points.

In 2024, we revamped the PLUS programme to enhance customer experience and engagement. We replaced the 6-month tier cycles with simpler monthly cycles and targets. The new programme features four tiers, each offering more points per transaction as customers move up. This redesign emphasises simplicity, integration of key products, value-based rewards, and ease of use.

Each year, we celebrate the PLUS birthday, during which clients' PLUS points double. In 2024, 59 thousand unique clients exchanged PLUS points during the PLUS anniversary and made 103 thousand transactions – highlighting the importance of our loyalty programme to our clients.

### Mass Retail

The strength of our mass retail offering is built on a solid position in everyday banking, supported by the world's best digital banking service (as recognised by Global Finance in 2024), a generous loyalty programme and a strong position in payments.

To address the unique needs of each client we use a sub- segment approach with our commitment to financial inclusion at the heart of everything we do. By tailoring our services to the specific requirements of each group, we get a comprehensive view of their needs and can more effectively serve various sub- segments including self-employed clients, ethnic minorities, youth, emigrants, and teachers.

As we move into 2025, our strategy will continue to focus on reaching underpenetrated and underbanked populations, ensuring more individuals and communities have access to the financial tools and support they need to thrive.

### Self-employed borrowers

Self-employed clients do not have a fixed salary, which previously made it difficult to assess their financial condition and limited our ability to offer relevant products. In 2024, with the implementation of new validation models, we began analysing clients' income and approving limits for various credit products. To better meet their needs, we also made banking products accessible to self-employed clients through the BOG App.

As a result, the number of self-employed borrowers increased by 15.4% y-o-y, reaching 63.1 thousand as at 31 December 2024 vs our KPI of 60,000. The loan portfolio for self-employed borrowers stood at GEL 700.5 million as at 31 December 2024, marking a 31.8% y-o-y increase.

### Ethnic minorities

According to the latest census, ethnic minorities make up 13.2% of Georgia's population. This group has historically been underserved, and, in some areas, challenges with the Georgian language have created barriers to banking and financial inclusion.

To meet the needs of ethnic minorities in Georgia's regions, we introduced Turkish, Azeri, and Armenian languages in the BOG App in 2024 and, as at 31 December 2024, 6 thousand Turkish, 5 thousand Azeri, and 1 thousand Armenian versions had been activated. The introduction of these new languages also helped attract up to 5 thousand new digital monthly active users.

### Emigrants

Georgian emigrants around the world make a significant contribution to the national economy. In 2024, remittances to Georgia reached US$ 3.4 billion, representing 3.4% of the country's GDP. Recognising their strong ties to Georgia and unique financial needs, particularly regarding mortgages, we introduced a fully digital agreement process in 2024. This allows customers to sign mortgage and loan contracts online, eliminating paper documents and enhancing accessibility and efficiency. This is especially beneficial for emigrants, who can now secure mortgage loans remotely via video banking, without needing a local representative.

To further enhance the banking experience for our emigrant customers, we also integrated a remittance sending function into our BOG App, enabling seamless international transfers. These enhancements provide greater convenience, flexibility, and financial autonomy, regardless of their location.

### Youth

Youth represent a vital segment for us, as we see them not only as customers but as the foundation of future financial independence in Georgia. By focusing on school and university students, we aim to empower the next generation with the tools and knowledge needed to build strong financial habits, such as budgeting and saving.

We offer free daily banking services, tailored benefits, and relevant offers—including free or discounted public transport rides—to support their journey toward financial literacy. We believe that fostering financial confidence from an early age sets the stage for smarter money management and a more secure future.

Launched by Bank of Georgia in 2022, sCoolApp is a unique financial mobile app designed specifically for school students. As their primary daily banking channel, sCoolApp keeps children safe with end-to-end security, spending alerts, customised spending limits and in-app parental controls.

In 2023, we launched the highly popular gamification campaign called "Other Universe", with over 80% of monthly active users completing at least one mission.

The first phase was successfully completed in 2024, helping familiarise kids with the app's features and introduce them to the basics of navigating financial services—an important step in building early financial literacy. In 2025, we aim to roll out an enhanced gamification module designed to drive higher daily engagement and deepen user interaction with the app.

Last year we set an ambitious target of reaching 150,000 MAU for our sCoolApp – and as at 31 December 2024 we reached 146,000, just shy of our target. For 2025, we are aiming for 185,000 MAUs, with a dual focus on increasing user acquisition and enhancing daily engagement.

