Pillar 3 Annual Report 2019

საქართველოს ბანკი
BANK OF GEORGIA

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1. Executive Summary

1.1. Introduction

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

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

1.2. Management Statement

The Management Board (comprising the General Director and the Deputy General Directors as set out in section 3.4 below (the "**Management Board**")) and the Supervisory Board as set out in section 3.3 (the "**Supervisory Board**") of the Bank confirm the authenticity and accuracy of all the data and information presented within this Pillar 3 Annual Report for the year ended 31 December 2019 (the "**Report**").

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

All numbers in this Report are on a standalone basis and in accordance with the local accounting standards set by the NBG, unless otherwise noted. The Regulation does not require Pillar 3 disclosures to be audited, and the information provided in this Report is not audited as such.

1.3. Pillar 3 Disclosures contained in the Report

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

Article in REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "CRR")	Article in the Regulation	Location in the Report
Scope of disclosure requirements (Article 431)	Article 3.8	Section 1.2
Scope of application (Article 436)	Article 6.1	Sections 2.1 and 2.2
Risk management objectives and policies (Article 435)	Articles 6.2 and 6.3	Sections 3 and 4
Credit risk adjustments (Article 442)	Article 6.3	Section 4
Use of ECAIs (Article 444)	Article 6.3	Section 4
Use of credit risk mitigation techniques (Article 453)	Article 6.3	Section 4
Exposure to market risk (Article 445)	Article 6.3 (გ)	Section 4
Operational risk (Article 446)	Article 6.3 (გ)	Section 4
Regulatory Capital requirements (Article 438)	Article 6.4	Section 5
Remuneration policy (Article 450)	Article 7	Section 6

2. Ownership and Group Structure

2.1. Ownership

As at 31 December 2019, the principal direct shareholder of the Bank was JSC BGEO Group, owning 79.78% of the Bank's shares, while 19.78% of the shares were owned by Bank of Georgia Group plc. The remaining 0.45% of the shares are owned by up to 1,000 different individuals on Georgian Stock Exchange.

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

As at 31 December 2019 and 2018, the following shareholders owned more than 3.0% of the total outstanding shares of BoGG. Other shareholders individually owned less than 3.0% of the outstanding shares.

Shareholder of BoGG	31 December, 2019	31 December, 2018
JSC Georgia Capital**	19.90%	19.90%
Harding Loevner Management LP	4.78%	4.66%
JP Morgan Asset Management	3.52%	3.01%
Others	71.80%	72.43%
Total*	**100.00%**	**100.00%**

