# PILLAR 3
# ANNUAL REPORT
# 2023

TBC

# Contents

## 1. Summary

According to the Order #92/04 of the President of the National Bank of Georgia "Rule for Disclosure of Information by Commercial Banks within the Framework of Pillar 3", commercial banks are obligated to disclose the qualitative and quantitative information related to their risk profile and risk appetite, corporate governance and remuneration policy on an annual basis.

This Pillar 3 Annual Report (hereafter "the Report") is prepared in Georgian and English languages and is available on the web pages of TBC Bank and the National Bank of Georgia.

## 2. JSC TBC Bank's Management Statement

The Management is required to prepare the financial statements of JSC TBC Bank (hereafter the "Bank") for each financial year in accordance with the International Financial Reporting Standards (the "IFRS"). The annual financial statements present fairly the financial position and performance of the Bank for that period. The Management must not approve the financial statements, unless they are satisfied that they give a true and fair view of the financial statements of the Bank for that period.

The Management consider, that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Management also believes, that the financial statements have been prepared on going concern basis.

In addition, the Management is required to prepare report in line with all the requirements of "Rule for Disclosure of Information by Commercial Banks within the Framework of Pillar 3" (hereafter the "Report") approved by the Order #92/04 of the President of the National Bank of Georgia, on 22 June, 2017. The Report is prepared in full compliance with the internal processes and controls agreed with the Supervisory Board of JSC TBC Bank. The rule does not require the Report to be audited by external auditor as a result the information given in the report is unaudited.

The Report was approved by the Supervisory Board on 2 April 2024 and signed on its behalf by:

Giorgi Megrelishvili
Chief Financial Officer

Nino Masurashvili
Chief Risk Officer

## 3. Background and Group Structure

TBC Bank JSC (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro-operations within Georgia. The Bank is a parent of a group of companies (hereafter the "Group") incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 123 (2022:129) branches[1] within Georgia.

TBC Bank Group PLC ("TBCG") is a public limited by shares company, incorporated in the United Kingdom. TBCG held 99.88% of the share capital of TBC Bank JSC (hereafter the "Bank") as at 31 December 2023 (2022: 99.88%), thus representing the Bank's ultimate and direct parent company. TBC Bank Group PLC's registered legal address is 100 Bishopsgate, C/O Law Debenture, London, England, EC2N 4AG. Registered number of TBC Bank Group PLC is 10029943.

As of 31 December 2023 and 2022 the Group shareholder structure was as follows:

| | **% of ownership interest held as of 31 December** | |
|---|---|---|
| **Shareholders** | **2023** | **2022** |
| TBC Bank Group PLC | 99.88% | 99.88% |
| Other | 0.12% | 0.12% |
| **Total** | **100.00%** | **100.00%** |

As of 31 December 2023 and 31 December 2022, the shareholder structure of TBC Bank Group PLC by beneficiary ownership interest was as follows:

| | **% of ownership interest held as of 31 December** | |
|---|---|---|
| **Shareholders** | **2023** | **2022** |
| Dunross & Co. | 6.50% | 6.58% |
| Allan Gray Investment Management | 3.88% | 5.66% |
| BlackRock | 4.72% | 3.99% |
| Vanguard Group | 4.39% | 3.91% |
| Fidelity International | 3.02% | 3.88% |
| JPMorgan Asset Management | 3.81% | 3.86% |
| European Bank for Reconstruction and Development | 2.99% | 3.54% |
| Schroder Investment Management | 3.18% | 1.96% |
| Founders* | 15.83% | 16.04% |
| Other** | 51.68% | 50.58% |
| **Total** | **100.00%** | **100.00%** |

* Founders include direct and indirect ownerships of Mamuka Khazaradze, Badri Japaridze.
** Other includes individual as well as corporate shareholders.

[1] Excluding pawnshop units.

***Subsidiaries and associates.*** The consolidated and separate financial statements include the following principal subsidiaries:

| | Proportion of voting rights and ordinary share capital held as of 31 December | | | | |
|---|---|---|---|---|---|
| **Subsidiary name** | **2023** | **2022** | **Principal place of business or incorporation** | **Year of incorporation** | **Principal activities** |
| United Financial Corporation JSC | 99.53% | 99.53% | Tbilisi, Georgia | 2001 | Card processing |
| TBC Capital LLC | 100.00% | 100.00% | Tbilisi, Georgia | 1999 | Brokerage |
| TBC Leasing JSC | 100.00% | 100.00% | Tbilisi, Georgia | 2003 | Leasing |
| TBC Kredit LLC | 100.00% | 100.00% | Baku, Azerbaijan | 1999 | Non-banking credit institution |
| TBC Pay LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2008 | Payment Processing |
| TBC Invest-Georgia LLC | 100.00% | 100.00% | Ramat Gan, Israel | 2011 | Financial services |
| Index LLC[2] | N/A | 100.00% | Tbilisi, Georgia | 2009 | Ecosystem |
| TBC Asset Management LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2021 | Asset management |

*****Index LLC was sold in 2023 to the TBC Group member company T Net LLC.

The Group has investments in the following associates:

| | Proportion of voting rights and ordinary share capital held as of 31 December | | | | |
|---|---|---|---|---|---|
| **Associate name** | **2023** | **2022** | **Principal place of business or incorporation** | **Year of incorporation** | **Principal activities** |
| CreditInfo Georgia JSC | 21.08% | 21.08% | Tbilisi, Georgia | 2005 | Financial intermediation |
| Tbilisi Stock Exchange JSC | 28.87% | 28.87% | Tbilisi, Georgia | 2015 | Finance, Service |
| Georgian Central Securities Depository JSC | 22.87% | 22.87% | Tbilisi, Georgia | 1999 | Finance, Service |
| Georgian Stock Exchange JSC[3] | 17.33% | 17.33% | Tbilisi, Georgia | 1999 | Finance, Service |
| Kavkasreestri JSC[3] | 10.03% | 10.03% | Tbilisi, Georgia | 1998 | Finance, Service |

The country of incorporation is also the principal area of operation of each of the above subsidiaries and associates.

[2] Index LLC was sold in 2023 to the TBCG Group member company T Net LLC.
[3] The Group has a significant influence on Georgian Stock Exchange JSC and Kavkasreestri JSC with representatives in management board.

The Group’s corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.

| | Proportion of voting rights and ordinary share capital held as of 31 December | | | | |
|---|---|---|---|---|---|
| **Company name** | **2023** | **2022** | **Principal place of business or incorporation** | **Year of incorporation** | **Principal activities** |
| TBC Invest International Ltd[4] | 100.00% | 100.00% | Tbilisi, Georgia | 2016 | Investment Vehicle |
| University Development Fund[4] | 33.33% | 33.33% | Tbilisi, Georgia | 2007 | Education |
| Natural Products of Georgia LLC[4] | 25.00% | 25.00% | Tbilisi, Georgia | 2001 | Trade, Service |
| TBC Trade LLC[4] | 100.00% | 100.00% | Tbilisi, Georgia | 2008 | Trade, Service |
| Diversified Credit Portfolio JSC | 100.00% | 100.00% | Tbilisi, Georgia | 2021 | Asset Management |
| Globally Diversified bond fund JSC | 100.00% | N/A | Tbilisi, Georgia | 2023 | Asset Management |

[4] Dormant.

## 4. Corporate Governance

According to the Rule N 92/04 of the President of National Bank of Georgia on principles of disclosure of information, in the framework of Pillar 3 by the commercial bank (hereinafter – the "Rule"), in existence of holding governance structure, the Banks should disclose the information about the board of the holding and it's relevant committees, together with the process of decision-making in relation to the Bank itself.[5]

Therefore, since TBC Bank Group PLC (hereinafter "the Company") is the parent company of the JSC TBC Bank (hereinafter "TBC Bank" or "the Bank"), the following chapter comprises the information about the Company.

### 4.1 Board of Directors of the Company

In accordance with subsection 2-c of Article 6 of the Decree N 92/04 of the President of the National Bank of Georgia on rules of Disclosing Information under Pillar 3 for Commercial Banks, the information given in this section will include details of JSC TBC Bank's (hereinafter – "the Bank") parent company – TBC Bank Group PLC (hereinafter the "Company" or "TBC PLC"), together with the Bank. The principal decision-making body of TBC PLC is the Board of Directors (hereinafter "PLC Board"). At the same time, the Bank is also governed by the Supervisory Board of the Bank (hereinafter "Supervisory Board"). Therefore, there are two supervisory bodies within the Group, however the competences of the PLC Board, the Supervisory Board and their respective committees are effectively balanced which ensures that their functions are divided accordingly, whether these relate to the matters of the TBC PLC, or of the Bank.

The Supervisory Board and the PLC Board have the same composition in terms of non-executive membership. PLC Board and Supervisory Board comprise of eight independent non-executive members - Arne Berggren – the Chairman, Tsira Kemularia (Senior Independent Non-Executive Member - SID), Per Anders Fasth, Eran Klein, Thymios P. Kyriakopoulos, Nino Suknidze, Rajeev Sawhney and Janet Heckman. In addition, PLC Board comprises executive member, Vakhtang Butskhrikidze.

In accordance with the requirements of the UK Corporate Governance Code, members of the PLC Board are re-elected annually for a term of one year at the General Meeting of Shareholders of the TBC PLC, therefore, all members of the PLC Board will be standing for either election or re-election at this year's annual General Meeting.

The PLC Board annually monitors the company's risk management and internal control systems in accordance with the requirements of the UK Corporate Governance Code. At the same time, each member of the PLC Board is obliged to devote requisite time and attention to his / her duties, as necessary. This includes attending meetings of the PLC Board and the relevant committees, as well as participating in conference calls, site visits, and effective e-mail communication. The members of the PLC's Board are also required to familiarize themselves with the meeting materials in advance and devote additional time to group activities, especially during periods of high activity. All members of the PLC Board also undertake a rigorous and tailored induction program organized by the Company Secretary.

The competence of the PLC Board, together with other important matters, also includes development of The PLC's strategy, long-term goals, risk appetite, and annual budget, as well as assessing changes in the Group's capital, share buy-backs, important acquisitions and mergers. The document, which provides information on the skills, experience and competencies of the PLC Board, can be found on the website of the Company, at the following link: https://tbcbankgroup.com/about-us/leadership/board-of-directors/. The matters reserved for the Board can be found at the following link https://tbcbankgroup.com/media/1301/41_-schedule-of-reserved-matters-2.pdf.

[5] Article 6, subsection "c" of the Rule

## Composition of Supervisory Board members of the Company

## Biographies of the members of Supervisory Board

**ARNE BERGGREN**
Chairman

**Joined the Bank in July 2019; appointed as Chairman on 26 February 2021**

**Experience**

- *Experience in international financial institutions and advising governments*
- *Board membership and committee chairmanship experience in other UK-listed banks*
- *Experience in investment banking activities and in leading bank restructurings*
- *Deep understanding of strategic planning and implementation*

Arne has worked in the financial services industry for more than 30 years. He has held several senior leadership and advisory positions at prominent financial institutions, including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. Arne played a leading role in the handling of the Swedish banking crisis in 1991-93 and assisted the FRA in Thailand and FSC/ KAMCO in South Korea during the Asian crisis. Arne has also served as an independent Non-Executive Director in asset management companies in Turkey and Slovenia, and, until recently, in Greece at Piraeus Bank.

**Current External non-executive appointments**

- *Chairman of Hoting Innovations AB*

**Committee membership**

- *Chair of the Corporate Governance and Nomination Committee*
- *Member of the Remuneration Committee*

**TSIRA KEMULARIA, SID**
Senior Independent
Supervisory Board Member

**Joined the Bank in September 2018; appointed as SID on 14 September 2021**

**Experience**

- *More than 23 years of in-depth experience across the energy sector including regulated commodity trading and financial services*
- *Chartered Director with the Institute of Directors in London, UK*
- *Former member of the British-Georgian Society and former Chairwoman of Georgian Community in the UK*
- *Relevant experience and expertise in information security risk management*

Throughout her career, Tsira has held various roles covering market risk management and commodity trading at companies including Dynegy Inc. in the US and UK and at Shell International Trading and Shipping Ltd (STASCO) in London, Russia CIS, and Caribbean operations. Between 2005 and 2016, she served in a broad range of managerial roles covering M&A and Commercial Finance, Group Treasury and Trading and Supply in the UK, Moscow and Barbados. Tsira was previously the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. From 2019 to mid-2022, Tsira held the position of Head of Internal Audit and Investigations for Shell's global Trading and Supply organisation, the world's biggest commodity trading and supply business. In July 2022, Tsira was appointed as a Vice President of Corporate and UK Country Controller responsible for the Shell Group's financial management of the corporate segment. Tsira is a member of the Shell UK Management Board, and a member of Shell UK Country Coordination Team, Chief of Staff for UK Crises Management.

**Current external non-executive appointments**

- *Trustee Director of the British Gas Trustee Solutions Ltd, a closed pension fund (post British Gas acquisition by Shell)*
- *Trustee Director, Shell Trustee Solution Ltd*

**Committee membership and Board roles**

- *Member of the Audit Committee*
- *Member of the Corporate Governance and Nomination Committee*
- *Member of the Remuneration Committee*

**JANET HECKMAN**
Independent Supervisory Board Member

**Joined the Bank in February 2023**

**Experience**

- *Over 30 years experience in corporate, investment and development banking*
- *Extensive expertise in global relationship banking*
- *15 years' experience in operations management*
- *Relevant experience of developing and delivering business plans and strategic change in a wide range of jurisdictions, including across Central and Eastern Europe, North Africa, the Middle East and Central Asia. This included the establishment of key partnerships with national governments.*

Janet was previously the Managing Director for the Southern and Eastern Mediterranean (SEMED) Region at the European Bank for Reconstruction and Development (EBRD). Based in Cairo, she was also the Country Head for Egypt. During her long career at Citigroup, she spent time as EMEA Corporate and Investment Managing Director and held a number of field roles across EMEA, and was responsible for Global Relationship Banking across CEMEA.

**Current external non-executive appointments**

- *Board member and audit committee chair of Astana International Exchange*
- *Board member of Air Astana, Kazakhstan*
- *Board member of Citibank Kazakhstan*

**Committee membership**

- *Chair of the Remuneration Committee*
- *Member of the Risk Committee*
- *Member of the ESG and Ethics Committee*

**ERAN KLEIN**
Independent Supervisory Board Member

**Joined the Bank in July 2021**

**Experience**

- *Extensive experience in banking, credit, capital markets and legal*
- *Significant risk, corporate governance, strategy and structuring experience*
- *Strong Emerging Markets banking and stakeholder management experience*
- *Relevant experience and expertise in information security risk management*

Eran is an experienced international banker and lawyer. Over a period spanning more than two decades, he held senior roles in leading financial institutions, such as Commerzbank, Citibank, ING Financial Markets and Deutsche Bank. Covering both developed and emerging markets, Eran has accumulated valuable knowledge in capital markets, SME finance, retail lending, corporate governance, liquidity and balance sheet management, as well as in risk management, audit and strategy implementation. He previously served as a Non-Executive Director and risk committee chair at Privatbank, the largest bank in Ukraine.

**Current external non-executive appointments**

- *No current additional Board appointments*

**Committee membership**

- *Chair of the ESG and Ethics Committee*
- *Member of the Technology and Data Committee*
- *Member of the Risk Committee*

**PER ANDERS FASTH**
Independent Supervisory Board Member

**Joined the Bank in July 2021**

**Experience**

- *Extensive CEO and senior executive experience, having spent more than 20 years at leading banks and other financial institutions*
- *More than 30 years of accumulated experience as an independent non-executive director*
- *Strong listed corporate governance, leadership and strategic advisory skills*
- *Significant financial reporting, investor relations and internal controls experience*
- *Relevant experience from the financial information technologies (fintech) and credit management industries across Europe*

Over the past 25 years, Per Anders has served as CEO in several companies such as at SBAB Bank, Hoist Finance and European Resolution Capital as well as CFO and other senior executive positions at the leading North-European bank SEB. He has also gained extensive strategic consulting experience having spent 10 years at top-tier consultancies McKinsey & Company and QVARTZ (now Bain & Company).

Per Anders has been a non-executive director of more than 15 financial institutions in Europe. In addition, he has extensive professional experience from having worked in more than 20 European countries as a non-executive director, senior executive and advisor to corporations and governments.

**Current external non-executive appointments**

- *Chairman of Lyra Financial Wealth, a privately held wealth management company*
- *Board member of Atle Investment Management/Services, a privately held investment management company*
- *Board member and audit committee chair of Ukrgasbank, a Ukrainian corporate bank*

**Committee membership**

- *Chair of the Audit Committee*
- *Member of the Risk Committee*
- *Member of the Remuneration Committee*

**THYMIOS KYRIAKOPOULOS**
Independent Supervisory Board Member

**Joined the Bank in July 2021**

**Experience**

- *Extensive experience in global capital markets, regional banking and supervised entities*
- *Expert risk manager, investor, investment banker, and balance sheet optimiser*
- *Operational transformation leadership and crisis management spanning systemic banks and fintech*
- *Strong governance, risk and asset management oversight skills for both listed and quasi-governmental entities*

Thymios is a senior banking executive with considerable international experience. He specialises in operational transformation, balance sheet optimisation, risk management, financial engineering and portfolio management. Thymios was executive general manager and chief risk officer of Piraeus Bank S.A, a leading listed Greek Bank, Managing Director at Goldman Sachs Inc. in the fixed income currencies and commodities trading division, and has held board and executive roles in insurtech, fintech, financial services and advisory sectors.

**Current external non-executive appointments**

- *Board member and chair of the investment committee of the Growthfund, the National Fund of Greece*
- *Board member of Attica Bank, the Greek listed bank*
- *Board member of Agreed Payments SA, the newly licensed fintech business*

**Committee membership**

- *Chair of the Risk Committee*
- *Member of the Audit Committee*
- *Member of the Technology and Data Committee*

**RAJEEV SAWHNEY**
Independent Supervisory Board Member

**Joined the Bank in November 2021**

**Experience**

- *Strong global corporate leadership experience of over 40 years*
- *Significant advisory and executive experience with technology and cybersecurity companies in financial services and other industry sectors*
- *Extensive expertise in Human Resource management*
- *Relevant experience and expertise in information security risk management*

Rajeev has 40 years' experience as a senior corporate growth executive. He specialises in digital technologies and has served in financial services and various other industry sectors in Europe, North America and Asia. Previously, Rajeev held the positions of Executive Chairman and Non-Executive Director of OXSIGHT Ltd, a medical technology innovation company, and an Oxford University spin off. He was formerly a senior advisor to the CEO at global IT services firm Zensar Ltd in the UK and a member of the advisory board at Garble Cloud Inc., a cybersecurity company in Silicon Valley, USA. Prior to that, Rajeev gained strong operational experience as President of HCL Technologies and at the IT services firm focussed on the Banking and Finance sector, Mphasis, a Hewlett Packard company. Rajeev has been on the World Economic Forum expert Task Force on Low-Carbon Economic Prosperity and contributed at the World Economic Forum Summer Davos on climate change deliberations.

**Current external non-executive appointments**

- *No current additional board appointments*

**Committee membership**

- *Chair of the Technology and Data Committee*
- *Member of the ESG and Ethics Committee*
- *Member of the Corporate Governance and Nomination Committee*

**NINO SUKNIDZE**
Independent Supervisory Board Member

**Joined the Bank in November 2021**

**Experience**

- *Strong financial services background*
- *Extensive experience as a leading legal counsel in major financial services sector transactions and listings*
- *Considerable governance, regulatory and risk management experience, including at an LSE-listed company*
- *Experience in advising companies across a range of sectors, including telecommunications, pharmaceuticals, energy and commerce.*

Nino is a business lawyer with over 20 years' experience in the Georgian market. She has a deep understanding of, and expertise in, various areas of practice including banking, finance, corporate, regulation, competition and capital markets. Previously, Nino served as general counsel at JSC Bank of Georgia. Before joining TBC Bank Group plc, she held various positions at the Georgian offices of international law firms Dentons and DLA Piper over a period of more than 11 years. Currently Nino is the managing partner of the law firm Suknidze & Partners LLC.

**Current external non-executive appointments**

- *Vice President at Georgian Chamber of Commerce and Industry*
- *Board member at Care Caucasus, a charity organization in Georgia*

**Committee membership**

- *Member of the Audit Committee*
- *Member of the Corporate Governance and Nomination Committee*

## Committees of the Board of Directors of the Company

The PLC Board has delegated certain responsibilities to, and is supported by, its committees, which oversee and make recommendations on the matters delegated to them. There are six committees within the structure of the PLC Board: Audit Committee, Remuneration Committee, Corporate Governance and Nomination Committee, Risk Committee, Technology and Data Committee and ESG and Ethics Committee. The competences of each committee are determined by their Terms of Reference.

### Audit Committee

The Audit Committee deals with the external auditors, internal controls and financial reporting, as well as communication with the market and with the regulators. The Audit Committee acts independently of management to fulfil its fiduciary duty to shareholders and ensure that their interests are properly protected in relation to the effectiveness of internal controls, financial reporting, and compliance with regulatory requirements and to maintaining an appropriate relationship with external auditors.

- To review the PLC's internal financial and non-financial controls for ensuring the effectiveness of the internal control structure and to review any recommendations on changes to them, and, in conjunction with the PLC's Risk Committee, to assess, manage and monitor the Group's internal control, risk management, compliance and governance functions;
- To monitor the integrity of the financial statements of the Group to ensure that they meet all statutory requirements and appropriate International Financial Reporting Standards and that all areas of judgement are fully considered before recommending to the PLC Board that they give a fair, balanced and understandable position of the TBC PLC;
- To consider the effectiveness and independence of the Group's internal audit activities and its relationship with the external auditors; and
- To make recommendations to the PLC Board in relation to the appointment, re-appointment and removal of the Group's external auditors, and approving their remuneration and terms of engagement.

### Risk Committee

The Risk Committee focuses on the possible risks and capital issues of the TBC PLC. The primary purpose of the Risk Committee is to assist the PLC Board in fulfilling its risk governance and oversight roles and responsibilities.

The Risk Committee is also responsible for ensuring the risk culture is embedded into the culture of the TBC PLC as a whole and supports the Group's risk appetite, covering the extent and categories of risk, which the PLC Board considers as acceptable for the Group.

In seeking to achieve this, the Risk Committee is responsible for reviewing and reporting its conclusions to the PLC Board on the Group's risk management framework, which embraces risk principles, policies, methodologies, systems, processes, procedures and people. It also includes the review of new or material amendments to risk principles and policies, as well as overseeing any action resulting from material breaches of such policy. The Risk Committee works closely with the Audit Committee and schedules joint meetings for common topics.

The Risk Committee advises the PLC Board on strategic transactions, focusing on risk aspects and implications for the risk appetite and tolerance of the Group. The Risk Committee reviews and approves the statement concerning internal risk management and the Group's viability statement included in the PLC's Annual Report. It ensures robust assessment of the emerging and principal risks faced by the Group, including those that would threaten the business model, future performance, solvency and liquidity.

### Remuneration Committee

The Remuneration Committee leads the remuneration-related issues, such as the right level of compensation to attract and retain people and balancing this with the level of compensation that is acceptable for our stakeholders. The Remuneration Committee is responsible for establishing and overseeing the Group's Remuneration Policy principles and considering and approving the remuneration arrangements of the General Director of the TBC PLC and the Bank and the management board members of the Bank (Directors'). The Remuneration Committee shall also oversee any major changes in employee benefits structures within the TBC PLC. The Remuneration Committee is also required to produce a report of the PLC's remuneration policy and practices to be included in the PLC's Annual Report and ensure each year that it is put to shareholders for approval.

### Corporate Governance and Nominations Committee

The Corporate Governance and Nomination (CGN) Committee is responsible for talent management and nomination and succession planning for the PLC Board and the executive team.

The main responsibilities of the CGN Committee, in relation to the development and functioning of corporate governance within the Group, are:

- Approving changes to corporate governance guidelines, monitoring the Group's compliance with such guidelines and applicable legal and regulatory requirements and recommending to the PLC Board such changes or additional actions as it deems necessary;
- Reviewing the independence standards for PLC Board members; and
- Monitoring and evaluating the process for assessing the performance and effectiveness of the PLC Board and its committees (including the annual Effectiveness Self-Review of this Committee);

The main responsibilities of the Committee, in relation to nominations, are:

- Regularly reviewing the structure, size and composition of the PLC Board, including evaluating the current balance of skills, experience, independence and knowledge on the PLC Board, including considering diversity and gender balance;
- Identifying suitable candidates from a wide range of backgrounds, considering and making recommendations to the PLC Board on the composition of the PLC Board;
- Assisting the Chairman of the PLC Board and the Senior Independent member of the PLC Board with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the PLC Board and its committees;
- Making recommendations to the PLC Board on succession planning for the PLC Board over the longer term.

### The Technology and Data Committee

The Technology and Data (T&D) Committee, established in June 2021, helps the PLC Board oversee key enablers of strategy relating to data and cyber issues, and IT resources.

The role of the Technology and Data Committee is to bring awareness to the PLC Board and support it in:

- its oversight of the technology and data strategy of the company and its subsidiaries within the overall Group strategic plan as approved by the PLC Board;
- Oversee the Management work on the Group in executing the IT strategy to meet business and regulatory requirements.

### The ESG and Ethics Committee

The ESG and Ethics Committee, established in January 2022, ensures the Company stays focused on the ESG issues that are key for all our stakeholders. The role of the Committee is to support and advise PLC Board in:

- its oversight of the implementation of (i) strategy (ii) policies AND (iii) programs of the Company and its subsidiaries in relation to Environmental, Social and Governance ("ESG") matters and ensuring that the ESG strategy is implemented across all relevant businesses of the Group;
- promoting its collective vision of values, conduct and culture and overseeing management's efforts (i) to foster a culture of ethics (ii) appropriate conduct, and (iii) employee ethical engagement within the Group.

Detailed functions of each committee could be found in their Terms of Reference at the following link: https://www.tbcbankgroup.com/esg/governance/committees/

In line with the company's mirror boards policy, Supervisory Board has the same committee structure including the same composition of the Committees.

Membership of committees of the PLC Board and Supervisory Board is as follows:

| Member | Audit Committee | Risk Committee | Remuneration Committee | CGN Committee | Technology & Data (T&D) Committee | ESG & Ethics Committee |
|---|---|---|---|---|---|---|
| Arne Berggren (Chairman) | | | Member | Chairperson | | |
| Tsira Kemularia (SID) | Member | | Member | | | Member |
| Janet Heckman | | Member | Chairperson | | | Member |
| Eran Klein | | Member | | | Member | Chairperson |
| Per Anders Fasth | Chairperson | Member | Member | | | |
| Thymios Kyriakopoulos | Member | Chairperson | | | Member | |
| Rajeev Sawhney | | | | Member | Chairperson | Member |
| Nino Suknidze | Member | | | Member | | |

Chairperson Member

## Independence of the members of the Board of Directors of the Company

Composition of PLC Board and the Supervisory Board including respective committees mirror at both levels in terms of non-executive membership.

The Corporate Governance and Nominations Committee has delegated authority from the PLC Board to assess the independence of non-executive members of the PLC Board, In accordance with the UK Corporate Governance Code. It has reviewed and confirmed that all non-executive members of the PLC Board, who have submitted themselves for election and re-election at the AGM are considered independent. This conclusion was reached after consideration of all circumstances that are likely to impair, or could appear to impair, independence. In accordance with the UK Corporate Governance Code, each member of the PLC Board should immediately inform the PLC Board about any event, which might affect his or her independence. At the same time, All non-executive members of the Supervisory Board are considered independent in line with the criteria laid down by the Georgian Corporate Governance Code.