To measure the growing engagement of school students, we closely track the Payment MAU and the usage of sCool Card, ensuring it continues to meet their needs and encourages greater financial involvement. The number of active sCool Card holders as at 31 December 2024 was 194,000 (up 36.9% y-o-y), and the sCool Card Payment MAU was 165,000 (up 41.8% y-o-y).

The sCool Card is designed to provide students with a seamless and rewarding banking experience, offering a variety of exclusive benefits. These include free SMS, mobile, and internet banking, no fees for withdrawals at BOG ATMs, complimentary public transportation in Tbilisi and Batumi, discounts in transport in Zugdidi and Rustavi, and the ability to earn sCool points. The card is easily accessible and can be ordered online or through sCoolApp.

### Students

University students are an important segment for us and we design special offers tailored to their needs. We offer a dedicated Student Card – a free debit card– which was used by 174 thousand students in December 2024. It comes with benefits such as free SMS, mobile and internet banking, as well as public transport discounts.

In 2024 we enhanced our offerings for students by introducing non-personalised Student Cards, allowing students to instantly activate plastic cards, and partnered with Evex Hospitals to launch a healthcare programme providing special pricing and discounts on medical services for Student Cardholders.

Recognising the importance of loyalty point accumulation for the youth segment, we also further incentivised students by giving two PLUS points for every GEL spent with the Student Card – matching the benefits offered to highest-tier mass retail customers.

The number of active Student Card holders as of December 2024 was 220,000 (up 12.2% y-o-y).

### Premium Banking

Premium Banking provides a comprehensive range of traditional banking services, personalised financial solutions, and access to exclusive lifestyle benefits, including select events and special partner offers. It is structured into two key divisions: SOLO, which serves the mass affluent segment, and Wealth Management, which focuses on high-net-worth clients, offering tailored financial support and wealth management services.

### SOLO

SOLO is tailored for mass affluent clients, offering three exclusive packages designed to meet diverse needs: SOLO CLUB, SOLO Premium, and SOLO X.

#### SOLO CLUB

The most exclusive package, offering all SOLO Premium benefits plus a personal concierge and the American Express Platinum card for unmatched lifestyle and travel privileges.

#### SOLO Premium

A balanced packaged between banking and non-banking services. It includes high-class debit cards, offering global privileges for travel and financial benefits for daily transactions. Customers also earn higher loyalty points on every transaction and gain exclusive access to SOLO-curated events, such as talks and masterclasses.

#### SOLO X

A digital-first premium banking solution with nearly all SOLO Premium benefits, tailored for clients who prefer independent banking and do not need a dedicated personal banker. Launched in 2023, SOLO X has rapidly grown in popularity.

In 2024, we introduced goal-based banking for SOLO CLUB members, positioning bankers as trusted advisers. With client consent, bankers analyse their finances and understand their individual goals, providing tailored recommendations based on income, expenses, and financial aspirations. This personalised service will expand to SOLO Premium clients in 2025.

In 2024, client requests for SOLO Concierge services increased by 95% compared with 2023, reflecting the value of this offering. SOLO Concierge is available exclusively to SOLO CLUB members and elevates clients' lifestyles with exceptional care. Members gain access to premium events, unique opportunities, and expert advice on dining, entertainment, and lifestyle activities. By efficiently managing everyday tasks, SOLO Concierge allows clients to focus on what matters most, blending convenience with sophistication.

In 2024 we provided 1,100 SOLO-specific offers, which were used by 83 thousand clients. To ensure the majority of our clients benefit from such offers, we include a wide range of options covering culture and art, education and entertainment for clients' children, hobby-based activities, discussions and meetings with various professionals, and international and local travel. We launched a Book Club in 2024, where clients can meet writers and engage in literary discussions.

While client acquisition continues to be a key priority, in 2025 our efforts will shift towards deepening client relationships by increasing product adoption per client. This approach not only enhances client value but also strengthens long-term engagement. To support this strategy, we continue investing in equipping our bankers with advanced knowledge and cutting- edge tools, enabling them to provide more personalised and insightful financial solutions tailored to individual client needs.

### Wealth management

The Wealth Management business provides private banking services and offers investment products to high-net-worth individuals and their families. Additionally, it delivers exceptional lifestyle opportunities tailored to clients' unique needs and aspirations.

## Empowering Business Customers

We provide banking services to 116 thousand monthly active legal entities (that is businesses), encompassing individual entrepreneurs, small and medium-sized enterprises as well as large corporate clients. Although these clients are divided between the SME Banking and Corporate Banking segments, they use the same digital channels and payment acquiring solutions that Bank of Georgia has developed to fulfil the financial and daily banking needs of businesses.