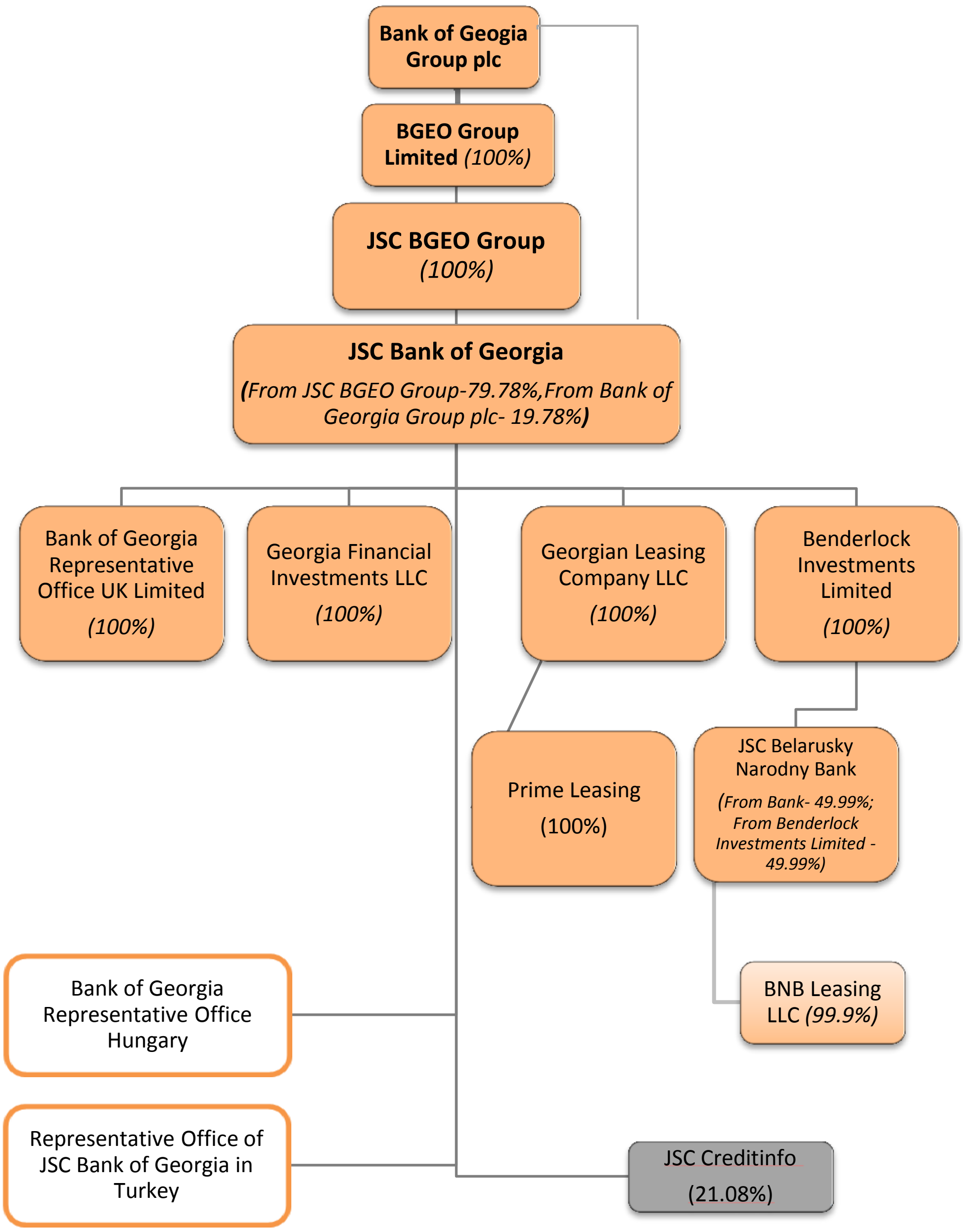
* *For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the BoGG group companies.*

** *JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.*

2.2. Group Structure

Bank of Georgia Group plc, its core subsidiary – JSC Bank of Georgia and its other subsidiaries make up a group of companies mainly incorporated in Georgia (together referred to as the "**Group**"). For information about the companies incorporated within the Group, please see page 192 of Bank of Georgia Group plc Annual Report 2019, available as of the date of this Report on BoGG's official website – www.bankofgeorgiagroup.com.

The Bank and its remaining subsidiaries make up a group of companies where the primary business activities include providing banking services to corporate and individual customers. As at 31 December 2019, the principal holdings of JSC Bank of Georgia were as follows:



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

3. Governance

3.1. Corporate Governance Framework

3.1.1. The Bank

The Bank's corporate bodies are the General Meeting of Shareholders ("**GMS**"), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with applicable Georgian laws and the Bank's Charter (the "**Charter**"). The GMS is the highest internal governing body of the Bank and elects members of the Supervisory Board, which is responsible for supervising the Management Board. The Supervisory Board appoints the members of the Management Board, which is the executive body of the Bank directly responsible for day-to-day operations. The Bank's ultimate parent company, BoGG, determines the strategy for the Group as a whole, including the Bank. Under the Corporate Governance Code for Commercial Banks (Order # 215/04 of the President of NBG, dated 26 September 2018) (the "**Corporate Governance Code**"), commercial banks in Georgia are required to have audit and risk committees, elected within and reporting to the supervisory board, and systemically important banks are additionally required to have corporate governance and remuneration committees within their supervisory boards. As described in detail below in section 3.3 below, the Bank's Supervisory Board is assisted by five different committees composed of members of the Supervisory Board, namely: Audit and Corporate Governance Committee, Risk Committee, Nomination Committee, Special Committee and Remuneration Committee. The members of the relevant committees are elected by the Supervisory Board.

3.1.2. The Group

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

Interaction between the BoGG Board and the Corporate Governance Framework of the Bank is further described below, in section 3.3 below.