## Diversity & inclusion

The Board recognises the importance of ensuring diversity and sees significant benefits to our business in having a Board and management team drawn from diverse backgrounds, as this brings a range of expertise, cultural knowledge and different perspectives in discussions and improves the quality of decision making. The Board adopted a Board Diversity Policy in September 2020, which was most recently reviewed in December 2023. The Policy allows the Board to ensure that Board appointments contribute to the Group-wide ambitions of diversity and inclusion.

## Ethnic and gender diversity

The PLC Board meets the recommendation of the Parker Review that at least one of its members should be black, Asian or an ethnic minority (BAME), and the Group intends to continue to meet that recommendation. The PLC Board is mindful of the updated ambitions of the Parker Review, to set targets relating to executive and their direct reports. Although the PLC Board has not yet agreed set targets, discussions have been held by both the Corporate Governance and Nomination Committee and the PLC Board as to what these targets might look like for the Company given the region that it operates in. TBC Bank Group plc has the majority of its workforce in Georgia and Uzbekistan, and as such will look to set targets that are meaningful to the countries in which its workforce are based, as well as being suitable for a UK listed company.

The PLC Board is also committed to ensuring that the targets of the FTSE Women Leaders Review on gender diversity are met. As at the date of this Annual Report, three (33%) of the nine directors are female, one of the senior PLC board positions is held by a woman, and our Company Secretary is a woman. In addition, the female representation of the Executive Committee and its direct reports is 44%. The Company was one of 68 companies within the FTSE 350 that met the Alexander Hampton Review target ahead of the deadline in 2025.

The Corporate Governance and Nomination Committee is mindful of the need to ensure the search for any additional Non-Executive Director considers the strengths that diversity, including gender, ethnicity, as well as other diversity characteristics, can bring to boards. The PLC Board will continue to ensure that consideration of all future appointments supports the PLC Board and Company's diversity aims.

We have also made good progress in our ambitions to build a strong pipeline of women across the whole organisation, as we believe that driving progress for women at all levels of the Company will help build sustainable progress in advancing women into key decision-making roles. During the year the Company elected the Head of HR, a position held by a woman, to the executive committee, which will help progress with the gender balance of this group.

## Board of Directors and Committee meeting attendance

The PLC Board and Committee attendance at meetings is set out below. During 2023, the PLC Board has continued to meet using an effective mix of in-person meetings, as well as meetings organized via teleconference. Each Committee is led by the Chair and membership consists solely of non-executive members of the PLC Board. Chairs of each Board Committee provide a report on Committee business at each PLC Board meeting, including the matters being recommended by a Committee for PLC Board approval. The process for setting a Committee agenda and running a Committee meeting mirrors that of the PLC Board.

Attendance at the PLC Board and respective committee meetings in 2023 have been as follows:

| Board Member | Board | Remuneration Committee | Audit Committee | Risk Committee | Corporate Governance & Nomination Committee | ESG & Ethics Committee | Technology & Data Committee |
|---|---|---|---|---|---|---|---|
| Arne Berggren | 20/20 | 7/7 | - | - | 5/5 | - | - |
| Tsira Kemularia[6] | 20/20 | 5/5 | 8/8 | - | - | 4/4 | - |
| Per Anders Fasth | 20/20 | 7/7 | 8/8 | 12/12 | - | - | - |
| Eran Klein | 20/20 | - | - | 12/12 | - | 4/4 | 4/4 |
| Thymios Kyriakopoulos | 20/20 | - | 8/8 | 12/12 | - | - | 4/4 |
| Rejeev Sawhney | 20/20 | - | - | - | 5/5 | 4/4 | 4/4 |
| Nino Suknidze[7] | 20/20 | 2/2 | 8/8 | - | 5/5 | - | - |
| Janet Heckman[8] | 18/18 | 5/5 | - | 9/10 | - | 2/2 | - |
| Vakhtang Butskhrikidze | 20/20 | - | - | - | - | - | - |

Attendance at the Supervisory Board and respective committee meetings in 2023 have been as follows:

| Board Member | Board | Remuneration Committee | Audit Committee | Risk Committee | Corporate Governance & Nomination Committee | ESG & Ethics Committee | Technolog y & Data Committee |
|---|---|---|---|---|---|---|---|
| Arne Berggren | 15/15 | 5/5 | | | 5/5 | | |
| Tsira Kemularia | 15/15 | 5/5 | 9/9 | | | 4/4 | |
| Per Anders Fasth | 15/15 | 5/5 | 9/9 | 12/12 | | | |
| Eran Klein | 15/15 | | | 12/12 | | 4/4 | 4/4 |
| Thymios Kyriakopoulos | 15/15 | | 9/9 | 12/12 | | | 4/4 |
| Rejeev Sawhney | 15/15 | | | | 5/5 | 4/4 | 4/4 |
| Nino Suknidze | 15/15 | 2/2 | 9/9 | | 5/5 | | |
| Janet Heckman | 11/11 | 3/3 | | 5/6 | | 1/1 | |

[6] Tsira Kemularia joined the Remuneration Committee on 23 February 2023;
[7] Nino Suknidze stepped down from the Remuneration Committee on 23 February 2023
[8] Janet Heckman joined the Board on 23 February 2023 and was unable to attend one ad hoc Risk Committee meeting, called at short notice due to a prior commitment, however provided full comments on the materials discussed. Janet attended all ESG and Ethics Committee meetings since her appointment.

## Division of Responsibilities

There is a clear division between Executive and Non-Executive responsibilities which ensures accountability and oversight. The roles of Chairman and Chief Executive Officer (hereinafter "General Director" or "CEO") are separately held, and their responsibilities are well defined, set out in writing and regularly reviewed by the PLC Board.

| Chairman | Senior Independent Member of the PLC Board (SID) |
|---|---|
| The Chairman's principal responsibility is leadership and the effective running of the PLC Board. | Provides a sounding board to the Chairman, and serves as an intermediary for other directors, as well as being available to shareholders where necessary. |

| Chief Executive Officer | Non-Executive Members of the PLC Board |
|---|---|
| The CEO's principal responsibility is running the Group's businesses. He is responsible for all executive management matters affecting the Group. | Provides constructive challenge to the executive, as well as being a sounding board to the Chairman where necessary. Additionally, along with the Senior Independent Director, provides entrepreneurial leadership of the Group, and being collectively responsible, with the whole Board, for the long-term success of the Group and delivery of sustainable value to shareholders. |

A full breakdown of the division of responsibilities of the Chairman, CEO and the Senior Independent Director is available on the website, https://www.tbcbankgroup.com/ .

If there is a need for independent advice in exercising any part of its remit, the Board or any of its members can seek this directly at TBC PLC's expense. There is an established procedure for Directors, in relevant circumstances, to obtain independent professional advice at TBC PLC's expense. No such requests were made in 2023. Directors' and Officers' Liability Insurance is maintained for all Directors.

## Company Secretary

LDC Nominee Secretary Limited was appointed as the TBC PLC's Secretary in August 2022. The appointment and removal of the Company Secretary are at the discretion of the Board, as set out in the Matters Reserved for the PLC Board.

## Matters reserved for the Board

The PLC Board is responsible for the long-term sustainable success of TBC PLC by setting its strategy and purpose, promoting the desired culture and ensuring that an appropriate risk management framework is in place. The PLC Board has the following principal roles:

| Role | Description |
|---|---|
| Purpose, values and culture | To help management shape the core values and culture that will best enable the Group to deliver its mission to make life easier. |
| Corporate strategy setting and monitoring | To agree and approve the strategic plan and objectives. The Board sets and reviews performance indicators to assess progress on the agreed strategy. |
| Organisation and leadership effectiveness | To ensure that the organisation leadership, design, capabilities and supporting systems match the requirements of the Group and the diverse strategies of the current and future businesses. |
| Operational and financial performance | Performance of the Group is reviewed in light of strategic aims, business plans and budgets. With the support of the Audit Committee, the Board approves the Group's annual and interim financial statements. |
| Shareholder and stakeholder engagement | The Company puts the balance of stakeholder interests and the long-term interests of the Group at the heart of all of its decision-making. |

## Board Evaluation

On an annual basis, an evaluation process is undertaken which considers the performance of the Board, its Committees and members of the PLC Board individually. This review identifies areas of strength and areas for improvement, informs training plans for our PLC Board members and identifies areas of knowledge, expertise or diversity which should be considered in the succession plans.

In 2021, TBC Bank engaged Lintstock Ltd to review the Board's performance for a three year period. Lintstock is an advisory firm specialising in Board effectiveness reviews and has no other connection with TBC Bank or any of the company's Directors

Outcomes from the 2023 Board evaluation:

The feedback from the 2023 evaluation found the PLC Board to be highly engaged with the PLC Board review process. The Chair was seen to promote a strong high-performance culture, and all PLC Board members were committed to adding value to the business. Lintstock found that the PLC Board and Senior Management had driven improvements across succession, strategy and risk since 2021, and observed that the level of alignment between the non-executives and management had continued to grow. Confidence was expressed in the PLC Board's ability to provide rigorous challenge to the business. As part of the review, Lintstock attended PLC Board and committee meetings as well as examined PLC Board and Committee papers, including the meeting materials, and Terms of Reference. Lintstock also undertook an analysis of the Supervisory Board relative to the Lintstock Governance Index, which comprises around 60 core board performance metrics from over 200 board reviews that Lintstock had recently facilitated, specifically for Financial Services Companies. This helped the Directors to understand how the Supervisory Board compares with other similar organisations, putting the findings into context. Following discussion of the evaluation, the Board identified and agreed a number of priorities to enable continuous improvement, including:

- Reviewing ways of working at the Board and the Committees to ensure that discussions are always pitched at an appropriate level.
- Continuing to refine the subsidiary governance framework to ensure clarity on information flows and delegation limits is maintained, as TBC continues to grow internationally.
- Sustaining the momentum of improvement that has been generated in recent years, building on the progress made in multiple areas to support the future success of the Group

## Annual General Meeting

The Notice of Annual General Meeting ("AGM") for 2024 will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on the investor relations website www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on the investor relations website www.tbcbankgroup.com.

## 4.2 Management Board of JSC TBC Bank

### Management's Biographies

**VAKHTANG BUTSKHRIKIDZE**
CEO

**Experience**

- *Leading banker in the Caucasus and Eastern European region*
- *Extensive strategic and financial leadership experience of over 25 years*
- *Robust knowledge and expertise of strategic planning and development, startup and fintech management, mergers and acquisitions, and equity and debt capital debt raising and investor relations*

Vakhtang has over 30 years of banking and financial industry experience. He led the Group from its founding in Georgia in 1992 as a start up to the current market-leading financial technologies institution. He joined TBC Bank as a Senior Manager in 1993 and became Chairman of the Management Board in 1996. Since 1998, he has held the position of the Chief Executive Officer of JSC TBC Bank and was appointed as Chief Executive Officer of the Company in May 2016.

Vakhtang is a prominent banker in the Caucasus and Easter European region and is the receipt of several prestigious awards, including Best Banker 2011 by GUAM – Organization for Democracy and Economic Development award and the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019, he won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

**Current external (non-Group) non-executive appointments**

- *Board member of the Association of Banks of Georgia*
- *Board member of the Business Association of Georgia*
- *Member of the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council*

**GIORGI MEGRELISHVILI**
Director, Chief Financial Officer

Giorgi was appointed as the Deputy CEO and CFO of JSC TBC Bank in October 2020. He joined the Bank as a Deputy CFO in March 2020.
Giorgi has 25 years of global leadership experience in financial services. Before joining TBC, Giorgi was a Director and Head of Capital Risk and Stress Testing at Natwest Markets N.V. in Amsterdam. Prior to that, Giorgi held a number of key leadership positions at Barclays Bank in London between 2008 and 2019, including as a Director at Barclays Treasury, the Head of Barclays Internal Large Exposure and the Head of Barclays Central Planning. During his work at Barclays, Giorgi also served as Barclays Bank PLC Solo Capital and Leverage Management Lead and the Head of Strategic Planning at Barclaycard UK. In his earlier career, Giorgi held various senior managerial positions at several Georgian organisations.

Giorgi holds an MBA from the University of Cambridge, Judge Business School.

**GEORGE TKHELIDZE**
Director, Corporate and Investment Banking, Wealth Management

George was appointed to his current role at the Bank in November 2016, leading the Corporate and Investment Banking businesses. George is also responsible for the Bank's Wealth Management and leasing businesses since January 2021. George first joined TBC in 2014 as Deputy CEO and the Chief Risk Officer.

George has more than 20 years of experience in global financial services. Prior to joining TBC, he worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA. Before that, he was an Associate Director in the Barclays Bank Debt Finance and Restructuring teams. During his career at Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George served as the Chief Executive Officer at Aldagi, the leading insurance company in Georgia and held progressively senior positions at the same company prior to that.

George is Stanford Executive Program (SEP) graduate, holds an MBA from the London Business School and a Master of Laws degree (LLM) in International Commercial Law from the University of Nottingham.

**TORNIKE GOGICHAISHVILI**
Director, Retail and MSME Banking, Payments

Tornike was appointed to his current role as the Deputy CEO of JSC TBC Bank and Head of Retail since January 2020. Additionally, Tornike is leading the MSME banking since January 2021. He joined TBC in 2018 as the Chief Operating Officer.

Tornike has over 20 years of financial services and operations management experience in Georgia and CEE. Prior to joining TBC, he has served as a Deputy CEO and Chief Operating Officer at the Bank of Georgia Group and served at various other key positions at the same institution before that. During 2008-2010, Tornike held the position of CFO at BG Bank Ukraine (a subsidiary of Bank of Georgia). Earlier in his career, Tornike held the position of the CEO of Aldagi, an insurance company in Georgia, served as the chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance.

Tornike holds an MBA from the Caucasus School of Business and an executive diploma from Said Business School, Oxford.

**NINO MASURASHVILI**
Director, Chief Risk Officer

Nino was appointed to her current role as the Chief Risk Office of JSC TBC Bank in 2020. Prior to that, Nino held progressively senior positions at TBC after she first joined the Bank in 2000. Nino was appointed as the Deputy CEO of the Bank in 2006, leading TBC's retail and MSME businesses at various times. Nino also serves on the supervisory boards of TBC's key subsidiaries, including TBC Uzbekistan, TBC Leasing, and Space International, TBC's digital banking platform.

Nino has over 25 years of financial services and banking experience in Georgia. In her earlier career, Nino held various leadership and managerial positions at JSC TbilCom Bank and the Barents Group.

Nino holds an MBA from the European School of Management in Tbilisi.

## The Bank’s Management Board Responsibilities

*General Director, Chief Executive Officer*

The Chief Executive Officer reports to the Supervisory Board and holds primary responsibility for guiding the bank towards achieving its strategic goals and implementing the strategy. This includes managing the day-to-day operations of the bank and executing operational decisions. The CEO is also responsible for proposing, developing and supervising the Bank's overall commercial objectives. Alongside the executive team, he is accountable for managing all executive matters that impact TBC Bank. All members of executive management report to him and he directly oversees Human Capital, Agile Expertise, Brand Experience and Marketing, Security, Macro Financial Analyses, Data Analytics and Supervisory Board Support directions.

*Director, Chief Financial Officer*

The Chief Financial Officer (CFO) reports to the Chief Executive Officer and to the Supervisory Board and has a strategic role in the overall management of the Bank. The CFO has the primary responsibility for planning, implementing, managing and controlling all finance and back-office operations related activities. These include investor relations and fund raising, treasury activities, financial analysis, strategic planning and budgeting, financial accounting, regulatory reporting, taxation and all other relevant matters as well as cash management, loan administration, correspondent banking, procurement, logistics, collateral management and appraisal and cash center.

*Director, Corporate and Investment Banking, Wealth management*

The Director of Corporate and Investment Banking reports to the Chief Executive Officer and to the Supervisory Board and assumes an important role in the overall management of the Bank. He has primary responsibility for planning, implementing, managing and controlling the Bank’s corporate and investment business. The Director of Corporate and Investment Banking manages the division to ensure the delivery of a wide range of financial services to its clients. Activities include lending, clearing, investing deposits as well as organizing specialized products for clients with high turnovers, such as financial institutions, major companies and commercial state companies.

*Director, Retail Banking, Micro & Small and Medium Sized Entities (MSME) and Payments*

The Director of Retail Banking, MSME and Payments reports to the Chief Executive Officer, with the key responsibility of formulating and implementing the strategy for the bank's retail and MSME business, its product range and designated market. The Director is hence responsible of developing new product and service delivery channels as well as planning and managing business activities for the retail, MSME segment, such as sales, customer care, profitability, branch operations, digital and other channels and reporting, budgeting and analysis.

*Director, Chief Risk Officer*

The Chief Risk Officer (CRO) reports to the Chief Executive Officer and to the Supervisory Board. The CRO holds the primary responsibility for managing the Bank’s risk management-related activities, including compliance, risk prevention, identification, measurement, mitigation, monitoring and reporting.

The following committees are functioning at the Bank's Management Board level that assist the Management in day-to-day management:

| Committee Member | Managing of Conflict of Interests Committee (ad hoc basis) | Information Security Steering Committee | Assets and Liabilities Management Committee (ALCO) | ESG Committee | Environ-mental Committee |
|---|---|---|---|---|---|
| **CEO** | X | X | X | X | |
| **CFO** | | | X | X | |
| **CIO** | | X | | | |
| **CRO** | X | X | X | X | X |
| **Director, Retail and MSME, Payments** | | | X | X | |
| **CEO of Group's Operations in Uzbekistan** | | | | X | |
| **Director, Corporate, Investment Banking and wealth management** | | | X | X | |
| **Head of Operational Risks** | | X | | | |
| **Head of Compliance Risk Department** | X | X | | X | |
| **Head of Compliance Risk and Control Unit** | X | | | | |
| **Head of Analytic Department of Security Service** | | X | | | |
| **Head of Information Security** | | X | | | |
| **Head of FRM** | | | X | | |
| **Head of Financial Markets, Trading and Balance Sheet Management department** | | | X | | |
| **Head of ERM** | | | X | | |
| **Head of Balance Sheet Management division** | | | X | | |
| **Head of IT Operations** | | X | | | |
| **Head of ESG Coordination Department** | | | | X | |
| **Head of Corporate Business Credit Risk Division** | | | | | X |
| **Head of Treasury and Financial Services** | | | X | | |
| **Environmental Coordinator** | | | | | X |
| **Head of Human Capital** | | X | | | |
| **Head of SME and Corporate Business Credit Risk Division** | | | | | X |

## 5. Bank Strategy

Our strategic priorities serve our mission to make people’s lives easier.

We can achieve this through providing high quality financial services to individuals and companies in Georgia.

Each of our priorities has been carefully chosen and analysed to ensure that it contributes towards maintaining the Bank’s high profitability, strong growth profile and customer trust.

### Our 3 Key Strategic Priorities

### 1. Build on our leading position in Georgian Banking

- Strengthen the bank’s position in the mass retail segment.
- Grow capital efficient fee and commission income, with a particular focus on payments.
- Increase operational efficiency and productivity.
- Enhance underwriting quality, powered by advanced technical infrastructure and data analytics capabilities.
- Attract and develop the best talent.

### 2. Increasing digitalisation levels

Increase digital engagement in terms of transactions, sales and back-end infrastructure:

- Increase the number of digital active users, both on a daily and monthly basis.
- Maintain retail transactions offloading ratio at high levels.
- Boost sales offloading for major products.
- Raise productivity through fully digital processes.

### 3. Keep on improving our customer experience

- Develop tailored financial services and products coupled with lifestyle offerings and deliver these in the most convenient way for our customers.
- Create a seamless customer experience across all channels.
- Use our technology know-how to improve the products and services offered to our customers and accelerate our time to deployment.

## 6. Risk Management

### Risk Management Framework

The Bank employs a comprehensive enterprise-wide Risk Management Framework, placing a strong emphasis on cultivating a robust risk culture throughout the organisation. This framework is strategically designed to ensure that effective governance capabilities and methodologies are in place, facilitating sound risk management and informed decision-making.

Aligned with the Bank's overarching strategic objectives, the risk management framework establishes standards and objectives while delineating roles and responsibilities. The Bank's principal risks, as detailed in this section, are systematically controlled and managed within the framework, promoting consistency across the organisation and its subsidiaries.

Led by the Chief Risk Officer and developed by the Bank's independent Risk function, the framework undergoes an annual review and approval process by the Supervisory Board. It encompasses risk governance through the Bank's three lines of defence operating model.

The Bank's risk appetite, supported by a robust set of principles, policies, and practices, defines acceptable levels of tolerance for various risks. This structured approach guides risk-taking within established boundaries, ensuring a proactive and disciplined risk management stance.

The Bank operates under the principle that all teams share responsibility for managing risk, with a particular emphasis on those facing the client. However, the Risk function assumes a crucial role in overseeing and monitoring risk management activities. This includes development of the framework and ensuring adherence to supporting policies, standards, and operational procedures. The Chief Risk Officer regularly reports to the Supervisory Board Risk Committee on the Bank's risk profile and performance as well as on the effectiveness of the Bank's system of internal control.

Moreover, the Bank has instituted a rigorous process to identify and manage material and emerging threats. These threats, which are deemed to potentially adversely affect the Bank's ability to meet its strategic objectives, are regularly reported to the Supervisory Board. The Bank's applied, comprehensive approach considers the interdependence of material and emerging threats, enhancing the overall risk intelligence provided to stakeholders.

### Risk Governance

The Bank's risk governance structure is crafted to ensure robust oversight and strategic decision-making within risk management. At its core, the risk committee of the Supervisory Board and the risk function of the Bank assume pivotal roles in orchestrating effective risk management practices.

At the Supervisory Board level, while the board is responsible for overseeing risk management, activities within risk management and control are delegated to the committees for effective handling. Responsibilities encompass aligning risk practices with strategic goals, setting risk appetite, discussing and approving risk policies, fostering a culture of responsible risk-taking, and monitoring risk identification and assessment processes. The committees are tasked with overseeing regular assessments of emerging and principal risks that could impact the business model, performance, solvency, and liquidity. Their leadership is critical for effective risk management and the long-term viability of the Bank.

At the management board level, committees assume a crucial role in steering effective risk management within the Bank. There are multiple committees with granular scopes (e.g. financial risks, reputational risk, information security), their responsibilities include closely overseeing risk exposures and making key decisions on risk mitigation and control. While specific duties of the committees may differ, the overall mission remains consistent: aligning risk management practices with regulatory requirements and the established risk tolerance.

## Risk Culture And Three Lines Of Defense

At the core of the Bank's Risk Management Framework and practices is a robust risk culture that underscores the institution's commitment to prudent and strategic risk-taking. The Bank expects its leaders to demonstrate strong risk management behaviour, providing clarity on the desired level of risk taking, developing their respective capabilities and frameworks, and motivating employees to ensure risk-minded decision making.

The key principles governing risk culture across the Bank include: Board leadership (the Board sets the tone and establishes a foundation for a risk-aware culture throughout the organization); employee understanding and accountability (the Bank ensures that employees at every level understand the institution's approach to risk and there is a clear understanding that individuals are accountable for their actions concerning risk-taking behaviors aligned with the Bank's standards); communication (open, transparent, and effective communication is fundamental to the Bank's risk culture); and remuneration incentives (the Bank reinforces its risk culture by aligning remuneration incentives with sound risk management practices).

This holistic approach to risk culture ensures that the Bank and its subsidiaries are equipped with a resilient and proactive mindset, where risk management is ingrained in the organisational DNA.

To comprehensively manage risks, the Bank ensures adherence to the three lines of defence model:

- First Line of Defence: Business lines, as frontline defenders, engage in risk-taking activities with awareness of their impact on risks that may contribute to or hinder the achievement of the Bank's objectives. A well-established risk culture is a foundation for risk-taking decisions.
- Second Line of Defence: Risk management functions ensure effective risk management and controls by consolidating expertise, identifying, measuring, and monitoring risks, and assisting the first line. They act independently from the business lines and provide frameworks and tools for effective risk management.
- Third Line of Defence: The internal audit function provides assurance to the Supervisory Board that the risk management and control efforts of both the first and second lines of defence meet the expectations set by the Supervisory Board.

## Risk Appetite

Risk appetite is defined as the set of acceptable limits that shape the combinatory level of risk that the Bank is prepared to accept in pursuit of return and value creation consistent with the approved strategy. The Bank's Risk Appetite Framework, which governs enterprise risk management, establishes the extent and process of permissible risk-taking to guide the Bank's business outcomes.

Considering the ever-changing risk profile of the Bank, the risk appetite framework of the Bank is regularly reviewed, updated, and approved by the Supervisory Board to make sure they remain aligned with the Bank's desired level of risk-taking.

For each type of risk quantitative risk metrics are defined and risk appetite is established in the form of Risk Appetite Statements (RAS) and the risk limits, showing the level of the risk the Bank is willing to accept in pursuing the strategic objectives.

At this stage, risk limits are set for ordinary business conditions. The horizon of the risk appetite statement is set to 3-5 years. The risk appetite must be reviewed and updated on an annual basis or more frequently as changes in strategy, market conditions or other key factors occur.

The RAS includes qualitative statements and quantitative metrics. Enterprise-wide quantitative metrics are categorized across two levels. The first level metrics must be approved and monitored by the Supervisory Board. Approval and monitoring of the second level metrics is the responsibility of the Management Board.

The risk appetite sets limits under ordinary business conditions. The Bank uses a three-layered traffic light approach in setting the risk limits:

**Green Zone** - a desired zone of the Bank's risk appetite. For the certain types of risk metrics Green zone might have both upper and lower bounds. Whenever the risk profile is below the lower bound of the Green zone, it shows that the Bank is taking lower risk compared to its appetite and should be addressed in the same way as entering the Amber zone.

**Amber Zone** - a desired zone has been breached, however risk level is still acceptable for the Bank. Once the risk goes into the Amber zone, the risk owner should develop the strategy on how to get back to the Green zone and monitor the execution.

**Red Zone** – a risk has exceeded the allowable limit and is going outside the risk appetite. Close monitoring of the risk and developing remedial actions is required with respective contingency plan.

**Risk Appetite Governance and Monitoring**

The Bank's Supervisory Board sets the tone at the top, provides oversight and direction in the RAF establishment and owns and approves the Bank's risk appetite.

The Management Board sets overall strategic objectives of the Bank and ensures that risk-taking and decision-making processes are aligned with the Bank's strategy and the risk appetite.

The RAF is approved by the Bank's Supervisory Board. Governing principles and Level 1 metrics are approved by the Supervisory Board. Whereas Level 2 metrics are approved by the Management Board. Operational level risk metrics are approved either by the Management Board or the respective team of the 2$^{nd}$ line of defence together with the Chief Risk Officer.

The Bank's risk governance incorporates the "three lines of defence", in which the business operational units as a first level of defence take and manage risk, risk management functions as a second level of defence oversee and monitor risk and internal audit as a third line of defence validates the performance of the first two.

Each metric listed in the RAF has its own monitoring frequency ranging from one month to one year. The Enterprise Risk Management function is responsible for aggregating and reporting compliance with Level 1 and Level 2 risk appetite metrics to the Supervisory and Management boards. The respective teams of the 2$^{nd}$ line of defence are responsible for monitoring risk appetite metrics and presenting results to ERM department. They are also responsible for submitting to the Supervisory and Management boards the description of reasons for the breach and an action plan to return the risk profile back in the Bank's risk appetite within a reasonable timeframe.