As of December 2024, Bank of Georgia had 116,00 monthly active legal customers (up 18.9% y-o-y). As at 31 December 2024, the number of monthly active digital users had reached 93 thousand, up 26.2% y-o-y – that is 80.4% of all monthly active business clients, underscoring the high level of digital uptake. We are focused on developing both the mobile app and internet platforms for businesses, as people in different roles within a business prefer to use each channel depending on their needs.

Approximately 99% of transactions are conducted through digital channels. However, product sales, especially on the lending side, through digital channels for business customers remain at a low level, presenting significant growth opportunities. This year, we launched an end-to-end unsecured digital loan solution for legal entities. While digital loan offloading was at 2% as of December 2024, we see potential for growth in the coming years and will focus on increasing digital loan portfolio in the coming years.

## Merchant solutions

Bank of Georgia is the leading payments acquirer in the country. By prioritising user experience and service quality, BOG has focused on promoting digital payments – encouraging more individuals to adopt cashless payment methods and expanding its network of merchant clients. Furthermore, we actively support merchants in embracing digitalisation, fostering the growth of e-commerce businesses in Georgia.

Another digital platform – Business Manager was launched in 2023, integrating Ads Manager, Payment Manager and API Manager – and delivered promising results in 2024. Users can manage payments, access transaction analytics, launch and promote campaigns targeting Bank of Georgia's retail customers, and use Bank of Georgia's API services.

In 2024, over 500 offers were launched through Ads Manager, with 36.3% representing repeat usage. The platform's adoption has proven beneficial for businesses by facilitating offer promotion and driving sales, while retail clients enjoy a broader selection of incentives including cashback, discounts and multiplied loyalty points

A key strength of our payments business is our leading position on both the issuing and acquiring sides. On the issuing side, customers prefer to pay with BOG cards on BOG POS terminals because they can earn loyalty points – creating a virtuous cycle.

We provide merchants and customers with a wide range of online and offline payment solutions, including various types of POS terminals, loyalty points, installment plans, BNPL, as well as Apple Pay, Google Pay, and more.

## SME Banking

As at 31 December 2024, SME Banking's net loans to customers stood at GEL 5,011m, up 10.1% y-o-y and up 9.3% y-o-y in constant currency.

The SME portfolio is highly diversified, with the largest portion consisting of trade, service, agriculture and real estate management sectors. SME Banking's NPL ratio stood at 3.5% as at 31 December, down 0.1 ppts y-o-y. The cost of credit risk for the full year was 0.3% versus 0.7% in 2023.

59.6% of the loan portfolio is in GEL, 38.1% is in foreign currency exposed to FX risk, while 2.2% is in foreign currency not exposed to FX risk as borrowers earn income in foreign currency.

As at 31 December 2023, SME Banking's deposit portfolio stood at GEL 2,147m, reflecting a 13.2% increase in constant currency. 40.6% of the deposit portfolio was dollarised, up 4.4 ppts y-o-y.

## 2024 developments

Our SME clients are highly digital, with 79.9% of our monthly active customers using business digital channels at least monthly as of December 2024.

In 2024, we launched the first fully digital unsecured loan designed for SME customers. As at 31 December 2024, the loan portfolio balance had reached GEL 3.5 million.

One of the pain points for our SME customers was the need to visit a branch and sign a contract after loan approval. In response to customer feedback, we introduced a digital signature process in our business digital channels, allowing existing SME borrowers to complete the process without visiting a branch.

Approximately 65% of newly registered businesses choose to open their bank accounts with Bank of Georgia. We further streamlined and simplified the onboarding process for legal entities in 2024, adding automation when opening an account – this process, which previously took an average of three hours, is now completed in just two minutes. This option is available for resident individual entrepreneurs and resident simple LLCs (where 'simple' means the founder must be a resident and an individual entrepreneur).

Following registration we offer a comprehensive onboarding journey, providing tailored offers and value-added services designed to meet the specific needs of our new clients. To enhance the use of our business mobile and internet apps, we have also introduced chatbot and video-banking functionalities in our digital channels.

### Value-added services

To support our SME clients, we take a holistic approach combining financial assistance with a range of value-added services – all of which are consolidated into a single platform, Business 360 (launched in early 2025). This simplifies navigation for businesses and promotes relevant services tailored to their specific needs – including targeted capacity-building programmes in areas such as marketing and leadership, as well as expert advice to help businesses navigate the market effectively.