3.2. Shareholder Engagement and Functions of GMS

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

According to the Charter, the annual GMS is convened no later than two months following the completion of an external audit of the Bank's books and in any case no later than six months from the end of the previous fiscal year.

The time, place and the agenda of the GMS is published in printed media at least 20 days prior to the date of such GMS. According to the Charter, the Supervisory Board determines the record date for the GMS. Shareholders holding at least 1.0% of voting shares should be notified about the GMS via registered mail. In certain cases envisaged by the applicable laws, shareholders holding smaller stakes in the Bank's equity should also receive notifications. The annual GMS discusses and adopts decisions on issues such as annual report and annual accounts, proposal(s) of the Management Board and Supervisory Board regarding distribution of dividends, bank's reserves and dividend policy and a justification of such policy by the Management Board, selection of the auditor and other subjects presented for discussion by the Management Board or the Supervisory Board as well as items put forward by the shareholders in accordance with Georgian law and the Charter.

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

An extraordinary GMS ("**EGM**") is convened whenever the Management Board, the Supervisory Board or a shareholder/group of shareholders holding at least 5.0% of the issued shares deems such a meeting necessary. Pursuant to the law, shareholders who individually or together hold at least 5.0% of the total issued capital may, stating the subjects to be discussed, not earlier than one month from the last GMS, request that the Management Board convene an EGM. The Management Board shall convene such meeting no later than three months after the receipt of the request from the shareholder(s). If the only item on the agenda of the EGM requested by the shareholder(s) is the removal of one or more directors and such request is not satisfied within 20 days, the initiating shareholders are entitled to convene an EGM through notification of the shareholders via registered mail. Such EGM is quorate if attended by holders of not less than 75.0% of voting shares. If the EGM is not quorate, the shareholders may reconvene the meeting no earlier than 20 days after the date of the first EGM and the quorum requirement for this second EGM shall remain the same. If the second meeting is not quorate either, the shareholders may apply to the court of relevant jurisdiction, which shall oblige the Management Board to convene an EGM within three months following adoption of the respective court resolution.

The GMS is presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman or any other member of the Supervisory Board. In the absence of members of the Supervisory Board, the meeting is presided over by the General Director. The minutes of the meeting are drawn up and certified by a notary.

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

Convention of GMS is not necessary, if a shareholder holding more than 75.0% of the Bank's voting shares passes a resolution. Such decision will be equivalent to the minutes of the GMS and is considered as a resolution of the GMS. If more than one shareholder owns more than 75.0% of shares of the Bank, convening of the general meeting of shareholders is mandatory.

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

- Approval and amendment of the Charter (including, without limitation, charter capital, and change of the corporate name);
- Increase of share capital or reduction of share capital;
- Liquidation of the Bank;
- Approval of merger, division or transformation of the Bank into another legal entity;
- Full or partial cancellation of pre-emptive rights during the increase of share capital;
- Approval of Supervisory Board and Management Board proposals regarding the distribution of profits, or if these bodies cannot provide a joint proposal, making a decision about the use of net profits;
- Election or dismissal of Supervisory Board members and determination of their terms of service;
- Establishment of a code of conduct for Supervisory Board members;
- Approval of Supervisory Board and Management Board reports;
- Approval of remuneration of Supervisory Board members;
- Appointment of auditors;
- Approval of participation in litigation against Supervisory Board and Management Board members, including the appointment of a representative in such litigation;
- Approval of acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of the Bank's assets, the value of which is more than 25.0% of the total assets of the Bank;
- Approval of annual accounts; and
- Other issues provided by law.

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

Shareholder Meetings held and Resolutions reached during 2019

- On 28 February 2019, the shareholder owning more than 75% of the voting shares of the Bank – JSC BGEO Group approved the salaries of the Supervisory Board members;
- On 14 May 2019, the shareholder owning more than 75% of the voting shares of the Bank – JSC BGEO Group approved distribution of dividends from 2018 full-year profit in amount of GEL 139,200,000;
- On 13 August 2019, the shareholder owning more than 75% of the voting shares of the Bank – JSC BGEO Group approved the appointment of Ms. Hanna Loikkanen as senior independent member of the Supervisory Board.