## Risk Identification

The identification of risks serves as the foundational step in the Bank's risk management process. This process systematically recognises and documents any potential direct or indirect risks that could impact the achievement of organizational objectives. It is imperative that this identification leverages input from the Bank's lines of defence within the organisation as well as external stakeholders to ensure a comprehensive and anticipatory definition.

The risk identification process within the Bank is governed by the Risk Registry Framework. Regular reviews and adjustments of the Risk Registry are undertaken to ensure its consistent relevance and effectiveness.

## Risk Measurement

The Bank places significant emphasis on a comprehensive approach to risk measurement, aligning with its commitment towards proactive risk management practices. Each identified risk direction is accompanied by tools for quantitative and qualitative measurement. The process is dynamic, continuously adapting to changes in the financial landscape and regulatory environment. Regular reviews and assessments ensure the effectiveness of the risk measurement tools and methodologies.

## Risk Mitigation

Risk mitigation is a proactive approach aimed at minimizing the potential negative consequences of risks. To proactively approach every material risk, the Bank develops and implements harmonised risk policies and frameworks, which play a key role by:

- Setting standards and guidelines – risk policies outline the standards and guidelines for how risks should be managed within the organisation and provide a structured approach to addressing risks, ensuring consistency and compliance with regulatory and internal requirements.
- Defining roles and responsibilities – risk policies clarify the roles and responsibilities of different individuals and departments in the risk mitigation process.
- Establishing procedures – risk policies provide a guiding framework for developing procedures for risk mitigation activities.

All policies are subject to regular reviews and updates to adapt to new challenges and refine its risk management strategies over time.

## Risk Monitoring And Reporting

Risk reporting stands as a cornerstone within the Bank's robust risk management framework. The Bank is mandated to establish robust risk reporting processes. These processes are designed to regularly communicate material risk exposures and the overall risk profile to the Supervisory and Management Boards as well as senior management.

Regular monitoring is essential to ensure compliance with established risk appetite and regulatory limits. It serves as a proactive measure to observe the evolution of the prevailing risk environment. The Bank emphasises a structured approach to risk reporting, encompassing monitoring, to effectively capture, assess, and communicate risks. This ensures the provision of clear and timely information, fostering accountability among stakeholders in managing and addressing risks.

In addition to routine reporting, ad-hoc reporting can be triggered by key vulnerabilities, significant risk identification, or deviations from the targeted risk profile. This agile approach ensures that the risk reporting mechanism remains responsive to emerging risks and evolving circumstances.

## Internal Control

TBC Bank is introducing its streamlined Integrated Control Assurance Framework, seamlessly aligning risk, control, compliance, and internal audit functions for integrity, efficiency, and regulatory compliance. This comprehensive framework ensures meticulous adherence to policies and procedures, catering to the diverse needs of our products and services. The integrated view enables a collective audit asset database that is generated across first, second, and third lines of defence as well as regulatory and legal, reflecting our commitment to transparency and accountability.

The Internal Control Framework extends to the evaluation, testing, and follow-up of high and critical-risk processes, while simultaneously focusing on enhancing risk awareness and refining internal controls. Continuous monitoring and improvement initiatives are integral components, enhancing operational effectiveness within the framework. This approach fosters a culture of internal control, showcasing our dedication to excellence in managing internal controls and risks.

## Stress testing And Contigency Planning

It is essential for the Bank to examine its financial performance under conditions that diverge from baseline expectations. For that reason, the Bank subjects itself to various stress scenarios with the intent to identify vulnerabilities, quantify potential losses, and assess the sufficiency of risk mitigation measures. Currently, the Bank has established its own comprehensive stress testing framework, which encompasses a range of scenarios to assess its resilience. This includes scenarios related to capital, liquidity, credit, cyber and other risk factors relevant to the prevailing risk environment. Stress testing is crucial to evaluate the ability to withstand adverse conditions, such as economic downturns, market volatility, and unforeseen events. Regular reviews and adjustments are essential to ensure the consistent relevance and effectiveness of the stress testing frameworks.

The Bank regularly performs stress test exercises. Stress tests are conducted either within predefined frameworks such as ICAAP, ILAAP and Recovery Planning, or/and on an ad-hoc basis to assess the impact of certain system- wide or idiosyncatic events on the Bank's capital, liquidity, and financial positions. Although the overall stress testing approach is consistent, the severity of the stress scenarios differs according to the relevant framework.

In addition to stress testing analysis, the Recovery Plan serves as a strategic blueprint for both the Supervisory Board and the management to ensure readiness for specific stress conditions. The Recovery Plan provides clear recovery options with specific steps to be undertaken including transparent and timely communication to internal and external stakeholders. The framework is subject to regular reviews and adjustments to ensure its consistent relevance and effectiveness.

The Bank also has a Business Continuity Plan in place. This plan ensures that the organisation is prepared to respond effectively to disruptions. By outlining strategies to maintain revenue streams and minimize financial losses during disruptions, these practices help to safeguard the organisation's financial stability and long-term viability.

## Key Risks

### The majority of the Bank's earnings capacity is generated via credit risk bearing asset side elements.

Credit risk is the greatest material risk faced by the Bank, given that the Bank is principally engaged in traditional lending activities. It is the risk of losses due to the failure of a customer or counterparty to meet their obligations to settle outstanding amounts in accordance with agreed terms. The Bank's customers include legal entities as well as individual borrowers. Due to the high level of dollarization in Georgia's financial sector, currency-induced credit risk is a component of credit risk, which relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the Bank's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration as a result of large exposures to single borrowers or banks of connected borrowers, or loan concentration in certain economic industries. Losses may be further aggravated by unfavourable macroeconomic conditions.

A comprehensive credit risk assessment framework is in place with a clear division of duties among the parties involved in the credit analysis and approval process. The credit assessment and monitoring process differ by segment and product type to reflect the diverse nature of these asset classes.

The Bank's credit portfolio is highly diversified across customer types, product types and industry segments, which minimizes credit risk at the Bank level. As of 31 December 2023, the retail segment represented 35.3% of the total portfolio, which was comprised of 62.9% mortgage and 37.1% non-mortgage exposures. No single business sector represented more than 9% of the total portfolio in FY 2022. Collateral represents the most significant credit risk mitigation tool for the Bank, making effective collateral management one of the key risk management components. The Bank has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2023, 79% of the Bank's portfolio was secured by cash, real estate or gold. To manage counterparty risk, the Bank internally defines limits on an individual basis for each counterparty, by limiting the expected loss from both treasury and trade finance exposures. As of 31 December 2023, the Bank's interbank exposure was concentrated among high A-grade credit rating' banks, assigned by external agencies, such as Fitch, Moody's and Standard and Poor's.

#### Currency-induced Credit Risk (CICR)

The Bank has a significant credit portfolio in foreign currencies. A potential material GEL depreciation is one of the most significant risks that could negatively impact portfolio quality. As of 31 December 2023, 48.6% of the Bank's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies. The income of many customers is directly linked to foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The GEL remains in free float and is exposed to many internal and external factors that, in some circumstances, could lead to its depreciation. In 2023, the average US$/GEL currency exchange rate strengthened by 9.9% year-on-year.

#### Concentration Risk

Although the Bank is exposed to single-name and sectoral concentration risks, the Bank's portfolio is well diversified both across sectors and single-name borrowers, resulting in only a moderate vulnerability to concentration risks. However, should exposure to common risk drivers increase, the risks are expected to amplify correspondingly. The Bank's maximum exposure to the single largest industry (Real Estate) stood at 9% of the loan portfolio as of 31 December 2023. At the same time, exposure to the 20 largest borrowers stood at 9.1% of the loan portfolio.

### Counterparty Risk

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2023, the Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

## The Bank's Performance May be Compromised by Adverse Developments in the Economic Environment

A potential slowdown in economic growth in Georgia will likely have an adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. Negative macroeconomic developments could compromise the Bank's performance in various ways, such as exchange rate depreciation, a sizable decline in gold prices, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in Georgia's neighboring countries and main trading/economic partners could negatively affect its economic outlook through worsening current and financial accounts in the balance of payments (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

After two years of consecutive double-digit expansion, Georgian economy started to normalize, although it still remained strong at 7.5% in 2023. Normalization was driven by a moderation in trade flows and remittances, which were affected by lower international commodity prices and broadly flat migrant inflows. At the same time, conventional tourism and FDIs remained resilient. Disinflationary movement in consumer price dynamics, mainly driven by the imports, led annual CPI growth to decelerate significantly, standing at 0.4% in December 2023. Resilient inflows enabled the GEL to continue appreciating in the first half of the year. The second half was characterised by normalisation towards the long-term trend. Accordingly, while the GEL exchange rate experienced some volatility throughout the year, currency inflows aided by central bank interventions in the second half of the year were sufficient to keep the rate broadly stable. The NBG remained hawkish and delivered only four cuts, reducing the monetary policy rate from 11.0% to 9.5%. Moreover, the central bank accumulated a substantial number of reserves with a net purchase of US$ 1,446 million in January-August 2023, causing gross international reserves to hit an all time high of US$5.3 billion. The NBG only switched to net sales in September, supplying US$ 169 million to the market in the last four months of the year.

The credit market increased by 17.0% year on-year as of December 2023, at constant exchange rates, compared to 12.4% growth at the end of 2022, mainly on the back of business loans, while retail growth slightly moderated. Despite the still strong economic growth and broadly stable GEL, credit penetration level in Georgia increased in 2023 due to accelerated lending - domestic credit provided by the banking sector relative to GDP stands at 65.6%, up from 61.5% in 2022, however, down from 71.5% in 2021. In contrast, asset quality still improved as non-performing loans declined further to 1.5% per IMF definition.

To decrease its vulnerability to economic cycles, the Bank identifies cyclical industries and proactively manages its underwriting approach and clients within its Risk Appetite Framework. The Bank has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia and neighboring countries to identify early warning signals indicating imminent economic risks. This system allows the Bank to promptly assess significant economic and political events and analyze their implications for the Bank's performance. These implications are duly translated into specific action plans with regards to reviewing underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress testing and scenario analysis conducted during the credit review and portfolio-monitoring processes enable the Bank to evaluate the impact of macroeconomic shocks on its business in advance. Resilience towards a changing macroeconomic environment is incorporated into the Bank's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage. Taking into account the regional crisis, the Bank has adjusted its Risk Management Framework leveraging its pre-existing stress testing practices. This included more thorough and frequent monitoring of the portfolio as well as stress testing, to ensure close control of changes in capital, liquidity, and portfolio quality in times of increased uncertainty.

### The Bank inherently is exposed to funding and market liquidity risks

Liquidity risk is the risk that the Bank either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due or may only be able to access those resources at a high cost.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

a) Funding liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis.
b) Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption.

While the Bank currently has sufficient financial resources available to meet its obligations as they fall due, liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access, a particular source of funding, as well as changes in credit ratings or market-wide phenomena. Access to credit for companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (e.g. a downgrade in credit ratings, central bank or state interventions, or debt restructurings in a relevant industry) could influence the price or the ability to access the funding necessary to make payments in respect of the Bank's future indebtedness. Both funding and market liquidity risks can emerge from a number of factors that are beyond the Bank's control. There is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial number of deposits could have a material adverse impact on the Bank's business, financial condition, and results of operations and/or prospects.

The Bank's liquidity risk is managed though the Supervisory Board's Bank Liquidity Risk Management Policy. The Assets and Liabilities Management Committee (ALCO) is the core asset-liability management body ensuring that the principal objectives of the Bank's Liquidity Risk Management Policy are met on a daily basis. The approved Liquidity Risk Management Framework ensures the Bank meets it payment obligations under both normal and stress situations.

To mitigate this risk, the Bank holds a solid liquidity position by maintaining comfortable buffers over the regulatory minimum requirements. All regulatory ratios are monitored regularly, with an early-warning system in place to detect potential adverse liquidity events. This is facilitated by the Risk Appetite Framework of the Bank which sets buffers over the regulatory limits, ensuring early detection of potential liquidity vulnerabilities. The liquidity risk position and compliance with internal limits are closely monitored by the ALCO of JSC TBC Bank.

JSC TBC Bank's liquidity risk is managed by the Balance Sheet Management division and Treasury department and is monitored by the Management Board and the ALCO, within their pre-defined functions. The Financial Risk Management (FRM) division is responsible for developing procedures and policy documents and setting risk.

appetites on funding and market liquidity risk management. In addition, the FRM performs liquidity risk assessments and communicates the results to the Management Board and the Risk Committee of the Supervisory Board on a regular basis.

The Bank maintains a diversified funding structure to manage the respective liquidity risks. The Bank's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local interbank short- duration term deposits and loans, proceeds from the sale of investment securities, principal repayments on loans, interest income, and fee and commission income. The Bank relies on relatively stable deposits from Georgia as its main source of funding. The Bank also monitors the deposit concentration for large deposits and sets limits for deposits by non-Georgian residents in its deposit portfolio.

To maintain and further enhance its liability structure, the Bank sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as the total value of net loans divided by the sum of the total value of deposits and funds received from international financial institutions) stood at 94.7%, 87.9% and 101.0%, as of 31 December 2023, 2022 and 2021, respectively.

The management believes that, in spite of a substantial portion of customers' accounts being on demand, the diversification of these deposits by the number and type of depositors, coupled with the Bank's past experience, indicates that these customer accounts provide a long-term and stable source of funding for the Bank. Moreover, the Bank's liquidity risk management includes the estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information about the fluctuations of customer account balances.

Stress testing is a major tool for managing liquidity risk. Stress testing exercises are performed within the ILAAP and Recovery Plan Frameworks as well as on an ad hoc basis, when there is a significant change in the prevailing risk environment. The former assesses the adequacy of the liquidity position and relevant buffers and whether they can sustain plausible severe shocks, while the latter provides a set of possible actions that could be taken in the unlikely event of regulatory requirement breaches to support a fast recovery in the liquidity position. The recovery plan encompasses a Liquidity Contingency Funding Plan which, along with the risk indicators and mitigation actions, outlines the roles and responsibilities of those involved in executing the plan. Both the ILAAP and the Recovery Plan are performed by the Bank on an annual basis.

### The Bank is Exposed to Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

The Bank's objectives in terms of market risk management are to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Bank's ability to continue as a going concern.

#### Foreign Exchange (FX) Risk

Foreign exchange (FX) risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The Bank identifies, assesses, monitors, and communicates the risk arising from exchange rate movements and the factors that influence this risk.

JSC TBC Bank (Georgia) is required to maintain open currency positions in line with NBG's limits: The NBG requires the Bank to monitor both balance sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital.

The Bank complied with all its internally and externally imposed market risk requirements throughout 2023.

To mitigate FX Risk, the Bank sets risk appetite and operational limits on the level of exposure by currency as well as on aggregate exposure positions that are more conservative than those set by the regulators. Compliance with the limits is closely monitored by the ALCO of JSC TBC Bank. Compliance with these limits is also reported periodically to the Management Board and to the Supervisory Board and its Risk Committee.

In addition, the heads of the treasury department and financial risk management division separately monitor JSC TBC Bank's compliance with the set limits daily. In order to safeguard against the inherent volatility in the foreign exchange market, the Bank employs a risk management process aimed at mitigating FX risk. This involves the strategic use of spot, forward, and swap transactions.

To assess currency risk, JSC TBC Bank performs a VAR sensitivity analysis on a regular basis. This analysis calculates the effect on the Bank's income determined by the worst possible movements of currency rates against the Georgian Lari, with all other variables held constant. During the years ended 31 December 2023 and 2022, this sensitivity analysis did not reveal any significant potential effect on the Bank's equity: as of 31 December 2023, the maximum loss with a 99% confidence interval was equal to GEL 5.1m, compared to a maximum loss of GEL 7.0m as of 31 December 2022).

### Interest Rate Risk

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Bank's financial assets and liabilities. This risk can arise from maturity mismatches between assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. The majority of the deposits, and part of the loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowing is based on a floating interest rate. Since the interest rate margins on those assets and liabilities have different repricing characteristics, they may increase or decrease as a result of market interest rate changes.

The Bank's market risk is governed through the Supervisory Board's Bank FX Risk Management and Bank Interest Rate Risk Management policies.

To mitigate interest rate risk, JSC TBC Bank considers numerous stress scenarios, including different yield curve shifts and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one year profitability and the enterprise value of equity. In addition, appropriate limits on both net interest income (NII) and economic value of equity (EVE) sensitivities are set within the Risk Appetite Framework approved by the Supervisory Board. Please see details in Interest Rate Risk on pages 343 in Note 38, Financial and Other Risk Management.

Interest rate risk in JSC TBC Bank is managed by the Balance Sheet Management division and the Treasury department and is monitored by the ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The Financial Risk Management division is responsible for developing guidelines and policy documents and setting the risk appetite for interest rate risk. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board, and the Risk Committee. To minimize interest rate risk, the Bank regularly monitors interest rate (re-pricing) gaps by currencies and, in case of need, decides to enter into interest rate derivatives contracts. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement.

JSC TBC Bank assess interest rate risk from both the NII and Economic Value of Equity (EVE) perspectives. As per regulatory requirements, the Bank assesses the impact of interest rate shock scenarios on EVE and NII. According to NBG guidelines, the NII sensitivity under parallel shifts of interest rate scenarios is maintained for monitoring purposes, while EVE sensitivity is calculated under six predefined stress scenarios of interest rate changes, with the limit applied to the result of the worst case scenario. As of 31 December 2023, TBC Bank's EVE ratio stood at 7.34%, comfortably below the regulatory limit (15%).

**Any decline in the Bank's net interest income or net interest margin (NIM) could lead to a reduction in profitability, impacting the accumulation of organic capital.**

Net interest income accounts for most of the Bank's total income. Potential new regulations, along with a high competition in Georgia, may negatively impact the Bank's net interest margin. Additionally, downward trend of GEL refinance rate and foreign currency benchmark rates will continue to have a negative pressure on NIM in 2024. In 2023, the robust 0.4pp YoY growth in NIM to 6.1% was mainly driven by the growth in loan yields in Georgia influenced by high NBG Refinance and foreign market rates.
The Bank continues to focus on fee and commission income, driven by increased efforts towards customer experience-related initiatives and innovative products in the Georgian market. This safeguards the Bank from potential margin compressions on lending and deposit products in the future. To meet its asset-liability objectives and manage the interest rate risk, the Bank uses a high-quality investment securities portfolio, long-term funding, and derivative contracts.

**The Bank's operational complexity generates risk that arises from inefficient and uncontrolled operations that could in turn adversely impact profitability and reputation.**

One of the main risks that the Bank faces is operational risk, which is the risk of loss resulting from internal and external fraud events, inadequate processes or products, business disruptions and systems failures, human error or damages to assets. Operational risk also implies losses driven by legal, compliance, or cybersecurity risks. The Bank is exposed to many types of operational risk, including fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with the intention of making the Bank's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions of the Bank, its clients, counterparties, or customers. Moreover, the Bank is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures, etc., which may result in losses or reductions in service to customers and/or economic losses to the Bank. The operational risks discussed above are also applicable where the Bank relies on outsourcing services from third parties. Considering the dynamic environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Bank. The increased complexity and diversification of operations, coupled with the digitalisation of the banking sector, mean that fraud risks are evolving. External fraud events may arise from the actions of third parties against the Bank, most frequently involving events related to banking cards, loans, and client phishing. Internal fraud events arise from actions committed by the Bank's employees, although such events happen less frequently. During the reporting period, the Bank faced several instances of fraud, none of which had a material impact on the Bank's profit and loss statement. The rapid growth in digital crime has exacerbated the threat of fraud, with fraudsters adopting new techniques and approaches to obtain funds illegally. Therefore, unless properly monitored and managed, the potential impact could become substantial.

To oversee and mitigate operational risk, the Bank maintains an Operational Risk Management Framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling the effective management of operational risks complement the framework. The Management Board ensures a strong internal control culture within the Bank, where control activities are an integral part of operations. The Board sets the operational risk appetite and compliance with the established risk appetite limits is monitored regularly by the Risk Committee of the Supervisory Board. The Bank utillises the three lines of defence principle, where the operational risk management department serves as a second line of defence, responsible for implementing the framework and appropriate policies and methodologies to enable the Bank to manage operational risks. The Bank actively monitors, detects and prevents risks arising from operational risk events and has permanent monitoring processes in place to detect unusual activities or process weaknesses in a timely manner. The risk and control self-assessment exercise (RCSA) focuses on identifying residual risks in key processes, subject to the respective corrective actions. Through our continuous efforts to monitor and mitigate fraud risks, coupled with the high level of sophistication of our internal processes, the Bank ensures the timely identification and control of operational risk-related activities. Various policies, processes, and procedures are in place to control and mitigate operational risks, including, but not limited to:

- the Bank's Risk Assessment Policy, which enables thorough risk evaluation prior to the adoption of new products, services, or procedures;
- the Bank's Outsourcing Risk Management Policy, which enables the Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor, and other impacts on the vendor;
- The Risk and Control Self-Assessment (RCSA) Policy, which enables the Bank to continuously evaluate existing and potential risks, establish risk mitigation strategies and systematically monitor the progress of risk mitigation plans. The completion of these plans is also part of the respective managers' key performance indicators;
- The Bank's Operational Risk Event Identification Policy, which enables the Bank to promptly report on operational risk events, perform systematic root-cause analysis of such events, and take corrective measures to prevent the recurrence of significant losses. A unified operational loss database enhances further quantitative and qualitative analysis. The Operational Risk Event Identification Policy also oversees the occurrence of IT incidents and the respective activities targeted at solving the identified problems;
- The Bank's Operational Risk Awareness Programme, which provides regular trainings to the Bank's employees and strengthens the Bank's internal risk culture;
- The Bank also utilises risk transfer strategies, including obtaining various insurance policies to transfer the risks of critical operational losses.

The Operational Risk Management Department has reinforced its risk assessment teams and methodologies to further fine-tune the existing control environment.

During the reporting period, one of the key operational risk management focus areas was the Risk and Control Self- Assessment (RCSA) exercise, under which the Bank's top priority processes were reviewed and areas of improvement were identified.

Moreover, to further mitigate operational risks driven by fraudulent activities, the Bank has introduced a sophisticated digital fraud prevention system, which analyses client behaviour to further minimise external fraud threats.

The Operational Risk Management Framework and its complementary policies were updated to ensure effective execution of the operational risk management programme.

**The Bank's digitally oriented operational footprint faces a growing and evolving threat of cyber-attacks.**

The Bank's rising dependency on IT systems increases its exposure to potential cyber-attacks. Given their increasing sophistication, potential cyber-attacks may lead to significant security breaches. Such risks change rapidly and require continued focus and investment.

No material cyber-security breaches have happened at the Bank in recent years. However, one of the Bank's software suppliers faced a ransomware attack. We received timely information about the incident and responded in accordance with our incident response procedures. After conducting thorough analysis and investigations, we confirmed that there was no risk to the Bank's infrastructure, software, or production services. While we investigated and responded to the incident, only some new feature development processes experienced delays. The development process was reinstated once we ensured that the vendors had fully resolved the incident and its root causes. The Bank has in place a comprehensive system in place to mitigate the risk of cyber-attacks, as described below.

**Threat landscape**

In order to adequately address the challenges posed by cyberattacks, we are continuously analysing the Bank's cyber threat landscape and assessing all relevant threat scenarios and actors, considering their intentions and capabilities, as well as the tactics, techniques, and procedures they are using or may use during their campaigns. Our focus is to be prepared against Advanced Persistent Threats. Among the many different threat vectors we are covering and monitoring, the top four are below:

- Attacks against internet facing applications and infrastructure;
- Software supply chain attacks;
- Phishing attacks against our customers; and
- Phishing attacks against our employees.

**Our vision and strategic objectives**

Information and cyber security are an integral part of the Bank's governance practices and strategic development. The Bank's cyber security vision and strategy is fully aligned with its business vision and strategy and addresses all the challenges identified during the threat landscape analysis.

Our vision is to strengthen our security in depth approach, enable secure and innovative businesses, and maintain a continuous improvement cycle. Our strategic objectives are:

- To maintain our defence in depth approach by strengthening the team and implementing cutting-edge technologies, in order to maintain resilience against Advanced Persistent Threats, which may come from state- sponsored actors or organised cybercriminals;
- To maintain compliance with industry leading information and cyber security standards, sustain a continuous improvement cycle for our information and business continuity management systems, and be one step ahead of regulatory requirements; and
- To optimize and automate security processes and provide security services seamlessly to the Bank's business (where possible).

**Our security in depth approach and cyber-resilience program**

In order to follow our vision and achieve our strategic objectives, we run effective information and cyber security programmes, functions and systems, as follows:

- Layered preventive controls are in place, covering all relevant logical and physical segments and layers of the organisation and infrastructure in order to minimise the likelihood of successful initial access:
  - Data security controls
  - Identity and access controls
  - Endpoint security controls
  - Infrastructure security controls
  - Application security controls
  - Internal and perimeter network security controls
  - Physical security controls
- A professional team is in charge of effectively implementing, assuring the effectiveness of, maintaining and fine- tuning the preventive controls mentioned above. The number and level of expertise of the team members is significant. Our team members hold industry leading certificates and work on a daily basis to strengthen and extend their professional skill sets.
- Layers of preventive controls in conjunction with a comprehensive awareness programme provide the best combination in order to minimise the likelihood of successful attacks. Our robust awareness programme helps employees and customers to improve their cyber hygiene, understand the risks associated with their actions, identify cyberattacks they might face during day-to-day operations, and improve the overall risk culture. Our awareness program provides relevant materials to all key roles, from the Management Board to IT engineers and developers. It covers annual trainings and attestations for all employees, newcomer trainings and attestations, social engineering simulations, security tips and notifications for all employees, security awareness raising campaigns for customers, and more.
- Since we believe that 100% prevention is not achievable, the Bank has threat hunting capabilities and a security operations centre in place that seeks to monitor every possible anomaly in near real-time that is identified across the organisation's network in order to detect potential incidents and respond in a timely and effective manner to minimise the negative impact of possible attacks. To be up-to-date and track the techniques and tactics of our adversaries, we are elaborating cyber threat intelligence procedures according to industry best practices and following the MITRE ATTACK framework.

- Information security governance and effective risk management processes ensure that the Bank has the correct guidance, makes risk-informed decisions in compliance with its risk appetite, complies with regulatory requirements and achieves a continuous improvement cycle. The Information Security Committee, which is chaired by the CEO, has the ultimate responsibility to assure that an appropriate level of security is maintained, and a continuous improvement cycle of management processes is achieved. The Bank is in compliance with the NIST Cyber Security Management Framework, and its Information Security Management System is ISO 27001 certified.
- On top of all of the above, the Bank further strengthens its cyber resilience through an effective Business Continuity Management System and cyber insurance policy, in order to manage contingencies and recover from serious disruptions with minimum possible impact.

**How we measure and assure an acceptable level of security**

To assess and assure an acceptable level of information and cyber security, we rely on external/internal audit reports, red teaming exercise reports, and the results of penetration tests, which are conducted by our high professional internal team and reputable external third party partners.

- On an annual basis we conduct:
  - An external audit of SWIFT Customer Protection Framework;
  - An external audit of the NBG's Cyber Security Framework, which is based on the NIST Cyber Security Management Framework;
  - External surveillance audits of ISO 27001;
  - Penetration tests against internet facing applications and critical infrastructure with help of our highly reputable partners.
- Our internal team is in charge of continuous penetration tests of internal and external applications and infrastructure.
- We conduct regular red and purple teaming exercises and assess our security capabilities against real world advanced threat actors.