Clients can also access the Accounting Development Programme, initiatives supporting women entrepreneurs, B2B events, business courses, and other programmes designed to foster growth and innovation. We also offer valuable introductions and networking opportunities that can help clients expand their reach and build connections.

### Corporate Banking

As at 31 December 2024, CB's net loans to customers stood at GEL 8,323m, up 28.5% y-o-y or 26.3% in constant currency – the highest growth rate among GFS segments.

CB's loan portfolio remains healthy, with the NPL ratio at 2.0% as at 31 December 2024 – up 0.3 ppts y-o-y, primarily driven by the default of a single corporate borrower. In 2024, the cost of credit risk ratio was 0.4%, the same figure as in 2023, further underscoring the high quality of the loan book.

CB's loan book is well-diversified, spanning all sectors of the Georgian economy. The largest sectors by gross loans include construction development, energy, real estate management, hotels and tourism. The top 10 borrowers represented 6.6% of Bank of Georgia Group's total loan book, down 0.5 ppts y-o-y.

71.7% of the loan portfolio is dollarised – however, 38.9% of the total portfolio is not exposed to FX risk as borrowers earn income in foreign currency.

As at 31 December 2024, CB's deposit portfolio stood at GEL 6,585m, up 29.3% in constant currency. 34.3% of the deposit portfolio was dollarised, up 4.1 ppts y-o-y.

### 2024 developments

CB clients often require sophisticated, tailor-made loan solutions, requiring a thorough financial analysis for most applications. To streamline this process, in 2024 we implemented a fast-track application system designed to identify low-risk clients based on predefined criteria. This improvement allows us to generate credit reports for eligible clients within a day – compared with the traditional process, which can take longer. As a result, we have significantly reduced the time-to-approval for certain loan disbursements, improving efficiency and client satisfaction. We plan for about 30% of loan applications to be processed through this fast-track mechanism in 2025, further enhancing our ability to respond quickly to client needs.

Our focus in 2025 will be on further digitisation to reduce waiting times and enhance accessibility, making banking more efficient and convenient for our clients.

## 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 2.0 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 climate-related risks and opportunities, and putting in place practices to identify, assess, monitor and manage climate-related 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 2024, available as of the date of this Report on JSC Bank of Georgia's official website – [www.bankofgeorgia.ge](http://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 of 31 December 2024, 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 14.9% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 5.75% (Pillar 1 requirements), and Pillar 2 requirements of 4.64%);
- a Tier 1 Capital ratio of 17.1% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 5.75% (Pillar 1 requirements), and Pillar 2 requirements of 5.3%); and
- a Total Capital ratio of 19.9% (comprising core Total Capital requirement of 8.0% and combined buffer of 5.75% (Pillar 1 requirements), and Pillar 2 requirements of 6.2%).

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. Lari funds with a remaining maturity of more than 365 days are not included in the borrower's funds for the purposes of determining minimum reserves. The minimum reserve requirement for foreign currency funds is determined individually for each commercial bank, depending on the level of dollarisation of deposits. Foreign currency funds with a remaining maturity of more than 730 days are not included in the borrower's funds for the purposes of determining minimum reserves.

The minimum reserve requirements for:

(1) foreign currency borrower funds with a remaining term of 365 to 730 days 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 is between 40 to 70%; and

(2) for foreign currency funds other than those covered under point (1) above are set: (i) at 25% - 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. In December 2024 the actual MREL ratio of the Bank increased to 19.2% compared to February 2024 ratio - 17.7%.