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

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

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to NBG or in case of NBG's refusal, is deemed to be null and void.

The NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his shareholding to 10%. The NBG is entitled to deny approval if the transaction may endanger stability of Georgia's financial sector, result in breach of requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide all necessary information about the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, according to the Banking Law, a person, or group of shareholders acting in concert, who intend to sell shares in a Georgian bank and, as a result of the relevant sale, their holding may fall below 10%, 25% or 50%, are required to notify the NBG prior to such sale and provide detailed information regarding such transaction.

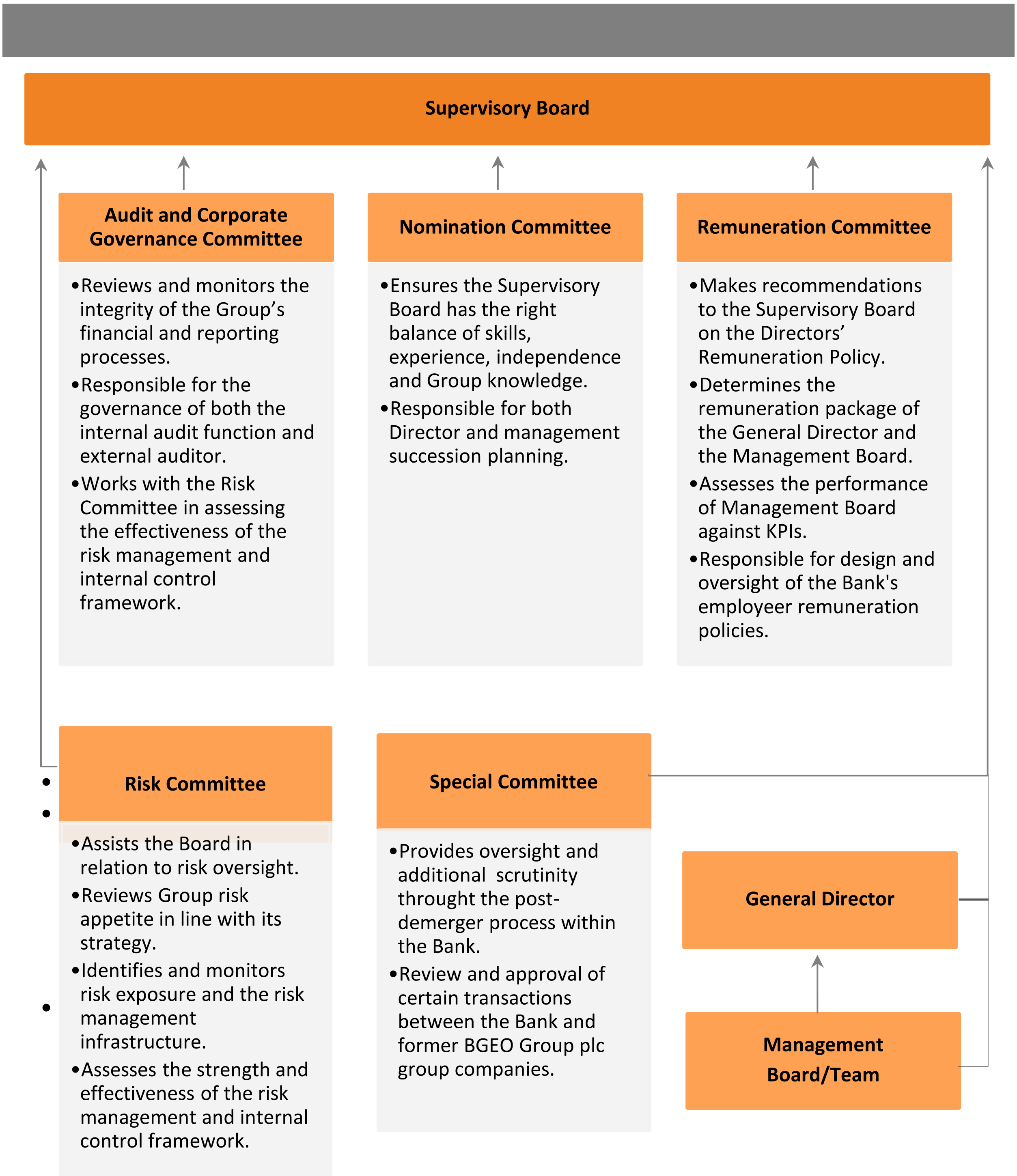
There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the direct and beneficial holders of more than 10% of their share capital (NBG Order No. 145 of 23 May 2006 sets a lower threshold of 5%). Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year. The information on the shareholders of the Bank is provided in section 2.1 (Ownership) above.