### The Bank Remains Exposed to Some Reputational Risk

There are reputational risks to which the Bank may be exposed, such as risks related to international sanctions imposed on Russia in response to the war in Ukraine, relations with correspondent banks and international financial institutions. There are risks of phishing, other cybercrimes, and temporary service interruptions, which can be viewed as reputational risks due to the increasing digitalisation of services that the Bank provides. There may also be isolated cases of anti-banking narratives in the mass media, which particularly intensify in the run-up to elections. However, most of these risks are not unique to the Bank as they apply to the entire banking sector.

To mitigate the possibility of reputational risks, the Bank works continuously to maintain strong brand recognition among its stakeholders. The Bank follows all relevant external and internal policies and procedures to minimize the impact of direct and indirect reputational risks. The Bank monitors its brand value through public opinion studies and surveys and by receiving feedback from stakeholders on an ongoing basis. Dedicated internal and external marketing and communications teams actively monitor mainstream media and social media coverage on a daily basis. These teams monitor risks and develop prevention policies, risk scenarios and contingency plans. The Bank tries to identify early warning signs of potential reputational or brand damage in order to mitigate and elevate them to the attention of the Supervisory Board before they escalates. A special Task Force is in place at the top management level, comprised of the management, strategic communications, marketing and legal teams, to manage reputational risks when they occur. Communications and Cyber-security teams conduct extensive awareness-raising campaigns on cyber-security and financial literacy, involving the media, the Banking Association of Georgia and Edufin (TBC's in-house financial education platform) aimed at mitigating and preventing cyber threats and phishing cases.

### The Bank is Exposed to Regulatory and Enforcement Action Risk

The Bank's activities are highly regulated and thus face regulatory risk. The NBG sets lending limits and other economic ratios (including, but not limited to lending, liquidity, and investment ratios) along with the mandatory capital adequacy ratios. In addition to complying with minimum reserves and financial ratios, the Bank is required to submit periodic reports. It is also subject to the Georgian tax code and other relevant laws. Following the parent company's listing on the London Stock Exchange's premium segment, the Bank became subject to increased regulations from the UK Financial Conduct Authority. In addition to its banking operations, the Bank also offers other regulated financial services products, including leasing, insurance, and brokerage services. The Bank is also subject to financial covenants in its debt agreements. For more information, see the Bank's Audited Financial Statements.

The Bank has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Bank's operations. The Bank's "three lines of defence" model defines the roles and responsibilities for risk management. The first line of defence is responsible for compliance risk, strongly supported by the Bank's compliance department as the second line of defence. The Chief Compliance Officer oversees compliance within the Bank and reports quarterly to the relevant committee of the Supervisory Board, with a managerial reporting line to the CEO. The Bank's Audit Committee is responsible for ensuring regulatory compliance at the Supervisory Board level.

The Bank's compliance programme provides compliance policies, trainings, risk-based oversight and ensures compliance with regulatory requirements. The Bank's Compliance Department seeks to manage regulatory risk by:

- ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner;
- participating in the new product/process risk approval process;
- conducting analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses; and
- conducting an annual compliance risk assessment (RCSA) of internal processes.

The Bank's Compliance Department ensures that all outcomes of the above-mentioned analysis and processes are addressed in a timely and appropriate manner. Additionally, as a second line of defence the Compliance Department defines the risk metrics and monitors them at the frequencies defined by the Bank's Risk Appetite Framework. The Compliance Department is responsible for escalating breaches of defined limits to the relevant boards.

### The Bank's operating region introduces financial crime risk

Financial crime risk covers money laundering, terrorist financing, bribery and corruption, and sanctions risks. The risks associated with sanctions have increased, particularly in recent years. Therefore the Bank's specific focus in 2023 remained on managing sanctions risk.

Historically, Georgia has enjoyed close business relations with Russia and Ukraine. The aggression launched by the Russian Federation against Ukraine on the 24th of February 2022 resulted in a vigorous international response which translated among others into the imposition of the tough economic sanctions by US, EU, UK and other countries. As a consequence, Russian and Belarusian members of legislative and government agencies, oligarchs, businessmen, state-owned companies, financial institutions and other legal entities have been directly sanctioned, while numerous economic restrictions and trade prohibitions have been enforced on some sectors of activity and specific categories of goods and services in Russia, Belarus, Crimea and other occupied territories. Leading countries are tightening and expanding the sanctions programme by extending some restrictions and adding new entities and individuals to their list. Moreover, as a consequence of the conflict, many Russian citizens have relocated to Georgia. Considering the level of interactions between the Bank, Russia and Russian citizens, and the breadth of the sanctions' prohibitions and restrictions, the risk of being involved in attempts to circumvent sanctions has substantially increased.

In addition to the sanctions risk related to Russia, a significant increase in international shipping costs has exposed Georgia to the risk of financing transshipments via Iran for its import and export activities with Asian countries, which is prohibited by the US government.

The Bank has a zero tolerance stance towards breaching or facilitating the breach or avoidance of UN, UK, US and EU sanctions. The Bank is committed to avoiding transactions with direct or indirect sanctioned parties or goods or services.

The Bank has adopted a Financial Crime Policy that sets requirements in the following key risk areas: money laundering, terrorist financing, bribery, corruption, and sanctions. The policy applies to all business activities and employees. Employees receive trainings on financial crime risk management. The employees are made aware of the Bank's appetite for and approach to financial crime management as well as the potential consequences following the failure to comply with the financial crime policy.

The Bank aims to protect its customers, shareholders, and society from financial crime and any resulting threat. The Bank is fully committed to complying with applicable international and domestic laws and regulations related to financial crime as well as relevant legislation. It has a long-standing ambition to meet the respective industry best practice standards.

The Bank has implemented internal policies, procedures and detailed instructions designed to prevent any association with money laundering, financing of terrorism, or any other unlawful activities such as bribery, corruption, sanctions or tax evasion. The Bank's AML/CTF compliance programme, as implemented, comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; a customer acceptance policy; customer screening against a global list of terrorists, specially designated nationals, relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities by the Bank's customers.

The Bank has dedicated material resources to sanctions risk management. It has:

- Purchased software and databases that assist the Bank on sanctions risk mitigation;
- Engaged external advisers to produce recommendations on improvements in sanctions risk management;
- Engaged external audits to assess internal policies and procedures; and
- Empowered dedicated staff with the relevant, specific knowledge

As part of the second line of defence, the Bank's Compliance Department seeks to manage risk in accordance with the risk appetite defined by the Bank and promotes a strong risk culture throughout the organisation. The Bank has a sophisticated, artificial intelligence-based AML solution in place to enable AML Officers to monitor clients' transactions and identify suspicious behaviour. Using data analytics and machine learning, the Bank developed an anomaly detection tool to bring very complex cases to the surface, using client network analysis to identify organized money laundering cases and enriched pre-defined patterns to create an automated system. This approach has an immense business value as it uncovers cases in ways that would otherwise be prohibitively expensive, since manual analysis of these transactions is an extremely time-consuming process for AML officers. The tool compiles all these incidents into dashboards and presents them to AML officers for further action.

**The Bank underwrites the responsibility to adhere at all times to minimum regulatory requirements on capital, which may compromise growth and strategic targets. Additionally, Adverse Changes in FX Rates may Impact the Capital Adequacy Ratios**

Capital risk is a significant focus area of the Bank. Capital risk is the risk that the Bank may not have a sufficient level of capital to maintain its normal business activities, and to meet its regulatory capital requirements under normal or stressed operating conditions. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Bank's ability to continue as a going concern. The Bank's ability to comply with regulatory requirements can be affected by both internal and external factors. Some key concerns include the deterioration of asset quality leading to losses, reductions in income, rising expenses, and potential difficulties in raising capital. Local currency volatility has been and remains a significant risk for the JSC TBC Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8 pp, 0.7 pp and 0.6 pp drop in JSC TBC Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

The Bank undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Bank holds sufficient capital to meet the current minimum regulatory requirements. Capital forecasts, as well as the results of stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's Executive Management and the Risk Committee of the Supervisory Board to help ensure prudent management and timely action, when needed. These analyses are used to set appropriate risk appetite buffers internally, on top of the regulatory requirements. The Bank regularly performs stress tests serving multiple purposes. They are performed routinely, either under the frameworks listed or on an ad-hoc basis, to assess the magnitude of certain stressful environments. Stress tests are performed for the Internal Capital Adequacy Assessment Process (ICAAP), regulatory stress tests and the Recovery Plan, among other purposes. The key objective of the regulatory stress test is to define the net stress test buffer under the capital adequacy minimum requirement framework. Starting from 2018, regulatory stress tests are performed and submitted to the regulator periodically. The latest regulatory stress test was performed in 2023. The purpose of the ICAAP is to identify all the material risks faced by the Bank and to have an internal view of the capital needed to cover those risks. The objective of the ICAAP is to contribute to the Bank's continuity from a capital perspective by ensuring that it has sufficient capital to bear its risks, absorb losses and follow a sustainable strategy, even during a stress period. Stress testing under the Recovery Plan assumes more severe stress scenarios, specifically aimed at breaching regulatory requirements and assessing the Bank's ability to recover the capital position with the help of viable recovery options within a reasonable timeframe. Under the risk appetite and the capital planning process, the Bank sets aside capital as a buffer to withstand certain amount of local currency fluctuation.

**Capital Adequacy**

The Bank's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements, and safeguard the Bank's ability to continue as a going concern.

The Bank complied with all its internally and externally imposed capital requirements throughout 2023.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

In 2020-2022, the NBG developed the concept and changes for the transition to IFRS. In January 2023, in line with the finalisation of the IFRS transition process, the NBG adopted amendments to the regulations relating to capital adequacy requirements. According to the new amendments, commercial banks must comply with supervisory regulations with IFRS-based numbers and approaches. Under the IFRS transition process, the NBG introduced a credit risk adjustment (CRA) buffer. The CRA buffer was implemented as a Pillar 2 requirement and was fully set on CET 1 capital.

In January 2023, the NBG made amendments to the systemic risk buffer calculation methodology. According to the new methodology, the current systemic risk buffer for JSC TBC Bank amounts 2.5% and can be increased by 0.5% if the Bank's non-banking deposits market share in the previous three-month period exceeds 40%. The Bank must comply with the increased requirement in a 12-month period unless the average market share of the previous 12-month period falls below 40%.

In March 2023, the Financial Stability Committee of the NBG decided to set the neutral (base) rate of the countercyclical buffer at 1%. Banks are required to accumulate a countercyclical capital buffer according to a predetermined schedule: 0.25% by March 2024, 0.50% by March 2025, 0.75% by March 2026 and fully phased-in 1% by March 2027. The countercyclical buffer could be increased at times of strong credit activity and suspended during periods of stress.

*The following table presents the capital adequacy ratios and minimum requirements:*

| ***in thousands of GEL*** | **31-Dec-23** | **31-Dec-22** | **31-Dec-21** |
|---|---|---|---|
| CET 1 capital | 4,235,033 | 3,333,039 | 2,759,894 |
| Tier 1 capital | 4,772,913 | 3,873,439 | 3,379,414 |
| Tier 2 capital | 601,388 | 643,086 | 723,513 |
| Total regulatory capital | 5,374,301 | 4,516,525 | 4,102,927 |
| Risk-weighted exposures:<br>Credit risk-weighted exposures | 21,018,445 | 18,818,597 | 18,091,753 |
| Risk-weighted exposures for market risk | 69,879 | 86,250 | 21,981 |
| Risk-weighted exposures for operational risk | 3,248,365 | 2,603,225 | 2,103,895 |
| Total risk-weighted exposures | 24,336,690 | 21,508,072 | 20,217,629 |
| *Minimum CET 1 ratio* | 14.3% | 11.6% | 11.7% |
| CET 1 capital adequacy ratio | 17.4% | 15.5% | 13.7% |
| Minimum Tier 1 ratio | 16.6% | 13.8% | 14.0% |
| *Tier 1 capital adequacy ratio* | 19.6% | 18.0% | 16.7% |
| Minimum total capital adequacy ratio | 19.8% | 17.3% | 18.4% |
| Total capital adequacy ratio | 22.1% | 21.0% | 20.3% |

GEL volatility has been and remains a significant risk to the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8pp, 0.7pp and 0.6 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

**Determination of Capital Adequacy Limits**

Within the risk appetite framework, the Bank sets additional buffer above the regulatory minimum requirement for CET 1, Tier 1 and Total Capital. The risk appetite limits are based on the robust analysis of volatility drivers and the Bank's risk profile. In the process of setting the limits the Bank takes into consideration forward looking elements related to the economic outlook, the Bank financial condition, planned capital distributions, potential impacts of the stress and uncertainties and etc.

### The Bank Faces the Risk that its Strategic Initiatives do not Translate into Long-term Sustainable Value for its Stakeholders

The Bank may face the risk of developing a business strategy that ensures sustain value creation, adapting to evolving customer needs, heightened competition and regulatory restrictions. Additionally, uncertainties from economic and social disruptions, such as ongoing war in Ukraine, may hinder the Bank's timely execution of its strategy, potentially compromising its capacity for long-term value creation.

To mitigate the risks, the Bank employs a multifaceted approach. The formation of our strategic portfolio is primarily driven by the Bank's strategy to broaden and diversify our business revenue streams. Thorough curation is conducted in the execution of strategy involving the Supervisory Board, the executive management, and middle management. These sessions serve as crucial checkpoints to ensure alignment with our strategic long-term objectives and our company's guiding principles that steer our course. Moreover, monitoring of the performance of strategic projects extends to quarterly analyses and tracking of metrics used to measure strategy execution. In cases of significant deviations, corrective or mitigation actions are promptly implemented.

### The Bank is Exposed to Risks Related to its Ability to Attract and Retain Highly Qualified Employees

As the Bank becomes increasingly digitally focused, it requires more IT professionals in its various departments. This shift accentuates the risk of potentially losing key personnel. In the highly competitive tech job market, this challenge extends not only to retaining these valuable employees but also to attracting, developing, and keeping new skilled workers. Ensuring these employees align with the Bank's objectives is vital. The situation calls for strategic planning in human resources to effectively manage this risk while supporting the Bank's digital evolution.

The aim of the Bank is to adapt to the rapidly changing business environment, increase leadership capabilities, achieve a high level of engagement among employees, and equip them with the necessary skills. To this end, the Bank actively monitors the labour market both in Georgia and abroad, proactively recruiting the best candidates and expanding its networks of key personnel. We create a robust international talent pipeline by regularly engaging with potential candidates, including passive job seekers with diverse profiles. We work on building an attractive international hiring brand. The Bank treats all employees equally and fairly, supporting and coaching them to succeed.

We empower our team members with robust tools and frameworks designed to foster ongoing learning, bolstered by an unwavering feedback mechanism. Our commitment extends to providing avenues for international growth and expansion for our staff. For senior roles, we've meticulously crafted a Succession Planning Framework, aimed at facilitating seamless transitions and presenting advancement prospects for our employees. Furthermore, we've implemented a Talent Management Framework to systematically recognize and nurture promising talent within our organization, ensuring their continual growth and progression at the Bank. Since 2019, our internal IT Academy has been a hub for tech education, offering courses in front-end and back-end development, DevOps, and other topics. These courses are available to both our employees and potential candidates. Led by experienced staff and industry professionals, the Academy has trained over 1,100 individuals from outside the organization and 1,500 within it, bringing in more than 300 skilled professionals to the Bank.

In 2023, our IT Academy launched a project in partnership with USAID (TBCxUSAID for technological education), aiming to train more than 700 participants, through 9 newly designed courses. We also introduced an iOS Laboratory. This project focuses on female empowerment and reaching regional areas.

Candidates selected for courses have the opportunity to become highly paid professionals in the field of information technology by working on bootcamps, practical lectures, mentorship sessions and real projects under the guidance of leading specialists from JSC TBC Bank. Courses are updated through consultations with top management, which allows us to integrate the latest trends in the field into the teaching process.

The IT academy also enables the Bank to ensure the development of technological skills of existing employees, allowing them to transition into tech-based professions and digitize and automate their day-to-day work.

### The Bank is exposed to Model Risk

Statistical, machine learning and artificial intelligence models are increasingly used in key business processes due to the rapid adoption of big data technologies and advanced data modelling techniques. In line with regulatory guidance and best practices, the Bank defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. The Bank has also developed model identification standards to operationalise the model definition.

Increasing reliance on models increases the need for proactive model risk management. The Bank defines model risk as a risk of adverse consequences (e.g., financial loss, reputational damage, etc.) arising from decisions based on incorrectly developed, implemented, or used models.

The Model Risk Management (MRM) function is the second line of defence and is responsible for identifying, measuring, and managing model risk in the Bank. MRM is organized around two components – governance and validation. The governance component of MRM develops and implements the policy, risk appetite and standards that define the roles and responsibilities of the different stakeholders and encompass all phases of the model lifecycle, from planning and development to initial model validation, model use, model monitoring, ongoing model validation and model retirement. It is also responsible for managing the model inventory and keeping model risk within the risk appetite. The validation component of the MRM is responsible for conceptual and technical model validations in line with the policy and standards developed and implemented by the governance component.

To mitigate model risk, the MRM function uses a risk-based approach during model validation processes. Model risk is identified during initial and ongoing model validations. Countermeasures to mitigate model risk and keep it within the risk appetite depend on the nature of the identified risk and can include actions like increasing validation frequency and/or depth, and calibration or redevelopment of the model.

### The Bank identifies risk in its growing dependence on data

In the domain of data management and data governance within the Bank, two prominent risks are noteworthy, each presenting unique challenges to the preservation and efficacy of the Bank's information assets. The first risk centres on the imperative need for data quality, a cornerstone for sound decision-making, regulatory compliance, and overall risk management. This challenge emanates from diverse sources, encompassing errors during data entry, the lack of standardised formats, and inconsistencies across data sources. The ramifications of compromised data quality include financial losses, operational inefficiencies, regulatory non-compliance, and reputational damage. The complexity is further heightened in dynamic market environments, necessitating robust mechanisms for data validation and cleansing.

Simultaneously, the Bank confronts a second pivotal risk associated with outdated and sometimes obsolete infrastructure. Legacy systems, characterized by outdated hardware and software, present a formidable challenge by impeding the seamless flow of data and obstructing the adoption of cutting-edge technologies. The risk intensifies with the rapid pace of technological advancements, rendering legacy infrastructure susceptible to security vulnerabilities and compliance issues. Moreover, the limited scalability of outdated systems constrains the Bank 's ability to process and analyse vast datasets efficiently, thereby impinging on the agility required for informed decision-making in the fast-paced financial landscape.

Mitigating these data risks requires a holistic and strategic approach tailored to the Bank. To address the challenge of data quality, the Bank is adopting advanced data quality management systems, implementing data profiling techniques, and enforces stringent data governance policies. Strategic investments in technologies like machine learning and artificial intelligence can automate the detection and correction of data anomalies, fostering a proactive stance towards maintaining accurate and consistent data. Cultivating a data-driven culture within the organisation, along with clear data lineage and documentation practices, enhances transparency and traceability.

In tackling the risks associated with outdated infrastructure, the Bank has embarked on a strategic and phased modernization approach. Investing in state-of-the-art technologies such as cloud computing and virtualization is imperative for increased flexibility, scalability, and security. A comprehensive assessment of the existing infrastructure, coupled with a roadmap for migration and upgrades, enables a systematic transition without disrupting critical operations. Embracing DevOps practices facilitates continuous integration and deployment, fostering a culture of agility and adaptability. Through these proactive measures, the Bank is positioning itself to capitalise on emerging opportunities while effectively mitigating the risks associated with both compromised data quality and outdated technological foundations.

### The Bank is exposed to legal risk

Legal risk refers to the potential for loss, whether financial or reputational, resulting from penalties, damages, fines, or other forms of financial detriment, which impacts or could impact the Bank and/or its employees, business lines, operations, products and/or its services, and results from the failure of the Bank to meet its legal obligations, including regulatory, contractual or non-contractual requirements.

The legal function as a second line of defense is an independent function integrated with the Bank. The Bank’s businesses and lines have responsibility for identifying and escalating legal risk in their area to the legal function.

The legal function is entrusted with the responsibility of (a) managing (including prevention) legal risks; and (b) interpreting the laws and regulations applicable to the Bank’s activities and providing legal advice and guidance to the Bank. The management of the legal risks includes defining the relevant legal risk policies, developing Bank’s risk appetite for legal risk, and oversight of the implementation of controls to manage and escalate legal risk. The advisory responsibility of the legal function is to provide legal advice to Executive Officers and the Supervisory Board in a manner that meets the highest standards.

The senior management of the legal function oversees, challenges and monitors the legal risk profile and effectiveness of the legal risk control environment across the Bank. The legal risk profile and control environment are reviewed by management through business risk committees and control committees. The Bank Risk Committee is the most senior executive body responsible for reviewing and monitoring the effectiveness of legal risk management across the Bank.

### The Bank is exposed to conduct risk

Conduct risk is defined as the risk of failing to achieve fair outcomes for customers and other stakeholders. The Bank’s Code of Ethics serves as a moral compass for all staff and sets high ethical standards that each employee is required to uphold. The Bank’s employees undertake and perform their responsibilities with honesty and integrity. They are critical to maintaining trust and confidence in its operations and upholding important values of trust, loyalty, prudence and care.

Furthermore, the Bank's leadership acknowledges the importance to a diverse range of domestic and global investors, emphasizing the importance of adhering to regulations and protocols to safeguard customers and uphold investor trust and market stability. The directors of the Bank are committed to establishing a strong leadership ethos, articulating and exemplifying the principles of good conduct that underpin the institution's operations.

In managing conduct risk, the Bank entrusts different departments and divisions with carrying out the task of managing, mitigating, and eliminating conduct risk across all of the Bank’s operations with clients and other stakeholders. The Compliance, Human Capital and Operational Risk departments cooperate to create a unified conduct Risk Management Framework and assist business lines and departments, in the following ways:

1. Developing and maintaining policies and procedures to ensure that individual employees and departments comply with regulatory provisions, best practices, the Code of Conduct, and the Code of Ethics;

2. Maintaining liaison with the Compliance Department, administering policies and procedures in conjunction with the compliance department and investigating complaints about the conduct of the department, its manager, or its employees;
3. The front-line employees of the organization should ensure that product information is accurate and complete, and is conveyed both in writing and orally in a simple, understandable manner, regardless of the level of sophistication of the client;
4. Keeping records of client interactions and emails containing sensitive and sales-related information, such as information in relation to the acquisition of new clients and the formulation of complex product offers;
5. By providing periodic training to all employees regarding evolving compliance standards within the Bank, we ensure that new employees are educated regarding proper conduct;
6. By creating a culture of openness that encourages employees to speak out without fear of punishment, we are preventing and detecting conflicts of interest, creating moral incentive programmes, creating bonuses, and achieving a risk-adequate incentive and disciplinary policy for the Bank;
7. Investing considerable time and effort in investigating, analysing, implementing, and monitoring sales and after- sales activities, and putting proper conduct into the required job skills, which ensures that conduct risk is not just managed by risk management units, including compliance departments.

### Emerging Risks

Emerging risks have significant unknown components and may affect the performance of the Bank over a longer-term horizon. We believe the following risks have the potential to increase in significance over time and could have a similar impact on the Bank as the principal risks.

### The Bank’s Performance may be compromised by Adverse Developments in the Region, in particular the war in Ukraine, the possible spread of the geopolitical crisis and/or the potential outflow of migrants from Georgia as well as further military escalation in the middle east, which could have a material impact on the operating environment in Georgia.

The Banks’s performance is highly vulnerable to geopolitical developments in Georgian market.

Although inflows to the Georgian economy are quite diversified, the country is still vulnerable to geopolitical and economic developments in its region. In particular, the Russian invasion of Ukraine, the consequent sanctions imposed on Russia and specific Russian nationals and the resulting elevated uncertainties may have an adverse impact on the Georgian economy. The country is also exposed to renewed military conflicts in its breakaway regions occupied by Russia, while some relatively distant conflicts, such as the escalation in the middle east, might affect the Georgian economy through a stronger US$, higher oil prices, migration flows, etc.

While the inbound migration effect continues to make an important contribution to economic activity, any sizeable outflow could lead to a deterioration in the business environment. The reverse would probably be the case in any rapid conflict resolution scenario, which would create positive economic spillovers as well, such as the likely stronger rebound of growth in Russia and Ukraine.

Materialisation of these risks could severely hamper economic activity in Georgia, and negatively impact the business environment and client and customer base of the Bank.

The Bank actively employs stress testing and other risk measurement and monitoring tools to ensure that early triggers are identified and translated into specific action plans to minimize the negative impact on the Bank’s capital adequacy, liquidity, and portfolio quality. In extreme stress cases, where regulatory requirements may be breached, the Bank has a Recovery Plan in place, which helps to guide the Supervisory Board and the management through the process of recovery of the capital and/or liquidity positions within a prescribed timeframe.

### The Bank Recognizes Its Exposure To The Risks Arising from Climate Change

The risks associated with climate change have both a physical impact, arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of households and businesses. For the Bank, both risks could materialize through impaired asset values and the deteriorating creditworthiness of our customers, which could result in a reduction of the Bank’s profitability. The Bank may also become exposed to reputational risks because of its lending to, or other business operations with, customers deemed to be contributing to climate change.

The Bank has in place an Environmental and Climate Change Policy. The policy governs its Environmental Management System ("EMS") and ensures that the Bank's operations adhere to the applicable environmental, health, safety, and labor regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. The management of environmental and social risks is embedded in the Bank's lending process through the application of the EMS. The Bank has developed risk management procedures to identify, assess, manage, and monitor environmental and social risks. These procedures are fully integrated in the Bank's credit risk management process. To identify, assess and manage risks associated with climate change, the Bank introduced an overall climate risk assessment and conducted a general analysis to understand the maturity level of the climate-related framework. The general analysis process covered assessment of the existing policies and procedures, identification of areas for further development, and gap analysis. Based on the analysis, the main focus areas were identified and reflected in the climate action strategy, considering the Bank's business strategy. Furthermore, our Environmental and Climate Change Policy is fully compliant with local environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

In order to increase our understanding of climate-related risks to the Bank's loan portfolio, the Bank performed a high-level sectoral risk assessment, since different sectors might be vulnerable to different climate-related risks over different time horizons. In 2022, we advanced our TCFD framework further, especially in strategic planning and risk management, and performed climate stress testing. In 2023, we reviewed our climate stress testing model in order to consider new approaches, where available. Please see pages 54-79 for more details of our climate-related financial disclosures.

The Bank aims to increase its understanding of climate-related risks and their longer-term impacts over the coming years, which will enable it to further develop its approach to mitigation. Furthermore, the Bank's portfolio has strong collateral coverage, with around 79% of the loan book collateralised with cash, real estate, or gold. Since the collateral evaluation procedure includes monitoring, any need to change collateral values arises from our regular collateral monitoring process.

In June 2023, the Bank released its full-scale sustainability report for 2022 in reference to Global Reporting Initiative (GRI) standards. The Global Reporting Initiative (GRI) helps the private sector to understand and realise its role and influence on sustainable development issues such as climate change, human rights and governance. The report is designed for all interested parties and groups in Georgia and abroad and aims to give them clear, fact-based information about the social, economic, and environmental impact of our activities in 2022. It presents our endeavours to create value for our employees, clients, suppliers, partners, and society as a whole. The Sustainability Report 2022 is available at www.tbcbankgroup.com.