### 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 2024** | **31 December 2023** |
|---|---|---|
| Qualifying common share capital | 27,994 | 27,994 |
| Share premium on qualifying common share capital | 140,203 | 150,787 |
| Accumulated other comprehensive income | 58,206 | 34,891 |
| Retained earnings | 5,013,707 | 4,209,886 |
| **Common Equity Tier 1 Capital prior to regulatory adjustments** | **5,240,111** | **4,423,557** |
| Revaluation reserves on assets | (58,441) | (34,984) |
| Intangible assets (Including Goodwill) | (189,149) | (166,556) |
| Investments in own shares | (11) | (11) |
| Investments in subsidiaries/affiliates (Commercial Organizations) | (9,538) | (9,538) |
| Investments in the capital of banking, financial and insurance entities | (12,518) | (7,946) |
| **Common Equity Tier 1 Capital: regulatory adjustments** | **(265,085)** | **(223,607)** |
| **Common Equity Tier 1 Capital** | **4,975,025** | **4,199,950** |
| **Additional Tier 1 capital** | **982,380** | **403,410** |
| **Tier 1 capital** | **5,957,405** | **4,603,360** |
| Subordinated Debt | 462,428 | 499,018 |
| General Reserves | - | - |
| **Tier 2 Capital prior to regulatory adjustments** | **462,428** | **499,018** |
| **Tier 2 Capital** | **462,428** | **499,018** |
| **Total Regulatory Capital** | **6,419,832** | **5,102,378** |
| **Risk Weighted Assets** | **29,080,593** | **23,062,909** |
| ***Common Equity Tier 1 ratio*** | 17.1% | 18.2% |
| ***Tier 1 ratio*** | 20.5% | 20.0% |
| ***Total capital adequacy ratio*** | 22.1% | 22.1% |
| Common Equity Tier 1 ratio requirement | 14.9% | 14.5% |
| Tier 1 ratio requirement | 17.0% | 16.7% |
| Total capital adequacy ratio requirement | 19.9% | 19.6% |

In April 2024 JSC Bank of Georgia issued USD 300 million (GEL 800,970) 9.5% perpetual subordinated callable additional tier 1 notes.

In June 2024 JSC Bank of Georgia fully repaid USD 100 million (GEL 283,570) additional tier 1 notes issued in 2019.

## 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 Lion Finance Group PLC ("**LFG 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 LFG 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.<br>• To reflect the responsibilities of time commitment dedicated by Supervisory Board Members. | • All fees are paid in cash on a quarterly basis.<br>• 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.<br>• Supervisory Board Members receive a base fee. Additional Committee fees are payable to compensate for time spent discharging Bank duties and Committee duties.<br>• 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.<br>• 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 LFG PLC fees for all Non-Executive Directors which may be paid under LFG PLC's Articles of Association is GBP 750,000.<br>• A specific maximum has not been set for the individual base cash fee.<br>• The Senior Independent Supervisory Board Member receives a higher base fee which reflects the extra time commitment and responsibility.<br>• The Chairman receives a fee which reflects the extra time commitment and responsibility. The Chairman does not receive Committee fees.<br>• The fees paid to each Supervisory Board Member will be disclosed in the relevant reporting year's Annual Report of LFG 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, each Director covered by Georgian laws 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 LFG 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 LFG 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 LFG 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 | 2025 | Jan-25 | Jan-26 | Jan-27 | Jan-28 | Jan-29 | Jan-30 |
| **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

LFG 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.

2025 KPIs include:

- Return on Average Equity (ROAE)
- Cost to Income ratio
- Cost of Risk ratio
- Profit before tax (PBT)
- GenAI engagement
- 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 LFG.

Supervisory Board leans on the LFG 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 LFG PLC board, submit the proposal to the shareholders of LFG 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** | 2025 | Mar-26 | Jan-27 | Jan-28 | Jan-29 | Jan-30 | Jan-31 | Jan-32 | Jan-33 |
| **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% released 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 LFG 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 LFG PLC, normally made after the completion of LFG 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 LFG 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 LFG 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** | 2024 | Jan-24 | Jan-25 | Jan-26 | Jan-27 | Jan-28 |
| **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

LFG PLC discloses in its annual report the LFG 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.

2025 KPIs include:

- Return on Average Equity (ROAE)
- Cost to Income ratio
- Cost of Risk ratio

- Profit before tax (PBT)
- GenAI engagement
- NPS
- eNPS
- ESG/impact metrics
- Individual Key Business Objectives.

The KPIs may be subject to modification to further align them with the LFG Group strategy annually, and the thresholds and targets of KPIs are normally set by the LFG 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 LFG PLC board, submit the proposal to the shareholders of LFG 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** | 2025 | Mar-26 | Jan-27 | Jan-28 | Jan-29 |
| **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** | 2025 | Mar-26 | Jan-27 | Jan-28 | Jan-29 |
| **Vesting & holding of Discretionary Share Award** | | 100% Granted;<br>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' performances, 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 LFG 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 14 employees, excluding the Management and Supervisory board, whose remuneration for the 2024 fiscal year exceeded GEL 1 million.

**References**

| | |
|---|---|
| **The Bank** | JSC Bank of Georgia |
| **LFG** | Lion Finance Group PLC |
| **The Directors** | Members of the Management Board |
| **The "Report"** | Pillar 3 Annual Report 2024 |
| **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 |
| **Payment MAU** | The number of retail customers who made at least one payment using a Bank of Georgia card in the past month |