At the executive level, responsibility for ESG and climate-related matters is assigned to the ESG Steering Committee, which was established by the Management Board in March 2021 and is responsible for implementing the ESG and climate action strategy and approving detailed annual and other action plans for key projects. The ESG Committee meets on a quarterly basis.

In January 2022, the Bank established an Environmental, Social and Governance (ESG) and Ethics Committee at the Board level, as well as at the Supervisory Board level in line with the Company's "mirror boards" structure. This reflects the importance of sustainability in TBC's corporate governance and allows Board members to dedicate more time and focus to ESG topics. The Committee provides strategic guidance on climate-related matters and reports to the Board, which has overall oversight. For more details about the management of ESG matters, please see our ESG strategy section on pages 51-54.

## Credit Risk Mitigation

For the purposes of credit risk mitigation, the Bank actively uses various types of collateral. Real estate, movable property, intangible assets, financial assets, suretyship and third-party guarantee can be used by the Bank as collateral. The Bank has appropriate processes in place to ensure that the market value of collateral is defined properly and collaterals serve as an effective tool for credit risk mitigation.

## Key Policy and Procedures for Collateral Management & Appraisal

Collateral represents the most significant credit risk mitigation tool for the Bank, making effective collateral management one of the key risk management components. Collateral on loans extended by the Bank may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Bank has a largely collateralised portfolio in all segments, with real estate representing a major share of collateral. A centralised unit for collateral management governs the Bank's view and strategy in relation to collateral management and ensures that collateral serves as an adequate mitigating factor for credit risk management. The collateral management framework consists of a policy-making process, a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) and collateral portfolio analysis.

Collateral Management & Appraisal Department (CMAD) complies the draft documents: collateral management policy (approved by the Supervisory Board TBC PLC), collateral management procedures manual (approved by Board of Directors of TBC Bank) and other regulations/internal rules (approved by Risk Director of the Bank); purchases an appraisal service that must be in line with International Valuation Standards (IVS), acting NBG regulations and internal rules; authorizes appraisal reports and manages the collateral monitoring process (collaterals with high market value are revaluated annually, while statistical monitoring is used for collaterals with low market value). The CMAD uses a mixed quality check scheme for valuation: appraisal reports are reviewed internally by its staff and separately by an external company. Almost all activities under collateral management are automated through an in-house web application.

## Main Types of Collateral

According to the Bank's Collateral Management Policy, collaterals are divided into 4 groups:

- Real estate;
- Movable property;
- Intangible asset;
- Suretyship, guarantee.

Required collaterals are defined based on the credit product type and borrower's risk profile. The Bank's credit portfolio is well secured, with the main type of collateral being real estate.

For the purpose of capital adequacy calculation, the Bank uses funded and unfunded credit protection for credit risk mitigation. The following types of collateral are used as an eligible collateral for credit risk mitigation:

- Funded Credit Protection - Cash on deposit with, or cash assimilated instruments;
- Unfunded Credit Protection - Third party guarantees from Central Government or Central Banks, Multilateral Development Banks and Commercial Banks.

In order collateral to be used for the purpose of capital adequacy estimations, the requirements of the National Bank shall be satisfied in accordance with the provisions of the Capital Adequacy Requirements of the Commercial Banks.

The following table presents the Credit Risk Mitigation as of December 2023 per exposure class and collateral type used:

| | **Credit Risk Mitigation** | *in thousands of GEL* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Funded Credit Protection** | **Unfunded Credit Protection** | | | **Total Credit Risk Mitigation - On-balance sheet** | **Total Credit Risk Mitigation - Off-balance sheet** | **Total Credit Risk Mitigation** |
| | | **Cash on deposit with, or cash assimilated instruments** | **Central governments or central banks** | **Multilateral development banks** | **Commercial banks** | | | |
| 1 | Claims or contingent claims on central governments or central banks | - | - | - | - | - | - | - |
| 2 | Claims or contingent claims on regional governments or local authorities | - | - | - | - | - | - | - |
| 3 | Claims or contingent claims on public sector entities | - | - | - | - | - | - | - |
| 4 | Claims or contingent claims on multilateral development banks | - | - | - | - | - | - | - |
| 5 | Claims or contingent claims on international organizations/institutions | - | - | - | - | - | - | - |
| 6 | Claims or contingent claims on commercial banks | - | - | 365 | - | - | 365 | 365 |
| 7 | Claims or contingent claims on corporates | 330,862 | 21,364 | 35,060 | - | 243,942 | 143,344 | 387,286 |
| 8 | Retail claims or contingent retail claims | 74,439 | 1,410 | 30,661 | - | 95,350 | 11,159 | 106,509 |
| 9 | Claims or contingent claims secured by mortgages on residential property | 7,093 | 25 | 1,708 | - | 8,662 | 163 | 8,825 |
| 10 | Past due items | 941 | 2,005 | 2,147 | - | 4,423 | 670 | 5,093 |
| 11 | Items belonging to regulatory high-risk categories | 52,122 | - | - | - | 52,122 | - | 52,122 |
| 12 | Short-term claims on commercial banks and corporates | - | - | - | - | - | - | - |
| 13 | Claims in the form of collective investment undertakings | - | - | - | - | - | - | - |
| 14 | Other items | 342,408 | 35,053 | 10,668 | - | 372,122 | 16,007 | 388,129 |
| | **Total** | **807,865** | **59,856** | **80,608** | **0** | **776,622** | **171,708** | **948,329** |

### Information on Credit Risk Concentrations According to Mitigation Tools

The Bank's credit portfolio is well secured. 74.6% of the portfolio is secured with real estate, 3.5% is secured by cash deposits and gold (3.57% and 0.95% respectively). Other types of collateral are movable property and third-party guarantees.

### Main Types of Guarantees and Contracts Received as Collateral

The significant part of guarantees and counter guarantees that are used as collateral for credit risk mitigation, are banking guarantees/counter guarantees. The Bank's assessment process is held by the Financial Risk Management (FRM) department in accordance with the business requirements. In particular, the request for financing of various banking products arises from the Treasury, Trade Financing and Business Units.

### Interbank Limit Assessment Procedure

The Trade Finance department receives the application about the guarantee/letter of credit/factoring request from a counter guarantee bank and provides the financial risk management department with the respective information. In addition, the Treasury department sends a request about setting the limit on the bank for treasury purposes. The Compliance Department checks the counter-party bank, the applicant, the beneficiary and the financing operation in case of Trade Finance request, and the counter-party bank, in case of Treasury request. After receiving a positive recommendation from Compliance Department, the assessment of counter-party bank is conducted by the FRM department based on the "Counterparty risk limits assessment methodology".

The limits of counter-party banks are set according to ratings assigned by the international rating agencies (Moody's; Fitch Ratings; S&P) and/or ratings derived from an internally developed model[9], based on which maturity of transactions is defined with the respective limits.

If the counter-guarantee banks average international rating is more than or equal to "BBB", the FRM uses the latter rating for defining the limit and assesses the bank's main financial and non-financial metrics.

If the bank is assessed by one international rating agency, or its average credit rating is less than "BBB", the bank's assessment is done by an internally developed model, based on the following factors:

**Bank's Financial Metrics:**
- Capital adequacy;
- Credit portfolio quality;
- Liquidity and funding;
- Profitability.

**Warning Signals:**
- Governance;
- Risk management framework;
- International credit rating;
- Operating environment;
- Regulatory environment and other signals.

After analysing the counter-guarantee bank's financial and non-financial metrics, the FRM presents its recommendation to the respective decision-making committee. In order to ensure the compliance with the decision-making tiers and flawless implementation of risk approval process, the FRM uses the "Instruction on Counter-party Risk Approval Committee Decision-Making Process" as a guideline.

The FRM may consider setting general limit for the counter-party bank, if the Trade Finance department deems it necessary, due to possible frequent future transactions.

The counterparty limits monitoring is carried out on a daily basis by FRM department. Limit violations are analysed with Treasury and Settlements departments in order to take immediate actions for mitigation

TBC Bank has in place a Counterparty Risk Management Policy, which determines the principles of the process for the counterparty risk management and it regulates the activities of the departments and employees involved.

The FRM reviews the Interbank Limit Assessment Methodology on an annual basis.

### International Ratings

Under the Standardized Approach to risk weights, ratings from the External Credit Assessment Institutions ('ECAIs') are mapped to Credit Quality Steps ('CQS') according to the NBG regulation. The CQS value is then mapped to a risk weight percentage.

With regards to the credit rating, the Bank may use the ratings from the following ECAIs: Fitch, Moody's, and S&P. The credit ratings are used for the following risk classes:

[9]If the counterparty is a resident bank, the final rating is defined based on the internal model developed. In case of non-resident banks, where the average international rating is less than "BBB", the final rating is derived as a minimum between average international and internal ratings.

- unconditional and conditional requirements for multilateral development banks;
- unconditional and conditional requirements for commercial banks;
- Unconditional and conditional requirements for central governments and central banks.

The credit rating mapping to credit rating quality is outlined in the table below:

| Allowed Credit Rating | Credit rating quality | Fitch | Moody's | S&P |
|---|---|---|---|---|
| Mapping of credit rating quality with long-term credit rating | 1 | From AAA to AA- | From Aaa to Aa3 | From AAA to AA- |
| | 2 | From A+ to A- | From A1 to A3 | From A+ to A- |
| | 3 | From BBB+ to BBB- | From Baa1 to Baa3 | From BBB+ to BBB- |
| | 4 | From BB+ to BB- | From Ba1 to Ba3 | From BB+ to BB- |
| | 5 | From B+ to B- | From B1 to B3 | From B+ to B- |
| | 6 | CCC+ and worse | Caa1 and worse | CCC+ and worse |

### Risk Reporting

The effective risk analysis and management process facilitates reliable, and timely reporting which is provided by the Risk Reporting division.

The Risk Function analyses the credit portfolio regularly. It analyses all portfolio indicators such as the volume, growth rate, structure, overdues, vintage analysis, concentration level, maturity, non-performing loans, write-off coefficients, provision charges etc.

Each ratio is analysed for the total portfolio, as well as for each segment/product with respect to historical and planned indicators. Operational and financial risks are also examined monthly, alongside the compliance of the risk profile with the risk appetite limits.

The risk management results and analysis are regularly presented to the Management Board and discussed at the Risk Committee of the Supervisory Board.

These reports cover the following main issues:

- Risk appetite;
- Credit risk results;
- Capital risk results;
- Liquidity risk results;
- Financial risk results;
- Market risk results;
- Operational risk results;
- Cyber security issues;
- Compliance issues; and
- Other financial and non-financial risks.

In addition to the above-mentioned topics, the committee get updates and discuss other relevant topics such as:

- Regulatory changes;
- Update on the risk strategic objectives;
- Important methodological or strategic changes, etc.

## 7. Environmental, Social and Governance (ESG) Strategy

Our role is connected to our responsibility to contribute to a better future through innovation and technology, to increase the accessibility of financial services, and to enable our customers to be a part of the globalised world.

Our aspiration to contribute to sustainable development comes from our role as the leading financial institution in Georgia's development. We are aware that we have an impact on the country's economy, business development, employment, and societal progress. As a market disruptor in Uzbekistan and with the international expansion of our operations, TBC also incorporate sustainable development approaches in the wider region.

Our ESG Strategy reaffirms our commitment to making a long-term, sustainable contribution and to be the leading supporter of ESG principles in the country and the wider region. The ESG Strategy is reviewed and approved by the Board of Directors annually, while implementation is overseen by ESG-related committees at the Board and executive management levels.

The ESG Strategy defines several key areas and targets with different time horizons:


**Key achievements in 2023:**

- The total volume of our sustainable portfolio reached GEL 1.23 billion, increased by 57% since the end of 2022, when it stood at GEL 782 mln.
- We measured our direct performance towards the Paris Agreement targets.
- For the first time in Georgia, we calculated our financed emissions in line with the standard of the Partnership for Carbon Accounting Financials (PCAF).
- We established the ESG Academy and developed the first green mindset and green financing course for our employees and customers.
- The women participation in ICT Risk and Finance reached 46% (the target for 2023 was set at 45%).
- We reached our green and social procurement target of GEL 5 mln.

The ESG Strategy follows a strategic road map, which reflects the milestones of our sustainability journey for the following years. In 2023, we actively continued to implement our initiatives to fulfil our targets, which are divided into four pillars: direct environmental impact, indirect environmental impact, social impact, and governance.

**Pillars 1 and 2: Direct and indirect environmental impact**

| 2021 ESG Strategy target / initiative | 2022 status | 2023 status |
|---|---|---|
| Establish ESG governance framework by the end of 2021 | ESG governance framework established at both Board and executive management levels. | Enhance ESG governance and achieve a higher maturity level. |
| Set up a system for measuring sustainability impacts across the Group, customers, employees and society | Regular reporting on key parameters to the ESG-related Committees at Board and executive management level established. | Increased granularity and automation of reporting, regular reporting on climate-related risks, scenario analysis, stress testing, and ESG risk appetite. |
| Increase the sustainable portfolio[1] | Volume of GEL 782 mln was achieved. | Volume of GEL 1.23 billion was achieved. |
| Develop the Group's Policy on Climate Change | Climate Change Policy developed and approved | Development of sectoral guidelines in line with the Climate Risk Radar of the National Bank of Georgia (NBG). |
| Green Taxonomy of the National Bank of Georgia | The NBG introduced the Green Taxonomy, developed in line with the best international taxonomies. The implementation action plan has been finalised. | The Green Taxonomy implemented; the respective documentation, procedure, calculation tools implemented and training for responsible staff conducted. |
| Implementation of the green lending framework | The green lending procedure implemented | Harmonisation of the green lending procedure and the green taxonomy of the NBG. |

In 2021, we published our first TCFD (Taskforce on Climate-related Financial Disclosures) report to demonstrate our commitment to taking active measures to mitigate climate change, to assess and mitigate climate risks, and to identify climate opportunities. Since 2021, we have advanced our TCFD framework further, especially in strategic planning and risk management. We took significant steps to develop our scenario analysis capabilities to better understand and act on the implications of climate-related risks and opportunities for our business and customers. We continued working with an external consultant and developed a stress testing model covering various economic sectors in Georgia in order to capture the stress testing impact on the whole credit portfolio of Bank. These developments are described in the climate-related financial disclosures on pages 54-79 of the Report. We understand that the transition to a lower-carbon and sustainable economy requires internal knowledge building, as well as awareness raising among customers, businesses, and the public. We focus on internal capacity building, involving in-house and external experts on a variety of topics: green lending, the NBG green taxonomy, the impact of climate change, climate-related risks, and scenario analysis.

**Pillar 3: Social Impact**

In order to expand our focus on diversity, gender, and inclusion issues, we have developed a Diversity, Equality and Inclusion Policy (available at our website: www.tbcbankgroup.com), which sets targets and establishes a methodology to advance diversity, equality and inclusion, integrating its approach into the company's operations and management processes and focusing on diverse areas including gender, multicultural, multigenerational, and disability backgrounds. We remain committed to having a gender-balanced workforce and culture that supports and empowers women.

| 2021 ESG Strategy target / initiative | 2022 status | 2023 status |
|---|---|---|
| Enhance the diversity of our employees. | Diversity, Equality and Inclusion (DEI) Policy, targets, and action plan defined. | Share of women in middle managers and agile leaders at 40%. |
| Increase customer loyalty, investor confidence, and employee motivation. | Comprehensive ESG training framework covering all TBC employees and different responsibility levels established. | Measure ESG awareness among employees and customers. |

**Pillar 4: Governance**

The Group ESG Strategy is reviewed and approved by the Board of Directors annually, while implementation is overseen by two ESG-related committees at the Board and executive management levels. During the year, the Committee supported and provided steering on the implementation of strategy, policies, and programmes in relation to ESG matters for the Group and its subsidiaries, ensuring that the Group's ESG Strategy is implemented effectively, meeting the set-out objectives across all business areas.

In 2023, we started to develop individual ESG strategies in significant subsidiaries of the Group. Several workshops were conducted with staff from the subsidiaries and working groups were established.

| 2021 ESG Strategy target / initiative | 2022 status | 2023 status |
|---|---|---|
| Enhance the ESG governance framework. | ESG governance framework established at both Board and executive management levels. | Enhance ESG governance and achieve a higher maturity level. |
| Set up a system for measuring impacts on sustainability across the Group, customers, employees, and society. | Regular reports on key parameters to the ESG-related Committees at Board and executive management level established. | Increased granularity and automation of reporting, regular reporting on climate-related risks, scenario analysis, stress testing, ESG risk appetite. |
| ESG strategies in material subsidiaries | Separate ESG Strategies developed. | Implementation of ESG Strategies in subsidiaries. |

In 2024, we will continue to follow our strategic plan and will focus on the following topics:

**SUSTAINABLE PORTFOLIO AND OTHER ASSETS**

In 2024, we will continue to focus on the growth of the sustainable portfolio and other assets. The ESG strategy sets an ambitious target of GEL 1.4 billion for our sustainable portfolio. The ESG strategy sets aspirational targets, such as Net-Zero greenhouse gas (GHG) emissions related to our direct environmental impact by 2025 and an increase in the sustainable portfolio, which consists of renewable energy loans, energy efficiency loans, and financing with social components such as women and youth financing, supporting start-ups and rural enterprises.

**ACTION PLAN FOR THE DIRECT NET-ZERO TARGET**

In 2024, we will focus on the development of detailed transitional plans, which will be based on the measurement results of the Group's performance against the Paris Agreement targets for the reduction of GHG emissions. To support the process, we contracted an international consultant company, local and international experts and developed a detailed scope of work covering the following activities: calculation of financed emissions, carbon reporting, Paris Agreement alignment, a decarbonization action plan, a carbon impact assessment methodology, carbon footprint assessments of selected customers, and building institutional capacity.

**MEASURE THE GROUP'S INDIRECT PERFORMANCE AGAINST THE PARIS AGREEMENT TARGETS**

In 2023, we built internal capacity on relevant GHG emissions calculation methodologies and approaches. We calculated financed emissions according to the PCAF standard. This was achieved via training and the use of external consultancies. As the next step, we aim to measure our indirect performance in line with internationally established standards and align it with science-based targets.

**ESG ACADEMY**

In 2023, we established the ESG Academy in order to raise awareness and knowledge of ESG topics including green and social financing, regulatory requirements, diversity and affirmative approaches, sustainable business models and practices among the Bank's customers as well as TBC staff. The first training programme 'Green mind-set and green financing' is supported by the partner international financial institutions (IFIs) – the Green for Growth Fund (GGF) and the European Fund for Southeast Europe (EFSE). The development of the training program started in November 2023; it will last for 22 months and will include extensive training over two days for 900 employees and one-day's training for up to 300 retail, MSME and corporate customers.

## 8. Climate-related Financial Disclosures

In 2021, we published our first disclosure to demonstrate our commitment towards taking active measures to mitigate climate change, to assess and mitigate climate risks and to identify climate opportunities. In 2022, we advanced our TCFD framework further, especially in strategic planning and risk management. These developments are described in this report. As the sustainability landscape evolves with new information and greater standardisation, TBC will continue to refine and expand its disclosures to provide meaningful information for stakeholders.

It should be noted that the data we have used provide the best available approach to reporting progress made, notwithstanding the challenges that exist given the incompleteness and novelty of the data sets and methodologies required for the Georgian environment, which bears the largest part of our activities. We expect the availability and reliability of required data to improve over time, and we intend to integrate applicable improved data into our reporting as it becomes available.

### 8.1 Governance

#### 8.1.1 Board's oversight of climate-related risks and opportunities

In 2021, we published our first disclosure to demonstrate our commitment towards taking active measures to mitigate climate change, to assess and mitigate climate risks and to identify climate opportunities. In 2022, we advanced our TCFD framework further, especially in strategic planning and risk management. These developments are described in this report. As the sustainability landscape evolves with new information and greater standardisation, TBC will continue to refine and expand its disclosures to provide meaningful information for stakeholders.

The TCFD Recommendations are structured around four content pillars: (i) Governance; (ii) Strategy; (iii) Risk Management; and (iv) Metrics & Targets; and eleven recommendations to support effective disclosure under each pillar. In 2023, we focused on drafting the methodology to measure our Scope 3 emissions (financed emissions) in line with the PCAF methodology and included the respective GHG emissions calculation results in the Scope 3 emissions.

In 2023, we reviewed the climate stress testing framework in order to incorporate the new information available. Furthermore, we defined our material Scope 3 components and calculated our financed emissions. As the sustainability landscape evolves with new information and greater standardisation, TBC will continue to refine and expand its disclosures to provide meaningful information to stakeholders.

It should be noted that the data we have used provide the best available approach to reporting progress made, notwithstanding the challenges that exist given the incompleteness and novelty of the data sets and methodologies required for the Georgian environment, which bears the largest part of our activities. We expect the availability and reliability of required data to improve over time, and we intend to integrate applicable improved data into our reporting as it becomes available.

## 8.2 Governance

### 8.2.1 Board's oversight of climate-related risks and opportunities

The Supervisory Board of Joint Stock Company TBC Bank approves and oversees the Group ESG Strategy in order to address the Group's targets and initiatives that relate to climate change, its direct and indirect environmental impact, and sustainable development across the Group. The ESG Strategy also covers customers, employees, suppliers, wider society, financial inclusion, employee relations and talent management, workplace diversity and inclusion. The Supervisory Board retains the primary responsibility for overseeing the implementation of the strategy, as part of its commitment to having direct oversight over the Group's climate-related issues.

In January 2022, the Group established an Environmental, Social and Governance (ESG) and Ethics Committee at the Supervisory Board. This reflects the importance of sustainability in TBC's corporate governance and allows the Supervisory Board members to dedicate more time and attention to ESG topics.

The role of the Committee has been formalised to support and advise the Supervisory Board in its oversight of the implementation of the: (i) strategy; (ii) policies; and (iii) programmes of the Company and its subsidiaries in relation to ESG matters and ensuring that the ESG strategy is implemented across all of the Group's relevant businesses. Furthermore, the ESG and Ethics Committee supports the Supervisory Board in promoting its collective vision of values, conduct and culture and overseeing the efforts of the executive management (the Executive Management of Joint Stock Company TBC Bank) to foster: (i) a culture of ethics; (ii) appropriate conduct; and (iii) employee ethical engagement within the Group. The Committee provides strategic guidance on climate-related matters and reports to the Board of Directors, which has overall oversight.

The ESG and Ethics Committee met four times during 2023 and covered the following topics: a) a regular review of and status update on the Group's ESG strategy, including its climate action strategy, and implementation plans; b) monitoring of their execution; and c) oversight and recommendations to the Supervisory Board for approval of the Group's disclosures on ESG matters, including reporting in line with the TCFD principles, in the Annual Report and Accounts. Key topics covered in 2023 by the ESG and Ethics Committee are as follows: tracking progress against the ESG Strategy's targets such as the volume of the sustainable portfolio; the Group's direct GHG emissions; review of the Environmental and Climate Change Policy, Human Rights Policy and Diversity, Equality and Inclusion Policy; review of the Exclusion List and ESG risk appetite; review of the climate action strategy, including the progress reports on the TCFD implementation; the involvement of external consultants in the advancement of the climate-related topics; review of the TCFD reporting for the Annual Report 2022 and the Sustainability Report 2022; the ESG and climate-related training agenda for TBC staff; and the ESG Strategy 2024.

The Supervisory Board is supported by the Risk Committee. For example, progress against the reporting metrics, such as the volume of the sustainable portfolio, is reported to the Risk Committee, which also received updates four times a year through the Chief Risk Officers' (CRO) report. In 2022, we elaborated on our ESG Risk Appetite and integrated it into our Risk Appetite Framework (RAF). The reporting started in June 2023. Furthermore, the responsibilities of the Audit Committee cover the review of annual reports, including TCFD reporting, as well as follow up on compliance through policies, procedures, and regulations.

The Remuneration Committee covered the ESG-related Key Performance Indicators of the executive management. Please see more details in the Annual Report 2023 of TBC Bank Group PLC on page 229.

The Supervisory Board has established a diverse and comprehensive training agenda, which is reviewed annually. The Group's Secretarial team creates a general training catalogue at the beginning of each year, which covers all relevant areas of Risk, Audit, Remuneration and Governance. The catalogue includes an effective mix of publicly available and client-tailored webinars, analytical materials, and opportunities for live discussion with industry participants. The providers of these training opportunities include the Big Four accounting firms, external legal advisors, chartered institutes (such as the Institute of Directors and the Governance Institute), and, where relevant, senior professionals with specific subject matter expertise. The Supervisory Board members use the training catalogue in order to create their bespoke training calendars and exchange knowledge during Supervisory Board meetings or via the Group's dedicated Board platform. In February 2023, as part of a larger, one-year climate-related project, further topic-specific training sessions on climate-related issues were delivered by the Frankfurt School of Finance and Management to equip members of the Supervisory Board as well as the executive management of Bank with detailed knowledge about TCFD and climate change-related risks and opportunities and the operative tools available to implement the climate action strategy.

### 8.2.2 Executive management's role

At the executive level, responsibility for climate change-related risks and opportunities is assigned to the ESG Committee, which was established by the executive management in March 2021 and is responsible for implementing the ESG strategy and approving annual action plans and separate, detailed action plans for key projects. The progress and implementation status of action plans are monitored at the ESG Committee's meetings. In 2023, the ESG Committee met four times and covered various climate-related topics: TCFD reporting; the TCFD implementation action plan; the ESG risk appetite, progress against the ESG Strategy targets such as the volume of the sustainability portfolio; the Environmental and Climate Change Policy; direct GHG emissions reports; ESG and climate-related training agenda for the TBC staff; and the involvement of external international and local experts in the development of climate-related approaches and methodologies. The ESG Committee's responsibilities also include the review and monitoring of climate-related risks and opportunities as well as the establishment of an effective mitigation and control system to manage identified (material) climate-related risks. The ESG Committee meets on a quarterly basis.

The implementation of the ESG strategy is supported by the various organisational functions responsible for ESG matters: a) the Environmental and Social Risk Management Team - responsible for the E&S risk assessment in lending, b) the ESG Department - coordinating and supporting the implementation of the ESG Strategy, and c) the ESG competences centre, which is a working group initiated in order to support the enhancement of the TCFD framework.

Furthermore, the Environmental Committee meets on a quarterly basis and oversees the implementation and operation of the Environmental Management System, which includes addressing resource consumption and other environmental impacts of the Bank's daily operations. The ESG Department and Environmental and Social Risk Management Team regularly report on the environmental management plans and results to the Environmental Committee. The Environmental Committee reports directly to the Chief Risk Officer.

## 8.3 Strategy

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations. Furthermore, we aim to contribute and enable positive impacts on the environment. In order to achieve this, the Group has clearly defined processes in place to identify and assess climate-related risks to our business. This approach enables the Group to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

TBC Bank has reviewed all the operational activities, procured items and outsourced services that it can control (present and planned), and has identified all environmental aspects relevant to the business. The direct environmental impact of our business activity arises from energy, water, fuel and other resource usage, waste and emissions. The Bank has established a comprehensive internal environmental system to manage its GHG emissions and is committed to reducing them by closely monitoring its consumption of resources. In order to evaluate the significance of the impact for each of the categories, we have developed a comprehensive evaluation methodology and applied it to the whole Group. Based on this, annual goals are defined, and specific initiatives and programmes are developed to attain them.

In 2020, the Bank obtained an ISO 14001:2015 certificate for its Environmental Management System. In 2021 and 2022, the Bank completed the re-certification process successfully. The renewal of the certificate for 2023 was conducted in December 2023 and was also completed successfully. More information about the Environmental Management System can be found in the Risk Management section of this chapter on pages 67-74.

In 2021, the Group developed and approved its ESG Strategy. In 2023, we updated our ESG Strategy in order to reflect the progress made during 2022 and adjust the targets and initiatives for future years.

Summary table on ESG Strategy progress during 2023:

| 2021 ESG Strategy target / initiative | 2022 status | 2023 status |
|---|---|---|
| Establish an ESG governance framework until the end of 2021 | ESG governance framework established at both Board and executive management levels. | Enhanced ESG governance and achieve a higher maturity level. |
| Set up a system for measuring impacts on sustainability across the Group, customers, employees, and society | Regular reports on key parameters to the ESG-related Committees at Board and executive management level established. | Increased granularity and automation of reporting, regular reporting on climate-related risks, scenario analysis, stress testing, and ESG risk appetite. |
| Increase the sustainable portfolio | Target volume for 2022 was GEL 750 mln; Volume of GEL 782 mln was achieved. | Target volume for 2023 was GEL 1.0 bln; Volume of GEL 1.23 bln was achieved. |
| Group's Policy on Climate Change | Climate Change Policy developed and approved[10]. | Development of sectoral guidelines – Climate Risk Radar of the NBG. |
| Green Taxonomy of the National Bank of Georgia | The National Bank of Georgia introduced the Green Taxonomy, developed in line with the best international taxonomies. The implementation process has been finalised. | The Green Taxonomy has been implemented. |
| Implementation of the green lending framework | Green lending procedure implemented. | Harmonisation of the green lending procedure and the Green Taxonomy of the National Bank of Georgia (NBG). |
| ESG profiles for corporate customers | The framework on ESG profiles for corporate customers developed. | Implemented for the existing Top 20 corporate customers. |
| Incorporation of ESG matters in risk appetite | Development of ESG risk appetite. | Regular reporting, monitoring and review established. |
| Increase customer loyalty, investor confidence and employee motivation | Establishment of ESG training framework for all TBC employees. | Measure ESG awareness among employees and customers. ESG Survey for investors. |
| ESG strategies in material subsidiaries | Separate ESG Strategies developed. | ESG Strategies implemented and supporting ESG function at the Group level established. |
| Net-zero target for direct environmental performance | | The Group's direct performance has been measured against the Paris Agreement targets for the reduction of GHG emissions. |
| Develop a plan to enable our indirect environmental impact to also reach net zero. | A methodology to calculate financed emissions defined and the availability of necessary data analysed. | A methodology to calculate financed emissions based on the PCAF approaches has been developed and financed emissions have been calculated for six asset classes. |

[10] https://www.tbcbankgroup.com/media/2951/environmental-and-climate-change-policy.pdf

The Group's ambition is to be the leading supporter of ESG principles in Georgia and the wider region. We aspire to make our direct environmental impact net zero (Scope 1 and Scope 2 GHG emissions) by 2025 and to continue to develop our plan to enable our indirect environmental impact (Scope 3 emissions) to also reach net zero as soon as practicable thereafter.

Our long-term aspirations are supported by the different measures outlined in the ESG Strategy. The key components for 2024 and 2025 are listed below:

- Action plan for our direct net-zero target;
- Measure the Group's indirect performance against the Paris Agreement targets for the reduction of GHG emissions;
- Development of a long-term transition plan;
- Forecasting methodology and tools for supporting medium and long-term targets for GHG emissions reduction;
- Excluding/limiting high-carbon activities (Please see our Exclusion List – https://www.tbcbankgroup.com/media/2876/tbc-banks-exclusion-list.pdf);
- Increase ESG awareness and knowledge of the risks and opportunities of climate change among employees, customers and the wider public;
- ESG Academy - green financing training courses for employees and customers;
- Implementation of IFRS S1 and IFRS S2.

The Bank has several different initiatives underway that support the management of climate-related risks and the realisation of opportunities:

- Advisory and product services for customers;
- Sectoral approach towards climate-related risks and opportunities;
- Climate-related training for TBC staff;
- Green taxonomy training and capacity building of TBC employees;
- Green mindset and green technology training for customers.

### 8.3.1 Climate-related risks and opportunities

Climate-related risks
The table below contains a summary of potential transitional and physical risks identified by the Group for the Georgian environment.
The time horizons considered in the assessment are short (0-3 years), medium (4-8 years), and long (above eight years). The levels of possible impact are classified as low, medium or high. The categories of low, medium and high risk were applied to compare the relative risk of sectors and risk categories. They do not indicate the materiality of the respective risk. The same is true of judgements of the riskiness of sub-categories of transitional or physical risk compared to other sub-categories. Since these judgements are relative rather than absolute, they cannot be compared to other countries or regions.
The overall assessment of transitional and physical risks is given below. The time horizon indicates, when the respective risk will start to materialise, while the level of potential impacts gives the level of the risk. It is assumed that the level of risks remains the same in the following periods.

| | Transition risks | | | | Physical risks | |
|---|---|---|---|---|---|---|
| **Risk sources** | **Policy and Legal** | **Technology** | **Market** | **Reputation** | **Acute** | **Chronic** |
| Types of risks | - Enhanced regulatory environmental and mandated requirements: may introduce minimum standard or expectations on green credentials of product outputs or business operations, enhanced emissions-reporting obligations | - Substitution of existing products and services with lower emissions options, including requirements to replace manufacturing technology to cleaner alternatives<br>- Investment in technology to reduce emissions or improve energy efficiency of operations and households. | - Changing customer behaviour including deliberate move to lower carbon footprint products<br>- Increased cost of raw materials, increased volatility and costs, sourcing restrictions for carbon heavy raw materials | - Shifts in consumer preferences to green products<br>- Stigmatisation of sector, resulting in reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention)<br>- Increased stakeholder concern or negative stakeholder feedback | - Increased severity of extreme weather events such as floods | - Changes in precipitation patterns and extreme variability in weather patterns affecting food production and living environment<br>- Rising mean temperatures affecting working conditions, living conditions and local infrastructure<br>- Rising sea levels affecting local ecosystems, increasing subsidence and flood risks |
| Time horizon | Medium | Long | Medium | Long | Medium | Long |
| Level of potential impacts affecting customers and the Bank | Low | Low | Low | Low | Medium | Medium |

Furthermore, we employ the Methodology of the Risk Radar for Climate-related Risks[11], which was developed by the National Bank of Georgia (NBG) and can be applicable to the local context. This scoring system of the Climate Risk Radar has been applied for all sectors in Georgia classified as main sectors according to the NACE sector codes (Eurostat 2008). For the time being the highest score is 7, so there are no critical sectors yet identified in Georgia. However, some sectors (namely scores 7 and 6) need to be considered as potentially high risk and others (scores 4 and 5) render the portfolio vulnerable to climates risks[12]. The Risk Radar for Climate-related Risks gives a foundation for the assessment of the climate-related risks on a sectoral and customer level. We consider the Climate Risk Radar scores when addressing the risks and opportunities of climate-related activities. We developed our internal methodology of ESG profiles based on the Climate Risk Radar. More details are given in the section on the overall risk management process on page 72. Furthermore, the opportunities related to climate-exposed sectors are given below in the section on climate-related opportunities on pages 61-65.

[11] https://nbg.gov.ge/en/page/climate-risk-radar - The NBG, in cooperation with German Sparkassenstiftung for International Cooperation (DSIK), has prepared a report on the Climate-related Risk Radar for Georgian Economic Sectors and its possible application for the Financial Sector. The report develops a climate risk scorecard for Georgian economic sectors and assesses the financial sector's exposure to the identified risky sectors.

[12] Score 7 - A Agriculture, Forestry and Fishing, Growing of non-perennial Crops, Forestry and Logging, Manufacture of Food Products, Manufacture of Chemicals and chemical Products, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities. Score 6 - Growing of perennial Crops, Animal Production, Fishing and Aquaculture, Manufacturing, Manufacture of Tobacco Products, Manufacture of Coke and refined Petroleum Products, Manufacture of Motor Vehicles, Trailers and semi-Trailers, Construction, Transportation and Storage (https://nbg.gov.ge/en/page/climate-risk-radar).

**The overall assessment of the impact of transitional policy and legal measures**

Georgia's 2030 Climate Change Strategy[13] and Climate Strategy Action Plan[14] lays out different policy measures on which the Bank based its identification of the potential impact of the policy measures on the different economic sectors that are financed by the Bank. As a summary of the potential impact of the various transition risks identified, the transitional risks in Georgia and on the Bank's activities are low. The assessment considers that trade and services dominate the Georgian economy, and the policy measures outlined in Georgia's 2030 Climate Change Strategy will have a low overall impact on those economic sectors, especially in the short and medium term. Taking into consideration Georgia's status as a transitional and growing economy, Georgia's 2030 Climate Change Strategy aims not to impede GDP growth with policy measures but rather to support a smooth transition where necessary. It is worth noting that the economic sectors most affected by transitional risks worldwide, such as mining, crude petroleum, natural gas and metal ores, manufacturing coke and refined petroleum products[15], are only present to a very limited extent in Georgia, resulting in the transitional measures having a low overall impact on economic growth, if any.

**Technology risk**

Technology risk is a subcategory of transition risk. The technology risk related to climate change, unnecessary investments in technological development, or missing investments in technological improvements are assessed to be low in Georgia, as Georgian companies invest very little in the development of new green technologies; rather, they benefit from technologies developed in other (technologically advanced) countries and deploy technologies which are already tested and established. Therefore, failed investments are unlikely to occur.

**Market risk and reputational risk**

Market risk is low, as consumer behaviour in Georgia shows a very slow trend towards lower carbon footprint products. For reputational risk, no material impact is expected, as the Bank has developed Environmental and Social Risk Management Procedures to identify, assess, manage and monitor environmental and social risks which are fully compliant with Georgian environmental legislation and follow international best practices. Please see more information about the environmental management system on pages 67-74.

**The overall assessment of the impact of the acute and chronic physical risks**

Georgia's geographical location and natural conditions, as a small country with a mountainous landscape, a Black Sea coastal zone, and semi-arid areas in the Southeast, contribute to the country's vulnerability to the physical risks of climate change. The sectors that are thought to be most vulnerable to climate change in Georgia include agriculture, forestry, tourism, and healthcare[16].

The impact of acute and chronic physical risks on economic sectors which are financed by TBC Bank will materialise over time. For the Group, the risks can materialise through the impairment of asset values and the deterioration in the creditworthiness of customers operating in Georgia. Certain geographic areas and economic sectors, such as winter resorts and agricultural land, are already partially affected and might deteriorate further in the medium term. The overall assessment of the potential impact of acute and chronic risks on Georgia and on the Bank's activities is medium in a long-term perspective. Currently, there is no material impact on the Bank's activities observable. It is understood that climate change risks are largely associated with longer-term impacts; however, those longer-term impacts are unclear, especially considering the shorter-term maturity structure of the Bank's loan portfolio.

**Climate-related opportunities**

Climate-related opportunities are directly linked with climate risks and economic sectors which have

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[13] https://mepa.gov.ge/En/Files/ViewFile/50123
[14] https://mepa.gov.ge/En/Files/ViewFile/50122
[15] Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change | Bank of England
[16] https://unfccc.int/sites/default/files/resource/Geonc3.pdf

significant negative environmental impact and/or might be potentially affected by climate risks. The financing of mitigation measures (reducing of GHG emissions) covers sectors such as transportation, building, energy generation and transmission, agriculture and manufacturing.

The adaptation to climate change covers sectors of agriculture, infrastructure, tourism and water resources.

The Bank's approach corresponds with the Climate Action Plan of Georgia for the implementation of the Nationally Determined Contribution targets:

- To mitigate projected greenhouse gas emissions by 15% in the transport sector by 2030;
- To support the low carbon development of the building sector through encouraging the climate-goals oriented energy efficient technologies and services;
- To mitigate projected greenhouse gas emissions by 15% in the energy generation and transmission sector by 2030;
- To support the low carbon development of the agriculture sector through encouraging the climate smart agriculture technologies and services;
- To support the low carbon development of the industry sector through encouraging the climate-friendly innovative technologies and services, in order to achieve 5% of emission limitations compared to emissions projected without respective measures
- To support the low carbon development of the waste sector through encouraging the climate-friendly innovative technologies and services.

We acknowledge the importance of sustainable lending and are actively implementing a standardised approach to sustainable finance, including energy efficiency, renewable energy, and resource efficiency financing for our retail and business clients. The largest part of our sustainable portfolio consists of energy efficiency, renewable energy, and resource efficiency financing and equals GEL 847 million out of GEL 1.23 billion. The remaining part of the sustainable portfolio consists of women and youth financing, affordable housing and start-up loans. The growth targets of the sustainable portfolio are set in the ESG Strategy annually; the targets are defined after considering customer needs for green financing and discussions with respective business departments of Bank. For 2024, the target volume of GEL 1.4 billion was approved by the Supervisory Board.

Considering the existing potential of renewable energy production, the Bank became the leading partner in Georgia in local renewable energy financing, including hydropower stations.

We actively cooperate with international partners to attract financing for sustainable lending:

- The Bank is actively mobilising green funds from partner international financial institutions to promote sustainable economic growth, primarily by financing energy efficiency, resource efficiency, and renewable energy projects. Those facilities will help local businesses and households to become more competitive by investing in high-performance technologies and adopting energy-efficient practices. In addition, financing is coupled with technical assistance programmes, providing know-how and technical expertise to borrowers and ensuring that their green investments are successfully implemented. Several green facilities have grant incentives in place as well. As of 2023, the Bank attracted various green facilities from several long-standing international partners, such as EIB, EBRD, GGF, GCPF, FMO, and ProParco, totaling up to GEL 663 million.
- In addition, in 2022, after receiving accreditation from the Green Climate Fund (GCF) in 2021, the Bank signed an Accreditation Master Agreement (AMA), which is the central instrument setting out the basic terms and conditions to work with the Green Climate Fund (GCF). This authorises TBC Bank to access and mobilise financial resources from the GCF and formalises the Bank's accountability in carrying out GCF-approved projects appropriately.
- The Bank acknowledges the importance of addressing gender equality and the empowerment of women and has in place several facilities that promote women's entrepreneurship by supporting increased access to finance, providing non-financial services as well as knowledge-sharing opportunities. In addition, the Bank has dedicated funds supporting young borrowers and entrepreneurs, providing loans for education, mortgage loans, as well as loans to start businesses.

The Bank has in place several guarantee facilities with a special focus on start-ups, women, and regional entrepreneurs. These risk-sharing instruments serve as a partial substitute for collateral and enable the Bank to increase access to financing for underserved target groups, granting them better growth and development opportunities.

### 8.3.2 Climate-related risks and opportunities on the business and financial planning

In 2024, we will focus on the development of detailed transitional plans, which will be based on the results of measuring the Group's performance against the Paris Agreement targets for the reduction of GHG emissions. To support the elaboration process, we contracted an international consultant company, local and international experts and developed a detailed scope of work covering the following activities: calculation of financed emissions, carbon reporting, Paris Agreement alignment, decarbonization action plan, carbon impact assessment methodology, carbon footprint assessments of selected customers, and building institutional capacity.

Nevertheless, even in the absence of a detailed, holistic transition plan, we have already implemented several different measures to support our direct net-zero target:

- We have started to use renewable energy and installed solar power plants in two locations with a total capacity of 130 kW. Total investments equal to GEL 23 000. The plan is to increase the share of renewable energy up to 50% of our total electricity consumption in regions;
- We are gradually increasing the share of electric and hybrid cars in our car fleet, which is currently equal to 67%; total investment equals to GEL 914 900.
- Starting from 2022, we are installing energy-efficient heating / cooling systems in all newly renovated branches; total investments including construction works equal to GEL 2.15 million.
- During 2023, we renewed a part of the IT infrastructure and migration to the cloud with energy-efficient servers, that will reduce the respective portion of the electricity consumption by 10-15%.

In 2024, we are going to install 36 electric charger stations at our head office and other premises; the planned investments equal to GEL 450 000.

The total investments equal to GEL 3.54 million.

In order to support the path of greening our portfolio and reducing the financed emission (Scope 3), we enhance our efforts in green financing:

- We are increasing the volume of green financing every year;
- In 2023, we exceeded our strategic target of GEL 1.0 billion for the sustainable portfolio volume by 23 % and reached GEL 1.23 billion.
- Acquired green funding from various international financial institutions is increasing every year. As of 2023, it equals to GEL 663 million.

The main opportunities lie in energy-efficiency and renewable energy financing. However, we offer a wide range of other green and climate-related financing to our customers.

The table below provides a summary of climate-related opportunities by sector.

| Sector | % in standalone Bank's loan book | GHG-Emissions Contribution[17] | Climate Risk Score[18] | Product Catalogue |
|---|---|---|---|---|
| Agriculture | 4.6% | 4 | 7 | Energy-efficiency loans<br>Climate-smart technologies<br>New irrigation systems |
| Automotive | 1.3% | 4 | 5 | Hybrid and electric cars,<br>Euro 5, Euro 6 and Euro 7 cars<br>Energy-efficiency loans<br>Industry autos |
| Construction | 6.9% | 3 | 6 | Energy-efficiency loans for construction projects,<br>Production of energy-efficient building materials.<br>Energy-efficiency loans for machinery / appliances<br>Charging stations for electric cars |
| Energy & Utilities | 4.7% | 4 | 7 | Renewable energy financing<br>Charging stations for electric cars |
| Food Industry | 5.4% | 4 | 7 | Energy-efficiency loans (warehouses, storage, appliances, cars) |
| Individuals | 37.1% | N/A | N/A | Energy-efficiency mortgages<br>Hybrid and electric car loans |
| Manufacturing | 0.7% | 3.5 | 6 | Energy-efficiency loans (machinery, appliances, buildings)<br>Carbon filtering |
| Metals and Mining | 0.8% | 4 | 5 | Energy-efficiency loans (machinery, appliances, buildings) |
| Oil and Gas | 1.2% | 4 | 7 | Energy-efficiency loans for building charging stations for electric cars |
| Real Estate | 9.5% | 3 | 5 | Energy-efficiency loans<br>Renewable energy financing (solar panels) |
| Transportation | 1.4% | 3.5 | 6 | Hybrid and electric cars,<br>Euro 5, Euro 6 and Euro 7 cars, buses, trucks |

[17] The Climate Risk Radar assigns a GHG-emissions contribution score according to the National Greenhouse Gas Inventory Report of Georgia 1990-2017.
[18] The Climate Risk Radar defines 4 risk categories: 0-3 neglectable, 4-5 vulnerable, 6-7 high risk, 8-10 critical. There are no sectors with critical risk profile.

In 2023, we continued to incorporate climate and broader ESG considerations into our financial planning processes. Additional qualitative considerations related to climate and ESG matters were incorporated in the financial planning cycle for 2023. In 2023, the Group aligned loan portfolio growth planning with the risks and opportunities in different business segments: retail, MSME and corporate.

As of the end of 2023, the sustainable portfolio of the Bank (which equals to GEL 1.23 billion) includes exposures with different purposes, such as: energy-efficiency loans, electric car loans, renewable energy financing for solar panels and hydro power plants.

| Sector | % in Bank's loan book | Share in sustainable portfolio | Focus areas for financing in 2024 |
|---|---|---|---|
| Retail segment | 35% | 1.1% | Energy-efficiency<br>Electric and hybrid cars<br>Mortgages<br>Solar panels |
| MSME segment | 26% | 5.9% | Energy-efficiency<br>Renewable energy<br>Climate-smart technologies<br>Hybrid and electric cars<br>Industry autos |
| Corporate segment | 39 % | 93 % | Energy-efficiency<br>Renewable energy<br>Climate-smart technologies<br>New irrigation systems<br>Industry autos |

In 2024, we will focus on integrating tailored transitions plans and Paris Agreement alignment considerations into the financial planning process and elaborating the respective methodologies and tools.

### 8.3.3 Climate-related scenarios

The Bank is taking significant steps to develop its scenario analysis capabilities to better understand and act on the implications of climate-related risks and opportunities for our business and customers. The development of climate related scenario analysis is a challenge, as the availability, accessibility, and suitability of climate data and subsector information for financial risk analysis, as well as climate-related risk modelling capabilities, are very limited in Georgia and still evolving. Despite these limitations, the scenario analysis allows us to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage the risks that could arise. In 2023, we continued working with an external consultant and upgraded our stress testing model covering different economic sectors in Georgia in order to capture the stress testing impact on the whole credit portfolio of the Bank.

Scenario Selection

Multiple scenarios were used to explore different plausible scenarios and trade-offs and to gain a more holistic view of the risks: Below 2° C (B2C)[19], Net Zero 2050 (NZ2050)[20], and Delayed Transition (DT)[21]. The selected set of scenarios spans across the timeframe from 2020 to 2050. The scenarios reflect different assumptions about the likelihood and timing of government actions, technological developments, and their spill-over effects on productivity. Each scenario combines assumptions related to: i) the introduction of a public policy measure (a higher carbon tax); and (ii) productivity shocks resulting from the insufficient maturity of technological innovations (higher energy prices), and the effects on investments in non-energy sectors. The input for scenario analysis comes from the GCAM model used to derive the NGFS scenarios. The data was sourced from the NGFS Phase II database and the GCAM5.3 (GCAM-USA) model – an Integrated Assessment Model for the evolution of energy and socio-economic systems.

Macroeconomic impacts from transition risks arise from a fundamental shift in energy and land use and affect every sector of the economy. The GCAM model describes how supply, demand, and prices of energy evolve across the different transition scenarios. The model also provides GDP trajectories, carbon prices, and GHG emissions for Georgia.

Scenario Implementation

To complement the output from the GCAM model, three additional transition channels have been included:

- Increased Capex - Transitioning towards a decarbonised economy requires the replacement of "traditional" or carbon-intensive technology with sustainable technology[22]. These new technologies are more expensive, implying higher Capital Expenditure / Leverage/ debt-servicing burden for the Bank's borrowers;
- Direct Emissions - Energy prices are the main transition channel for a carbon tax, but direct emissions (own heating, own fuel use, livestock emissions, etc.) might also be taxed. Direct emissions are not captured by the energy-based IAMs;
- Transition Winners - Certain sectors can be considered sector winners because they are likely to benefit from higher and accelerated investment cycles. Some of these include Construction, Automotive, Trade, and Manufacturing due to the move to carbon-light activities.

In terms of physical risk, the models and scenarios provided by NGFS were examined for physical risks. It was also preferred to be compatible with scenarios in transition risks. The available data sources made it appropriate only to use physical risk indicators for the REMIND-MAgPIE[23] model under the three scenarios (Current Policies, Net Zero 2050, and Delayed Transition). Next, two indicators of physical risk were chosen that were most relevant to Georgia, one of which was acute and the other, chronic. The first, "Annual Expected Damage from River Floods", was chosen as an acute risk indicator because Georgia's natural disaster history indicates that the most harmful, high

[19] This scenario "Below 2° C" gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2° C. This scenario assumes that climate policies are introduced immediately and become gradually more stringent, though not as high as in Net Zero 2050. CDR (Carbon Dioxide Removal) deployment is relatively low. Net-zero $CO_2$ emissions are achieved after 2070. Physical and transition risks are both relatively low.

[20] Net Zero 2050 is an ambitious scenario that limits global warming to 1.5° C through stringent climate policies and innovation, reaching net zero $CO_2$ emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases by this point. This scenario assumes that ambitious climate policies are introduced immediately. CDR is used to accelerate the decarbonisation but kept to the minimum possible and broadly in line with sustainable levels of bioenergy production. Net $CO_2$ emissions reach zero around 2050, giving at least a 50 % chance of limiting global warming to below 1.5 °C by the end of the century, with no or low overshoot (< 0.1 °C) of 1.5 °C in earlier years. Physical risks are relatively low, but transition risks are high.

[21] Delayed Transition assumes that global annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2° C. Negative emissions are limited. This scenario assumes new climate policies are not introduced until 2030 and the level of action differs across countries and regions based on currently implemented policies. The availability of CDR technologies is assumed to be low, pushing carbon prices higher than in Net Zero 2050. As a result, emissions exceed the carbon budget temporarily and decline more rapidly than in Well-below 2° C after 2030 to ensure a 67 % chance of limiting global warming to below 2° C. This leads to both higher transition and physical risks than the Net Zero 2050 and Below 2° C scenarios.

[22] According to the Sustainable Finance Taxonomy for Georgia.

[23] The REMIND-MAgPIE framework couples the energy-economy model REMIND and the agricultural production model MAgPIE. The Integrated Assessment Model REMIND (Regional Model of Investment and Development) represents the future evolution of the world economies with a special focus on the development of the energy sector and its implications for our world climate. The Model of Agricultural Production and its Impact on the Environment (MAgPIE) is a global land use allocation model. It takes into account regional economic conditions such as demand for agricultural commodities, technological development, and production costs as well as spatially explicit data on potential crop yields, land, and water constraints.

risk physical event is flooding. "Mean Air Temperature" was chosen as a fundamental indicator of chronic risk.

The shocks which are used in climate stress testing calculations are derived from long-term shocks: The average shock between 2020 and 2050 (the shocks are defined for every 5-year period) was applied in order to calculate the climate stress effects. Thus, shocks considered in the calculations are much higher than the shocks which are defined for the following 10-15 years by stress testing model; it is to consider that the typical maturity of exposures at the Bank is up to 15 years.

The model output shows the long-term change in revenue due to transition and physical risk from 2020 to 2050. The shocks to the revenue per sector are integrated into the Bank's baseline scenario parameters and applied to the different portfolio segments: micro, SME, corporate and retail.

Conclusions

Scenarios Below 2° C and Net Zero 2050: The results by segments show that the impact of climate shocks on the payment capacity of customers in the retail, Micro, SME and corporate segments is negligible.

In the Delayed Transition scenario, the results differ slightly: climate shocks only impact the payment capacity of customers in the retail, Micro and SME segments insignificantly. Few corporate customers show negative trends, as the collateral value was not initially considered; however, after considering the collateral value, the results become negligible.

Even if the climate stress tests are not forecasting tools, they indicate the level of resilience towards climate shocks, especially in the short and medium term. Longer-term effect cannot be observed sufficiently, as the average maturity of the Bank's loan portfolio is shorter than the time horizon of the climate stress testing which considers the period of the following 30 years. It is worth noting, that the maximum maturity of a loan is limited to 15 years (with few exceptions) by the local regulator. Furthermore, the climate stress tests show that the most vulnerable sectors are energy (non-renewable) and utilities and oil and gas, if the transition risks materialise. However, as mentioned above, transition risk is rather low in Georgia.

## 8.4 Risk management

*Processes for identifying and assessing climate-related risks*

The Bank has a comprehensive Environmental and Climate Change Policy in place, which governs our Environmental Management System ("EMS") and climate-related framework within the Group. Our Environmental and Climate Change Policy ensures that we:

- Establish methodologies to advance climate action and integrate the respective approaches into the operations and management processes of the Group;
- Comply with applicable environmental, health and safety, and labour regulations;
- Use sound environmental, health and safety, and labour practices;
- Take reasonable steps to make sure that our customers also fulfil their environmental and social responsibilities.

Our Environmental and Climate Change Policy is fully compliant with Georgian environmental legislation and follows international best practices. The full policy is available at https://www.tbcbankgroup.com/media/2951/environmental-and-climate-change-policy.pdf.

Our EMS is based on four pillars:

- Internal environmental activities;
- Environmental and social risk management in lending;
- Sustainable finance; and
- External communications

**INTERNAL ENVIRONMENTAL ACTIVITIES**

**Calculation of greenhouse gas ("GHG") emissions**

The implementation of an internal EMS addresses the Group's consumption of resources. The Bank has reviewed all its operational activities, procured items, and outsourced services that it can control (present and planned), and has identified all environmental aspects relevant to the business. These are sub-categorised into indirect and direct environmental aspects, analysed based on a comprehensive scorecard, and managed accordingly.

The Bank has established a comprehensive internal environmental system to manage and report on the Group's GHG emissions and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water, and paper. The guidelines for documenting environmental data have been developed and responsible staff in subsidiary companies have been assigned to collect and provide the required data. More details on the Group's GHG emissions and targets are given in the section on metrics and targets on pages 161-162.

**Lending operations**

The risks associated with climate change have both a physical impact arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal, and technological changes to reduce the ecological footprint of households and businesses. For the Group, both risks can materialise through the impairment of asset values and a deterioration in the creditworthiness of customers, which could result in a reduction in the Group's profitability. The Group may also become exposed to reputational risks because of lending to, or other business operations with, customers deemed to be contributing to climate change.

As mentioned above, climate risks can materialise through the impairment of asset values and the deteriorating creditworthiness of customers. In order to increase its understanding of climate-related risks on its loan portfolio, the Bank performed a high-level sectoral risk assessment, as different sectors might be vulnerable to different climate-related risks over different time horizons. The risk assessment process and content are based on TCFD recommendations, climate-related documents published by the Bank of England, the climate change assessments of Georgia performed as part of the IPCC reports, the Climate Risk Radar of the NBG, and the targets and strategy 2030 defined by the Georgian Government to achieve the National Determined Contribution of Georgia[24]. The assessment of levels and impacts might change in the future, based on further reviews of the methodology, deep-dive analysis, and increased understanding of the impact of climate change risks.

The sectoral assessment was performed with the involvement of the business and credit risk specialists responsible for the respective economic sectors in the Bank.

[24] A nationally determined contribution (NDC) is a national plan highlighting climate change mitigation, including climate-related targets for greenhouse gas emission reductions, policies and measures governments aim to implement in response to climate change and as a contribution to achieve the global targets set out in the Paris Agreement.

The sectoral distribution of the loan portfolio as of Q4 2023 is given in the table below.

| Gross loans by sectors for standalone Bank | Total exposure (GEL in mln) | % of Gross Portfolio |
|---|---|---|
| Individuals | 7900.4 | 37.1% |
| Real Estate | 2020.0 | 9.5% |
| Construction | 1471.1 | 6.9% |
| Trade | 1340.6 | 6.3% |
| Hospitality & Leisure | 1252.7 | 5.9% |
| Food Industry | 1154.9 | 5.4% |
| Energy & Utilities | 996.9 | 4.7% |
| Agriculture | 988.5 | 4.6% |
| Healthcare | 623.3 | 2.9% |
| Services | 499.9 | 2.3% |
| Financial Services | 345.4 | 1.6% |
| Transportation | 302.0 | 1.4% |
| Automotive | 282.8 | 1.3% |
| Oil and Gas | 245.6 | 1.2% |
| Pawn Shops | 208.2 | 1.0% |
| Metals and Mining | 179.5 | 0.8% |
| Manufacturing | 150.9 | 0.7% |
| Media & Publishing | 104.7 | 0.5% |
| Communication | 55.0 | 0.3% |
| NGOs and Public sector | 1.3 | 0.0% |
| Government sector | 0.1 | 0.0% |
| Other | 1154.0 | 5.6% |
| **Total Loans to Customers (Gross)** | **21277.8** | **100.0%** |

The maturity of assets is essential when defining the different time horizons for analysis and when assessing the materiality of climate-related risks for the different sectors. The maturity structure of the loan portfolio shows that the majority of assets are distributed in much shorter time horizons than the timeframe in which the impacts of climate change, especially of physical risks, may arise in Georgia.

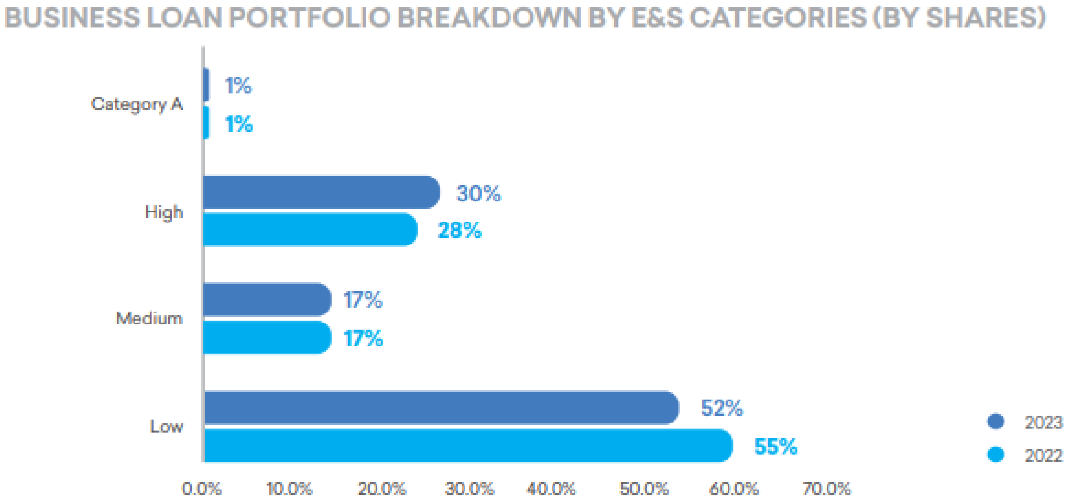
The maturity distribution of the loan portfolio as of Q4 2023 is given in the table below.

| Client IFRS Sector Name | Total Exposure (GEL in mln) | %of Gross Portfolio | Volume of Loans <8y | Share of Loans <8y | Volume of Loans <15y | Share of Loans <15y |
|---|---|---|---|---|---|---|
| Healthcare | 623.3 | 2.9% | 459.8 | 73.8% | 623.3 | 100.0% |
| Individual | 7,900.4 | 37.1% | 3,742.6 | 47.4% | 7,078.9 | 89.6% |
| Hospitality & Leisure | 1,252.7 | 5.9% | 564.2 | 45.0% | 1,251.2 | 99.9% |
| Manufacturing | 150.9 | 0.7% | 122.5 | 81.2% | 150.9 | 100.0% |
| Metals and Mining | 179.5 | 0.8% | 147.1 | 82.0% | 179.5 | 100.0% |
| Government sector | 0.1 | 0.0% | 0.1 | 100.0% | 0.1 | 100.0% |
| Food Industry | 1,154.9 | 5.4% | 1,080.5 | 93.6% | 1,154.9 | 100.0% |
| Media & Publishing | 104.7 | 0.5% | 98.0 | 93.6% | 104.7 | 100.0% |
| Real Estate | 2,020.0 | 9.5% | 1,328.1 | 65.7% | 2,020.0 | 100.0% |
| Services | 499.9 | 2.3% | 294.2 | 58.8% | 499.8 | 100.0% |
| Transportation | 302.0 | 1.4% | 281.2 | 93.1% | 302.0 | 100.0% |
| Agriculture | 988.5 | 4.6% | 834.1 | 84.4% | 988.5 | 100.0% |
| Pawn Shops | 208.2 | 1.0% | 208.2 | 100.0% | 208.2 | 100.0% |
| Trade | 1,340.6 | 6.3% | 1,165.0 | 86.9% | 1,340.2 | 100.0% |
| Oil and Gas | 245.6 | 1.2% | 243.1 | 99.0% | 245.6 | 100.0% |
| Automotive | 282.8 | 1.3% | 252.9 | 89.4% | 282.8 | 100.0% |
| Communication | 55.0 | 0.3% | 54.6 | 99.3% | 55.0 | 100.0% |
| NGOs and Public sector | 1.3 | 0.0% | 1.3 | 100.0% | 1.3 | 100.0% |
| Construction | 1,471.1 | 6.9% | 1,279.8 | 87.0% | 1,471.1 | 100.0% |
| Other | 1,154.0 | 5.6% | 842.1 | 73.0% | 1,153.8 | 100.0% |
| Energy & Utilities | 996.9 | 4.7% | 453.4 | 45.5% | 871.6 | 87.4% |
| Financial Services | 345.4 | 1.6% | 342.1 | 99.0% | 345.4 | 100.0% |
| Total Loans to Customers (Gross) | 21,277.8 | 100% | 13,794.9 | 64.8% | 20,329 | 95.5% |

**Processes for managing climate-related and environmental risks in lending**

Since 2012, the Bank has had in place a process to consider environmental and social risk, which was established in line with industry guidelines, that aims to mitigate climate change. The Bank has developed E&S risk management procedures to identify, assess, manage, and monitor environmental and social risks that are fully compliant with Georgian environmental legislation, follow international best practices, and incorporate appropriate consideration of IFC Performance Standards, EBRD Performance Requirements (PRs), and ADB's Safeguard Requirements (SRs). These procedures are fully integrated into the credit risk management process and are routinely applied to SMEs and corporate customers. In collaboration with partner IFIs, a clear Environmental and Social risk categorisation matrix was developed. Projects that are to be financed are classified according to E&S categories (low, medium, high and A category) based on analysis; where necessary, deep-dive analysis and due diligence are performed. When categorising the transaction according to E&S risk category, priority is given to the higher risk. Additionally, external specialised companies are involved in the detailed assessment of E&S risks for A category projects, such as hydroelectric plants.

The table depicts the business loan portfolio breakdown by E&S categories, by shares.




**Low Risk** – transactions with minimal or no adverse social or environmental impacts, which are not generally subject to further assessment (beyond their identification as such) and require customer's (assent/certification/disclosure) compliance with local and national environmental, health and safety and labour laws and regulations.

**Medium Risk** – transactions with limited potential for adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, clearly evident at the time of the assessment and readily addressable through mitigation measures, which typically require a limited or focused environmental and/or social assessment, or straightforward application of environmental siting, pollution standards, design criteria, or construction standards.

**High Risk** – transactions with potentially highly significant, negative and/or long-term environmental and/or social impacts, the magnitude of which may be difficult to determine at the loan application stage. These typically require analysis of environmental and social risks and impacts in the context of the total area of influence of the customer's operations. As part of the risk assessment, the client will identify individuals and groups that may be differentially or disproportionately affected by its operations.

**Category A** – transactions with potentially significant adverse social or environmental impacts that may be diverse, irreversible, or unprecedented, the assessment of which usually requires inputs from independent external experts and may require the involvement of IFI E&S specialists in the due diligence assessment process.

In addition, we strive to make a positive contribution to the development of private companies and assist them in the proper management of environmental and social risks related to their business activities. In cases where we identify any non-compliance with local legislative requirements and/or TBC's standards, we develop Environmental and Social Action Plans (ESAP) for our clients to assist them in enhancing their environmental performance and we closely monitor their implementation.

Starting in April 2022, the Bank received support from the Technical Assistance Trust Fund (EPTATF)[25] through its Climate Action Support Facility (CASF) for Promoting Climate Action for SMEs in Georgia. The support from EPTATF comprised one year of consultancy services for the implementation of the Bank's climate action strategy, provided by the Frankfurt School of Finance and Management, covering:

- The climate action strategy, monitoring and reporting;
- Stress testing and sensitivity analysis; and
- Climate-related training.

This process was supported by climate-related training to strengthen the Bank's capacity, knowledge, and capabilities to manage climate-related risks across the business. In 2022, eight different training sessions and workshops were conducted, covering topics such as climate-related risk management, financial planning, and climate stress testing.

In 2023, we continued working with external consultants on following topics: financed emissions, our climate stress testing model, and measurement of Group's direct performance against the Paris Agreements targets.

**ESG profiles for corporate customers**

In 2023, the Bank finalized a pilot project which tested the ESG Profile Methodology on its top 20 corporate customers. The aim was to incorporate an ESG Profile scorecard in the overall risk management process. ESG factors such as climate adaptation, transition to low-carbon activities, implementation of green technologies, diversity and inclusion, and good corporate governance are considered during the assessment and the respective scores are assigned based on expert judgment.

The ESG profile consists of four main components:

- Climate change – covering physical and transitional risks;
- Environmental – covering environmental and social risks;
- Social – covering diversity, employee benefits and equal/fair pay;
- Governance – covering ESG governance, the Company's disclosures, and diversity at Board and executive management levels.

The results of the assessment will be useful for the development of decarbonization and transition plans. The ESG Profile Methodology is considered as being at an initial stage and will evolve in the future as far as knowledge, expertise within the bank, and the local regulatory framework for climate-related topics advance.

[25] These services are financed through financial support from the EPTATF Trust Fund. Information given to the press or to any third parties, all related publicity material, official notices, reports, and publications shall acknowledge that the services are delivered "with funding by the Eastern Partnership Technical Assistance Trust Fund (EPTATF)." The Fund was established in 2010 with a view to enhancing the quality and development impact of the Bank's Eastern Partnership operations through the financing of pre-feasibility and feasibility studies, institutional and legal appraisals, Environmental and Social Impact Assessments for potential investments, project management support and capacity building for the beneficiaries during the implementation of investment projects, as well as of other upstream studies and horizontal activities. It focuses on four priority sectors: energy, environment, transport, and telecommunications with climate change and urban development as cross-cutting issues.

*Other risk categories*

Climate risk might impact other, more traditional risk categories for banking such as: market risk, operational risk, liquidity risk, and reputational risk. A summary of the assessment is given in the table below. Certain risk factors, which were identified for operational and reputational risks, are already covered under the existing risk management framework.

| Banking risk types | Impact from Physical Risk | Impact from Transition Risk |
|---|---|---|
| Market risk | No material impact expected | No material impact expected |
| Liquidity risk | No material impact expected | No material impact expected |
| Operational risk | Extreme events that would cause damage to the Group's own sites could affect its ability to provide services to its clients (e.g., lack of electricity supply, inability for employees to work in premises).<br>No material impact expected | No material impact expected |
| Reputational risk | No material impact expected | Financing to high-emitting borrowers could affect brand image, as perceived by stakeholders.<br>No material impact expected |

**Supply chain monitoring**

As one of the largest purchasers in the country, we acknowledge and understand the social, economic, and environmental impact of our procurement decisions and operations. In 2019, we developed an Environmental and Social Risk Management Questionnaire in order to screen suppliers. We also regularly assess our long-term contractor companies' environmental and social risks. In case we identify any non-compliance with our E&S standards, our ESRM team develops implementation Environmental and Social Action Plans (ESAPs) for each company and monitors their implementation.

**Raising environmental awareness among our employees**

We believe that raising environmental awareness among our employees is vital for the effective implementation of EMS and to encourage new eco-friendly ideas and initiatives within the organisation.

For this purpose, we actively run various Environmental and Social training programmes, which include:

- Training on environmental and climate change topics for new employees;
- Climate change and green Lending training for credit and front office staff;
- An annual mandatory online EMS e-learning course for all staff, followed by a self-evaluation test;

In 2023, 98% of all staff, including senior management, successfully passed an online course and a self-evaluation test about TBC's EMS.

To ensure effective communication, training materials were created that briefly describe the Bank's environmental management system.

**EXTERNAL COMMUNICATION**

The Bank pays significant attention to the external communication of E&S matters with existing and potential customers and other stakeholders. The feedback and recommendations received from our stakeholders and other interested parties enable us to continuously improve our E&S performance.

Our grievance mechanism enables any interested party to register complaints with regards to E&S issues via our website www.tbcbank.com.ge. All complaints are thoroughly analysed and addressed in a timely manner.

The Bank has successfully passed the third-year surveillance audit of the Environmental Management System, ISO 14001:2015. This means that TBC's Environmental System is managed in accordance with international standards and requirements. The renewal of the certificate for 2023 was conducted in December 2023 and was also completed successfully.

The Bank annually discloses its Environmental and Social Performance Annual Report to all its partner International Financial Institutions. The report includes detailed information about Environmental and Social Risk Management in Lending, the distribution of the Bank's business portfolio in terms of environmental and social risk, a breakdown of its sustainable portfolio, and respective procedure updates etc.

Since 2019, the Group released its third full-scale Sustainability Report, which was prepared in accordance with Global Reporting Initiative (GRI) standards. The Sustainability Report helps the Company to understand its role and influence on sustainable development issues such as climate change, human rights, and social welfare. The report is available at https://www.tbcbankgroup.com/esg/sustainability-reports/.

## 8.5 Metrics and targets

*The metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process*

**The metrics related to the Group's own operations**

The Bank has established a comprehensive internal environmental system to manage and report on the Group's GHG emissions and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water, and paper. The guidelines for documenting environmental data have been developed and responsible staff in subsidiary companies have been assigned to collect and provide the required data. The Bank also commissioned G&L Management LTD, an independent Health, Safety, and Environment (HSE) consulting company, to verify the measurements of its GHG emissions. The company provided a limited assurance, covering historical data and information.

Below is a summary of Scope 1, Scope 2, and Scope 3 (flights) GHG emissions, water and paper consumption, 2023 targets versus actual results, as well as targets for 2024.

| **Total GHG emissions ($CO_2$) (tonnes) and KPIs** | **Actual 2021** | **Actual 2022** | **Actual 2023** | **2023 target increase** | **Future target for 2024** |
|---|---|---|---|---|---|
| **Scope 1*** Fuel Combustion (heating, vehicles, generators) | 1,936 | 2,043 | **1,834** | Below 6% | **Increase below 5%** |
| **Scope 2** (Electricity consumption) | 1,319 | 1,369 | **1,352** | Below 7% | **Increase below 1%** |
| **Scope 3** (International flights) | 17 | 498 | **1444** | - | **Decrease - 48%** |
| **Total emissions ($tCO_2$)** | **3,272** | **3,910** | **4,630** | Below 6% | **Decrease - 27%** |
| **Total emissions per full time employee ($tCO_2$/pp)** | **0.47** | **0.52** | **0.59** | Below 6% | **Decrease - 29%** |
| Water consumption per employee ($m^3$/pp) | 9.98 | 8.76 | **8.52** | Below 2% | **Increase below 1%** |
| Printing paper per person in reams | 14.70 | 10.78 | **13.39** | Below 4% | **Decrease - 1%** |

**Scope 1** - In 2023, this indicator has been significantly decreased on the Bank level by 10% while planned KPI was increase by 3%. The main contributor in Scope 1 emissions (with 66%) for the Bank is gas consumption (heating) - in 2023 the bank decreased its gas consumption by 17%. The decrease was mainly related to the measures implemented by the Bank which are listed on the page 154 of the chapter.

**Scope 2** – In 2023, the Bank reduced its emissions from electricity by 1% while planned KPI for 2023 was increase by 7%. The decrease was mainly related to the measures implemented by the Bank which are listed on the page 154 of the chapter.

**Scope 3** – In 2023, business flights increase by 190%. The main contribution comes from a one-off marketing project which considered supporting the Georgian National Rugby team at the Rugby World Championship 2023 in Paris.

Overall, total emissions increased by 20% in 2023 compared to 2022 levels, while total emissions per full time employee increased by 13% over the same period.

In 2023, water consumption per employee decreased by 3% year-on-year, while usage of printing paper went down by 3%.

**Calculation methodology**

To calculate the GHG inventory, we took the following steps: we set the organisational boundaries, established the operational scope, and developed a structured approach for data collection and the calculation of carbon dioxide (CO2) equivalent. This report describes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and, additionally, the emissions under Scope 3 that are applicable to the business. In preparing emissions data, the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO2*/MWhe) were used. The required data were collected, and a report was generated for the Bank's main activities, as follows:

**Scope 1** (the combustion of fuel and operation of facilities) includes emissions from the combustion of natural gas, diesel and/or petrol in equipment at the Bank's owned and controlled sites, including the combustion of petrol, diesel fuel, natural gas etc. in the Bank-owned transportation vehicles.

**Scope 2** (purchased electricity for own use, such as lighting, office appliances, cooling, etc.) includes emissions from the use of electricity at the Bank-owned and controlled sites. To calculate the emissions, the conversion factor for National IPCC emission factors for electricity (tCO2*/MWhe) was used.

**Scope 3** includes emissions from all air business travel (short/medium/long and international haul). It should be noted that information on the travel class was considered and an "economy class" conversion factor has been used for the emissions calculation from the following link: www.atmosfair.de.

**Intensity Ratio** - we calculate intensity ratios in line with the Streamlined Energy and Carbon Reporting (SECR) guidelines, www.secrhub.co.uk

**Financed emissions (Scope 3)**

We have a direct or indirect impact on the environment throughout our activities. However, in the case of financial institutions, the main source of Greenhouse Gas (GHG) emissions is not the emissions produced directly via operating our business processes or their own energy consumption, but GHG emissions produced by other sectors that are financed by us. These types of emissions are known as financed emissions.

The table below depicts, which of the 15 categories of Scope 3 emissions have been included and which are considered to be immaterial or irrelevant to the business.

| # | Scope 3 category | GHG calculation approach |
|---|---|---|
| 1 | Purchased goods and services | Not material |
| 2 | Capital goods | Not relevant |
| 3 | Fuel- and energy-related activities (not included in scope 1 or scope 2) | Not relevant |
| 4 | Upstream transportation and distribution | Not relevant |
| 5 | Waste generated in operations | Not material |
| 6 | Business travel | Included (flights) |
| 7 | Employee commuting | Not material |
| 8 | Upstream leased assets | Not material |
| 9 | Downstream transportation and distribution | Not material |
| 10 | Processing of sold products | Not relevant |
| 11 | Use of sold products | Not material |
| 12 | End-of-life treatment of sold products | Not relevant |
| 13 | Downstream leased assets | Not relevant |
| 14 | Franchises | Not relevant |
| 15 | Investments | Included - financed emissions: debt investments (with known use of proceeds) and project finance |

7 categories are considered to be not relevant, as the Bank does not engage in these activities; other 6 categories are assessed to be not material, as those activities does not constitute typical activities for the Bank as a financial institution. We consider two categories – business travel and investments – to be material: financed emissions constitute more than 40% of the total GHG emissions (indirect impact), while business travels are considered to be material due to their increasing share since 2021, which was above 30% in 2023.

**Financed emissions (Scope 3)**

The Partnership for Carbon Accounting Financials (PCAF) has developed methods for different asset classes, which can be used to calculate the financed emissions (PCAF 2022). In total, seven asset classes are considered. Below you can see the financed emissions by asset class as of December 2023.

| **N.** | **Asset Type** | **Financed GHG Emissions GgCO2e/y** |
|---|---|---|
| **TOTAL** | | **3,166.70** |
| *1* | *Listed Equity and Corporate Bonds* | *61.3* |
| *2* | *Business Loans and Unlisted Equity* | *2,856.60* |
| *3* | *Project Finance* | *-15.1* |
| *4* | *Commercial Real Estate* | *2.3* |
| *5* | *Mortgages* | *30.4* |
| *6* | *Motor Vehicle Loans* | *0.9* |
| *7* | *Sovereign Debt* | *230.3* |

Calculation methodology

- Listed Equity and Corporate Bonds - consists of securities for which verified emissions data are available
- Business loans[26] -consists of business Loans and unlisted equity asset class
- Project finance - consists of projects for which verified project emissions / reductions data are available
- Retail mortgages -consists of all retail mortgages
- Commercial real estate - consists of all commercial l mortgages
- Motor vehicles - consists of all car loans
- Sovereign debts[27] - consists of all sovereign papers which are on the balance of the Bank SA.

It should be noted that the data we have used for calculation of financed emissions is the best available at the current stage, notwithstanding the challenges that exist given the incompleteness and novelty of the data sets and the methodologies required for the Georgian environment, which most of our activities occur. The most of the data are of Score 4 and Score 5 quality. We expect the availability and reliability of the required data to improve over time, and we intend to integrate improved data into our calculations as it becomes available and reliable.

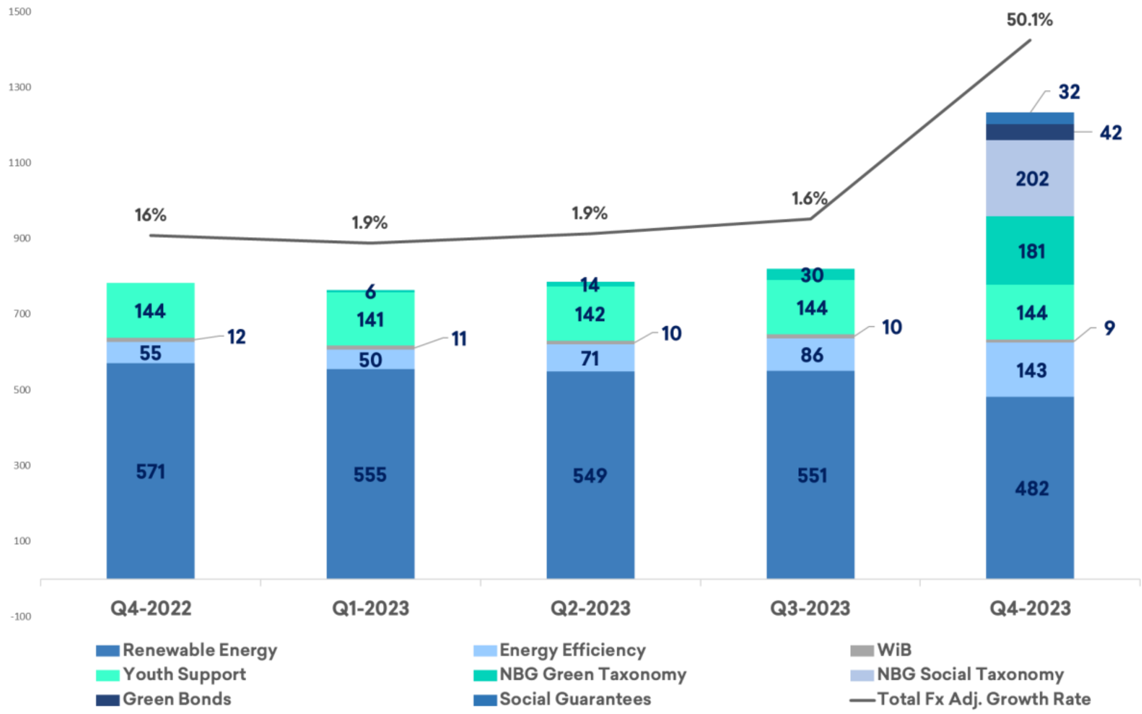
[26] https://nbg.gov.ge/en/page/financed-emissions - The calculation methodology for business loans was developed by the National Bank of Georgia within the project "Promotion of Rural Finance for Sustainable MSE Development in the South Caucasus and Ukraine", implemented by DSIK and funded by the German Ministry for Economic Cooperation and Development (BMZ).

[27] The calculation methodologies for the other five asset classes were developed by TBC in cooperation with the consultant company RINA, supported by the Global Climate Partnership Fund. The calculation methodologies consider the PCAF approach.

**Sustainable portfolio**

The climate action initiatives are part of the overall ESG strategy, which is reviewed and approved by the Supervisory Board annually. The ESG strategy sets aspirational targets, such as net-zero GHG emissions[28] (Scope 1 and Scope 2 GHG emissions) related to the direct environmental impact by 2025 and an increase in the sustainable portfolio, which consists of renewable energy loans, energy efficiency loans, and financing with social components, etc. As of Q4 2023, the total sustainable portfolio[29] stood at GEL 1.23 billion, which exceeds the 2023 target volume GEL 1.0 billion by GEL 233 mln. The target for 2024 is set at GEL 1.4 billion.

The following chart depicts the development of the sustainable portfolio as of December 2023:




During 2023, our renewable energy portfolio impact (avoided GHG emissions) amounted to 7 681.18 tCO2/a according to the electricity generation data and estimates of the external consultant under the Green for Growth Fund (GGF) Technical Assistance Facility represented by Finance in Motion GmbH financed by the European Union under the EU4Energy Initiative.

From 2022 onwards, ESG-related KPIs are included in the long-term incentive plans for executive remuneration. The executive management KPIs are linked to the target volumes of the sustainable portfolio and other sustainable assets. For more details, please see the Remuneration Committee Report in the Annual Report 2023 of TBC Bank Group PLC, page 229.

[28] Please refer to the definitions of Scope 1, Scope 2 and Scope 3 on the page 76.
[29] Our sustainable portfolio includes a) energy efficiency, youth support, and women in business loans financed by special purpose funds received from IFIs; b) loans financing renewable energy, which include all hydro power plants financed by the Bank; c) financing of startup companies and affordable housing which are categorized based on the Social Taxonomy of the National Bank of Georgia (NBG), d) green loans which are assessed based on criteria defined by the Green Taxonomy of the NBG, e) social guarantees supporting affordable housing projects which are categorized based on the Social Taxonomy of the NBG (https://nbg.gov.ge/en/page/sustainable-finance-taxonomy), e) green and sustainability-linked bonds aligned with the ICMA (International Capital Markets Association) Green Bond Principles and Sustainability-linked Bond Principles.

## 9. Remuneration Policy for Top Management and Non-executive members of the Supervisory Board

Board of Directors of TBC Bank Group PLC, based on the recommendation of the Remuneration Committee, approves the remuneration and benefits of the CEO and Director's (hereinafter 'Top Management'30) of the Bank, including the fees of the Supervisory Board members of the Bank and recommends the same for the shareholders' approval. Remuneration of Bank's employees are approved by the heads of respective departments with the agreement of Executive Director in charge and HR business partner.

Directors Remuneration Policy (the Policy) of TBC Bank Group PLC applies to the Top Management of the Bank as well and was approved by shareholders of TBC Bank Group PLC at the 14 June 2021 AGM.

The Policy fosters sustainable long-term performance by incorporating long-term incentive plans (bonus deferral and LTIP), utilizing diverse performance metrics aligned with the business strategy, and employing a balanced approach to target setting and performance evaluation.

The Directors' Remuneration Policy is effective from 1 January 2022 and is approved for next 3 years. Full details of this can be found in the 2020 Annual Report, which is available at our website at www.tbcbankgroup.com and below.

**Policy table: Top Management (hereinafter 'Director')**

For all Director's total remuneration level and structure is the same as for CEO with only difference in relation to the Chief Risk Officer ("CRO"). In case of CRO, the split between fixed and variable compensation differs from other deputies, aligning with NBG guidance, which states that the Chief Risk Officer's remuneration should not excessively depend on variable pay. Hence, CRO's variable part of remuneration has higher fixed component compared to CEO and other deputies (37% fixed component of total compensation for CEO and other Director's while CRO's fixed component is 48% of the total compensation at target).

| **Fixed Pay** | |
|---|---|
| **Salary – delivered as cash and shares** | |
| **Purposes and link to the strategy of the Group** | Salaries are determined based on market practice and provide each executive Director with a competitive fixed income to efficiently retain and reward the Director and are based upon each Director's roles and responsibilities within the Group and relative skills and experience.<br>**Salary in cash**<br>The cash part of the salary is aimed to provide fixed cash remuneration.<br>**Salary in shares**<br>Part of the CEO's salary is delivered in the form of shares to align executive Directors' and shareholders' interests. |
| **Operation** | An executive Director may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity. Currently the Executive Director receives a salary from JSC TBC Bank and TBC Bank Group PLC. The aggregate is disclosed in the Remuneration Report.<br>Salaries are reviewed annually by the Remuneration Committee. Salaries will be reviewed against relevant bank peers and other companies of a similar size and complexity.<br>**Delivery of shares**<br>Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee.<br><br>All shares must be held for one year and 50% of the shares must be held for a second year. They are registered in the trustees name as nominee for the participants. The participants are entitled to receive dividends and have voting rights from the delivery date. |
| **Maximum Opportunity** | Salary is set and reviewed annually to ensure that the Directors receive a fair compensation which is competitive for the role the individual is asked to play within the Group and is commensurate with experience. Salary for the Executive Director is determined by the Remuneration Committee, taking account his skills, performance and experience. |

30 Top Management refers to Executive Directors as defined in the Directors' Remuneration Policy.

| | |
|---|---|
| | The maximum salary level will be determined by the Board in line with the principles outlined. Whilst there is no absolute maximum salary level, any increase will normally be in line with those awarded to the workforce. Where an increase is to be awarded above those granted to the workforce, we will engage with our shareholders and maintain the objective that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salary must be recommended by the Remuneration Committee and approved by the Board.<br><br>For the element of salary paid in shares, the number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. However, the maximum value is fixed by reference to a cash amount on that date. |
| **Performance Measures** | Not performance based |
| **Malus / clawback** | Malus and clawback provisions are not applicable to salary delivered in cash or shares. |
| **Amendments to previous policy** | Removal of deferral (with a requirement for continued employment), malus and clawback on salary delivered in shares. This is to ensure salary delivered in shares is treated as fixed pay for regulatory purposes. |
| **Pension** | |
| **Purposes and link to the strategy of the Group** | To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain Executive Directors. |
| **Operation** | The Georgian government has a mandatory pension scheme, under this scheme 2% of total employee compensation is to be contributed to a national pension fund.[31] |
| **Maximum Opportunity** | In line with the workforce, the maximum employer contribution will not exceed 2% of total compensation. |
| **Performance Measures** | No performance measures apply to the contribution level. |
| **Malus / clawback** | Malus and clawback provisions are not applicable. |
| **Amendments to previous policy** | Reduction of maximum employer contribution from 3% to 2% to align pension with workforce pension arrangements. |
| **Benefits** | |
| **Purposes and link to the strategy of the Group** | Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent. |
| **Operation** | Benefits available to Executive Directors consist of insurance (such as medical, life and disability insurance), physical examinations, Directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. The Remuneration Committee retains the discretion to provide additional benefits, where necessary or relevant in the context of the Director's location.<br><br>Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts. |
| **Maximum Opportunity** | The maximum amount payable depends on the cost of providing the benefits that the Remuneration Committee is willing to provide to an employee in the location at which the Executive Director is based.<br><br>Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely.<br><br>Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant. |
| **Performance Measures** | Not performance based |
| **Malus / clawback** | Malus and clawback provisions are not applicable. |
| **Amendments to previous policy** | No Changes proposed |

[31] At the time of the pension reform in 2019, in line with the transitional provisions of the Law on Pensions of Georgia, individuals above certain age were given a one-time opportunity to opt out of the pension scheme and the eligible members of the Bank's top management decided to opt out from the Georgian state pension scheme.

| Variable Pay | |
|---|---|
| **Annual bonus delivered in shares** | |
| **Purposes and link to the strategy of the Group** | To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved.<br>The annual KPIs are chosen to align our Executive Directors' interests with the short-term strategic objectives of the Group. |
| **Operation** | **Determination of annual bonus**<br>KPIs are set at the beginning of each year in relation to that year (see more detail below). The nature of the KPIs will be disclosed in the annual report published in the performance year. The precise weightings and targets may be considered by the Remuneration Committee to be commercially sensitive and in that case will be disclosed retrospectively, which is generally expected to be in the following annual report.<br><br>**Delivery structure**<br>Annual bonus is delivered entirely in shares, which are subject to a holding period. Once shares are delivered, 50% of the shares will be subject to a holding period for 1 year and the other 50% for 2 years from the delivery date. The shares are registered in the trustees' name as the nominee for the participants and the participants are entitled to receive dividends.<br>Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee.<br><br>**Administration**<br>Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy. |
| **Maximum Opportunity** | The maximum value of the Annual Bonus for the Chief Executive Officer and Directors, under the annual short-term incentive arrangements, is 135% of fixed salary.<br>In accordance to the NBG guidance, CRO's fixed pay proportion is higher than that of the CEO and other Directors.<br><br>For achieving target performance, no more than 50% of the maximum bonus opportunity is payable. For threshold performance, no Annual Bonus is paid.<br><br>The number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. |
| **Performance Measures** | The KPIs consist of corporate and individual performance measures.<br>Corporate KPIs include financial measures, and non-financial measures with long-term focus.<br>At least 60% of annual bonus will be earned against a challenging set of financial KPIs with the targets set with reference to the Bank's planning for the year.<br>Individual performance measures may include individual strategic objectives which vary per person.<br>The performance period is one year.<br>To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award.<br>The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates. |
| **Malus / clawback** | Awards are subject to the operation of malus at any time before the end of the holding period and clawback at any time before the third anniversary of the end of the holding period.<br>The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy is in effect, if the Board determines (based on the recommendation of the<br>Remuneration Committee) that:<br>• the Director deliberately misleads the Company or the Bank in relation to financial<br>• performance;<br>• there has been a material misstatement or material error in the financial statements of the Company or the Bank;<br>• the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank;<br>• the Director failed to meet the relevant fit and proper criteria set by the NBG;<br>• there is evidence of misconduct or serious errors by the Director, including (without<br>• limitation) a breach of any code of ethics or any other material breach of internal company rules;<br>• the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus |

| | |
|---|---|
| | purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes);<br>• the Company, the Bank and/or a business unit in which the Director works suffers a<br>• significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes);<br>• there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or<br>• the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank.<br><br>The Board has the right to claw some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/ or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), may be as determined by the Board in its absolute discretion.<br>Further, malus may be operated if it is considered that the underlying financial performance of the Company or the performance of the Director during the holding period is such that the number of shares cannot be justified.<br><br>For awards granted prior to the effective date of this Policy, the awards are subject to the Company's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019. |
| **Amendments to previous policy** | Move to basing maximum award on a percentage of salary rather than a monetary amount.<br>Removal of continuing employment requirement for the annual bonus.<br>Introduction of a minimum of 60% of annual bonus determined by financial KPIs.<br>Setting target performance to provide 50% of maximum bonus opportunity compared to 63% per current policy.<br>Extension of malus and clawback trigger events in line with the requirements of NBG CG Code. |

| Long Term Incentive Plan (LTIP) | |
|---|---|
| **Purposes and link to the strategy of the Group** | To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved.<br>Performance conditions are chosen to align our Executive Directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. |
| **Operation** | **Determination of award**<br>Awards are discretionary and are granted if the Remuneration Committee considers that there has been satisfactory performance over the prior base year.<br>**Delivery structure**<br>Awards may be granted in the form of conditional share awards, options or restricted share awards. Awards are structured so that when combined with the annual bonus no less than 60% of variable pay is delivered as LTIP in any one year.<br><br>For each award, forward-looking performance conditions are set by the Remuneration Committee for a period of three years (see more details below). The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met.<br><br>The performance conditions and respective targets will be disclosed in the annual report published in the year of the award.<br>**Timing of receipt**<br>For the shares to be delivered, the performance conditions need to be met over the 3-year performance period.<br><br>To the extent that performance conditions have been met, the LTIP awards remain subject to 2 years further vesting period and continued employment requirements before vesting at the end of 5 years.<br><br>No dividend equivalents will be paid on any awards (or part thereof) that lapse on or before vesting.<br>**Dilution**<br>For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans.<br>These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares.<br>**Administration**<br>The plan will be administered by the Remuneration Committee. Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy. |
| **Maximum Opportunity** | The maximum value of the award for the Chief Executive Officer and other Directors in any given year, under the long-term incentive arrangements, to be awarded is 161% of salary. In accordance to the NBG guidance, CRO's fixed pay proportion is higher than that of the CEO and other Directors.<br>The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. |
| **Performance Measures** | Forward-looking performance measures will be based on financial performance, appropriate<br>risk taking, and other long-term strategic measures are approved by the Board and set by the Remuneration Committee each year.<br><br>Measures and weightings will be set out in advance of each grant to reflect the Company's strategy.<br><br>At threshold level of performance, for each measure, 25% of the award opportunity for that measure will vest, 100% of the award will vest for achieving the maximum performance set for each measure and a target award will be calculated on a straight line basis.<br><br>The Remuneration Committee has the discretion, any time after an award has been granted, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified.<br><br>The performance period is three years, commencing no earlier than the beginning of the financial year during which the Award is granted. |

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| | The Remuneration Committee may adjust performance conditions during the performance period to take account of an event which causes the Remuneration Committee to reasonably consider that it would be appropriate to amend them, such as (without limitation) material corporate events, changes in responsibilities of an individual and/or currency exchange rates, provided that the altered KPIs will, in the reasonable opinion of the Remuneration Committee (acting fairly and reasonably), be not materially less difficult to satisfy. |
| **Malus / clawback** | Awards are subject to the operation of malus until two years after the shares have been delivered and to clawback until three years after the shares have been vested. The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy<br>is in effect, if the Board determines (based on the recommendation of the Remuneration Committee) that:<br>• the Director deliberately misleads the Company or the Bank in relation to financial<br>• performance;<br>• there has been a material misstatement or material error in the financial statements of the Company or the Bank;<br>• the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank;<br>• the Director failed to meet the relevant fit and proper criteria set by the NBG;<br>• there is evidence of misconduct or serious errors by the Director, including (without<br>• limitation) a breach of any code of ethics or any other material breach of internal company rules;<br>• the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes);<br>• the Company, the Bank and/or a business unit in which the Director works suffers a significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes);<br>• there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or<br>• the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank.<br><br>The Board has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/ or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), as determined by the Board in its absolute discretion. Further, the Board has the discretion to operate malus if it considers that the underlying financial performance of the Company or the performance of the Director during the performance period is such that the number of shares cannot be justified. In addition, if it is discovered during the three years after cessation of employment that a good leaver is in fact a bad leaver according to the rules of the plan, the provisions of the plan applicable to bad leavers will apply and the individual will be required to return all shares acquired pursuant to awards that vested on or after the cessation of employment.<br><br>For awards granted prior to the effective date of this Policy, the awards are subject to the Company's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019. |
| **Amendments to previous policy** | In line with NBG requirements, introduction of Remuneration Committee assessment that there has been satisfactory performance over the prior year before grant. Move to basing maximum award on a percentage of salary rather than a monetary amount. Reduction of the threshold LTIP to 25% of maximum award. Extension of malus and clawback trigger events in line with the requirements of NBG CG Code. |
| **Shareholding Requirement** | |
| **Purposes and link to the strategy of the Group** | To further enhance the alignment of shareholders' and Executive Directors' interests in long-term value creation and sustainability of results. |

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| **Operation** | The Company has a minimum shareholding requirement of 200% base salary, built up within five years of appointment. Until it is met, Executive Directors are expected to retain 50% of shares (net of tax).<br>Shares counted for this purpose include any deferred annual bonus and any vested awards from the LTIP (notwithstanding that holding / continued employment conditions may still apply). Unvested awards from the LTIP will not be counted.<br>After employment the lower of the Executive Director's shareholding at termination or 50% of the minimum shareholding requirement are required to be held for two years post-cessation. |
| **Maximum Opportunity** | Minimum shareholding requirement of 200% of base salary to be built up within five years ofappointment.<br>For two years post-cessation, the lower of the Executive Director's shareholding at termination or 50% of the minimum shareholding requirement. |
| **Performance Measures** | Not performance based |
| **Amendments to previous policy** | Introduction of a timeframe within which to build minimum shareholding requirement. |

The remuneration policy was last approved by shareholders of TBC Bank Group PLC at Annual General Meeting (AGM) on 14 June 2021, along with the new 1:2 fixed to variable remuneration cap for the CEO of the Parent Company and the Bank and the management board members of the Bank (Directors).

Following the approval of the Policy at the 2021 AGM, the Committee has established procedures for implementing the policy. Specifically, the Committee has defined the parameters and metrics for setting short-term and long-term key performance indicators (KPIs).

The long-term incentive plan (LTIP) cycle, starting in 2022 and granted annually to the CEO of the Parent Company and the Bank and the management board members of the Bank (the Directors'), incorporates ex-ante gateway KPIs as well as a set of ex-post medium-term KPIs linked to our new mid-term strategy, including environmental, social and governance (ESG) metrics as per our ESG strategy described in the ESG chapter.

In order for variable pay to be made to the Executive Directors, "gateway" KPIs - agreed with the Board Risk Committee annually - need to be met, with the Annual Bonus and Long-Term Incentive Plan ("LTIP") then being awarded, and the LTIP then vesting in due course if the ex-post medium-term KPIs are also achieved. Following the approval of the new Remuneration Policy in 2021 and in line with the National Bank of Georgia Governance Code requirements on Executive remuneration, a process with respect to the granting of LTIP awards has been adopted to incorporate gateway KPIs into the award process. These gateway KPIs also apply the potential granting of an Annual Bonus award. Whether or not an Annual Bonus and/or LTIP award is granted to the CEO and the senior management of JSC TBC Bank is subject to whether certain gateway KPIs are met. If these gateway requirements are met, the Committee may then determine the size of award based on the achievement against the applicable KPIs for the performance year (The "base Year"), based on the Remuneration Policy.

The following gateway KPIs were met as at the end of 2023, confirming the Directors eligibility for variable award pay outs:

- CET1 ratio: The lower end of the amber zone of the Risk Appetite Framework (RAF) at 31 December each year as approved by the Risk Committee;

- Liquidity (NSFR ratio): The lower end of the amber zone of the RAF at 31 December each year as approved by the Risk Committee. This is currently 3pps above the regulatory ratio per the existing risk appetite;

- Profitability (IFRS Group Net Income): The Group shall not run a loss after incurring LTIP and Annual Bonus expenses.

As shown in the next table, the status against the gateway was above the respective targets as at the end of 2023:

| | | 31-Dec-23 |
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| CET 1 ratio | CET 1 Reg Requirement | 14.3% |
| | Min Range of Amber Zone | 14.9% |
| | Actual CET1 Capital Ratio | 17.4% |
| NSFR | NSFR Reg Requirement | 100.0% |
| | Risk Appetite Amber Zone | 103.0% |
| | Actual NSFR | 119.9% |
| (IFRS Group Net Profit) | Group IFRS Net Profit in FY 2023 | GEL 1.140 billion |
| | Top Management Variable Comp in 2023 & 2023-2025 LTIP at grant gateway target | GEL 23.8 million |

**Policy table: Non-Executive Directors**

In the same way as the executives, the Non-Executive Directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees.

| **Fees** | |
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| **Purposes and link to the strategy of the Group** | To provide appropriate compensation for a Non-Executive Directors of the Group, sufficient to attract, retain and motivate high calibre individuals with the relevant skills, knowledge and experience to further the Group's strategy. |
| **Operation** | The Group pays fees to Non-Executive Directors. The fees are determined by the Board.<br><br>The Chairman is paid an all-inclusive fee for all Board responsibilities. The other Non-Executive Directors receive a basic Board fee, with additional fees where individuals serve as the Senior Independent Director, member or Chairman of a Committee of the Board. The Board (excluding the executive directors) reserves the right to structure the Non-Executive Directors' fees differently in its absolute discretion.<br><br>The Board's (excluding the executive directors) discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.<br><br>Fees are generally paid monthly in cash. However, the Board reserves the right to pay the fees on a different basis. Fees are periodically reviewed and adjusted by the Board, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors. |
| **Maximum Opportunity** | The Board will review the amount of each component of fees periodically to assess whether, individually and in aggregate, they remain competitive and appropriate in light of changes in roles, responsibilities and/or time commitment of the Non-Executive Directors, and to ensure that individuals of the appropriate calibre are retained or appointed. Current fee levels are set out in the Annual Report of Remuneration. |
| **Performance Measures** | Not performance based |
| **Malus / clawback** | Malus and clawback provisions are not applicable. |
| **Amendments to previous policy** | N/A |
| **Benefits and Expenses** | |
| **Purposes and link to the strategy of the Group** | To compensate Non-Executive Directors for expenses incurred in connection with the performance of their Non-Executive Directors duties and to ensure the Group has the appropriate Non-Executive Directors input as and when required. |
| **Operation** | The Group may reimburse Non-Executive Directors for their expenses incurred in connection with the performance of their duties including attending Board and committee meetings (such as, for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, Director's and officers' liability insurance, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly). |

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| **Maximum Opportunity** | The maximum amount payable depends on the cost of providing such expenses in the location at which the Non-Executive Director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely. |
| **Performance measure** | N/A |
| **Malus / clawback** | N/A |
| **Amendments to previous policy** | N/A |

## Material Risk Takers (MRT)

Material risk takers are individuals who have a material impact on the Bank's risk profile. In line with the requirements of the National Bank of Georgia Corporate Governance Code for the Commercial Banks, the below listed functions (individuals) represent MRTs:

- The Supervisory Board members;
- Members of the Management Board of the Bank (Executive Directors);
- Any other positions the Bank considers having a significant influence on the Bank's risk profile in line with the requirements and criteria set by the National Bank of Georgia in respective regulations.

Excluding Executive Directors and the Supervisory Board members of the Bank, based on the instructions of National Bank of Georgia, there were 62 identified MRTs as of December 2023. No MRT employees received remuneration exceeding GEL 1 million during the year, except for Directors.

## Middle Management, Other Material Risk Takers (MRTs Except Directors and Supervisory Board) and Other Employee Remuneration

The remuneration of the Other Material Risk Takers (the "MRTs"), as well as Executive Directors and the Supervisory Board of the Bank are subject to the National Bank of Georgia Corporate Governance Code for the Commercial Banks (the "NBG CG Code").

Middle management across the Bank, also other employees, receive their entire salary in cash and are also eligible for cash and/or share bonus variable compensation. Generally, Deferred Share Plan awards are subject to 3 years holding period and continued employment condition and malus and clawback provisions. These conditions are lifted as follows: 33% of the share award on the first anniversary from the award date, a further 33%, on the second anniversary from award date and the final 34% of the on the third anniversary from the award date. Before those conditions are met, the awarded shares cannot be sold or transferred to third parties. Variable part of middle management remuneration is linked to the annual KPI's performance. The deferral structure acts as a component to retain key talent.

In addition, Other MRT employees (except Executive Directors and Supervisory Board) variable remuneration structure is subject to additional regulatory requirements:

1. In line with NBG CG Code, 40% of annual variable remuneration of the MRTs (or at least 60% of it, provided annual variable remuneration exceeds 100% of the annual salary and/or exceeds 500,000 GEL) shall be deferred for 3 years;
2. a ratio of fixed to variable pay of MRTs shall be set at a maximum of 1:1 (which can be increased by TBC PLC Board Directors, in its capacity as a Bank's shareholder, to 1:2);
3. Maximum 50% of the deferred variable remuneration and maximum 50% of non-deferred part of the variable remuneration can be paid in cash and the remaining part shall be paid in shares;
4. From 1st January 2022, the deferred part of variable remuneration is paid fully in shares.

All other employees within the Bank receive cash salaries and may be eligible to receive cash or share bonuses, based on their roles. The CEO and Director and employee pay is reviewed based on role and experience and determined through the application of appropriate market data, as well as internal and external relativities.

The Control functions' remuneration is designed to:

1. ensure effectiveness and independence of decision-making process without being influenced by business lines;
2. prevent conflict of interest, including compromising independence of control function employees;
3. ensure that variable remuneration of the control function employees, does not depend on the achievement of certain financial results of those business lines the control function employees are required to monitor and check.

## Remuneration Plan and Structure

The Bank's Remuneration Policy is grounded on the principle of fairness across all categories of employees. Each year our Human Capital Department has oversight on the application of our internal policy by each department and each of our colleagues is evaluated against achievements and contribution to the success of our strategy and business objectives. Regularly middle managers performance is also reviewed by applying a 360-methodology to gather comprehensive feedback, including input from their subordinates. Our remuneration policy allows higher performing employees to obtain a higher compensation via their variable remuneration (for relevant personnel).

## Considering Risks in the Bank's Remuneration System

The remuneration policies and procedures at the Bank maintain a balance between the Bank's business goals, talent attraction and retention efforts, and the desired risk profile. variable remuneration motivates rewards and drives the right behavior and performance according to set expectations for the employee, reflecting specific requirements for performance at the business unit and individual levels.

The remuneration system ensures, that the evaluation and relevant compensation for the employees with controlling function (risk management, compliance and internal audit) are independent from the business results of the business units under their supervision and/or control and are assessed taking into account their performance's effectiveness and quality. The Bank's remuneration system is consistent with the risk management strategy. It includes a variable payment component that covers the Bank's main risks: credit, operational, financial (liquidity and market risks), regulatory and compliance risk (detailed information on each risk is given in chapter on Key Risks).

The variable remuneration includes components with both a quantitative and qualitative evaluation. It is set at the beginning of each year and is assigned on an individual basis, according to the activity and function of the structural unit. The quantitative and qualitative goals of each direction are defined in accordance with the Bank's strategy and risk appetite and ensure the fulfillment of the Bank's overall objectives. The goals in the remuneration component are taken into consideration for the risk management staff as well as the employees of business lines. Performance measures with appropriate stretching targets will be set on the basis of the Company's strategy and sustainability goals, and will include corporate financial KPIs, corporate non-financial KPIs as well as personal KPIs.

## Executive and Non-executive Director (jointly referred as "Directors" below) Remuneration of TBC Bank Group Plc

For details of the Directors' existing remuneration policy, please refer to TBC Bank Group Plc's annual report 2021. The new remuneration policy, which came into force from 1 January 2022 and was approved by the Company's shareholders at the 2021 AGM, is presented in TBC Bank Group Plc's annual report 2020.

## 10. Definition of Terms

- AGM – Annual General Meeting
- ALCO – Assets and Liabilities Committee
- Bank – JSC TBC Bank
- CEE Central and Eastern Europe
- CEO – Chief Executive Officer
- CFO – Chief Financial Officer
- CGN – Corporate Governance and Nomination Committee
- CIB - Corporate investment banking
- CIS - The Commonwealth of Independent States
- COO – Chief Operation Officer
- CRO – Chief Risk Officer
- EBRD European Bank for Reconstruction and Development
- EMEA Europe, Middle East and Africa
- ERM – Enterprise Risk Management
- ESRM - Environmental and social risk management
- FDI - Foreign direct investment
- GDP - Gross domestic product
- GEL - Georgian lari, national currency of Georgia
- GHG - Greenhouse gas
- HR - Human resources
- IFC - International Finance Corporation
- IFI - International financial Institution
- IFRS – International Financial Reporting Standards
- IMF - International Monetary Fund
- IPCC - Intergovernmental Panel on Climate Change
- IPO - Initial public offering
- IT - Information technology
- JSC - Joint stock company
- KPI - Key performance indicators
- LSE - London Stock Exchange
- MBA - Master of Business Administration
- MRT – Material risk taker
- MSME – Micro, small and medium sized enterprises
- NBG – National Bank of Georgia
- NIM - Net interest margin
- PLC - Public limited company
- SME – Small and medium sized enterprises
- UK - United Kingdom of Great Britain and Northern Ireland
- US$ - The US dollar, national currency of the United States

TBC

THANK YOU