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

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

As at the date of this Report, the Supervisory Board consists of seven members, each of whom is elected by the GMS, subject to approval of the NBG. However, as at 31 December 2019, the Supervisory Board comprised of 8 members (details provided below). The Supervisory board members are appointed for four-year terms, and their reappointment and prolongation is not restricted.. The Supervisory Board members are required to act in the best interests of all the shareholders of the Bank and its business when performing their duties. Supervisory Board is assisted by five different committees, composed of members of the Supervisory Board, namely: Audit and Corporate Governance Committee, Risk Committee, Nomination Committee, Remuneration Committee and Special committee. The members of the relevant Committees are elected by the Supervisory Board. The functions of the Supervisory Board's Risk, Audit and Corporate Governance, Nomination and Remuneration Committees are described below.

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



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

Terms of Reference and Reporting to the Supervisory Board

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

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

As at 31 December 2019, the Supervisory board consisted of eight members. On 31 January 2020, Mr. Andreas Wolf, left the Supervisory Board. Below are outlined the Supervisory Board members' and their professional backgrounds:

- **Neil Janin**
  Chairman

Neil Janin was appointed as the Chairman of the Bank's Supervisory Board in September 2010 and has been subsequently re-appointed in accordance with the Charter. Mr Janin also serves as Chairman of the Bank's Nomination Committee, as well as a member of the Remuneration Committee. Mr Janin also serves as Non-Executive Chairman of BoGG plc, as well as Chairman of BoGG plc's Nomination Committee and a member of its Remuneration Committee. Mr Janin previously served as Chairman of BGEO Group plc, which included positions on BGEO Group plc's Nomination and Remuneration Committees. Mr Janin also served as a Non-Executive Director of Georgia Healthcare Group plc, from September 2015 until April 2018.

Skills and experience:

Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. In 2010, he joined the Supervisory Board of the Bank prior to which Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. Mr Janin is also a Director of Neil Janin Limited, a company through which he provides his ongoing consulting services.

Education:

Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

- **Hanna Loikkanen**
  Senior Independent Member

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

Skills and experience:

Ms Loikkanen has over 25 years' experience working with financial institutions in Russia and Eastern Europe. She worked at the Moscow office of a Swedish asset management company East Capital from 2007 until 2015, managing a private equity fund focusing on investments in financial institutions in the region. During this period, she served on the boards of several regional banks, with special focus on corporate governance and business development. Prior to this, Ms Loikkanen held the position of Country Manager and CEO at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running FIM Group's brokerage and corporate finance operations in Russia. During her tenure at FIM Group, the company advised several large foreign companies in their Mergers & Acquisitions activities in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for Skandinaviska Enskilda Banken in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In addition to her directorships at Bank of Georgia Group PLC, Ms Loikkanen serves as a Non-Executive Director, Chair of the Compensation and Remuneration Committee and a member of the Audit Committee of PJSC Rosbank, a universal bank listed on the Moscow Stock Exchange (Société Générale Group in Russia). Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki.

Education:

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

- **Tamaz Georgadze**
  Independent Member

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

Skills and experience:

In 2013, Mr Georgadze founded Raisin GmbH, a company which launched the first global deposit intermediation in Europe, and he continues to serve as its CEO/Chairman. PayPal and Goldman Sachs are amongst shareholders of Raisin. Prior to founding this company, Mr Georgadze had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. Save for his role at Raisin GmbH, Mr Georgadze does not hold any other directorships.

Education:

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

- **Alasdair (Al) Breach**
  Independent Member

Alasdair Breach was appointed as an Independent Member of the Bank's Supervisory Board in September 2010 and has been subsequently re-elected in accordance with the Charter. Mr Breach is the Chairman of the Bank's Remuneration Committee and also serves as a member of the Nomination Committee. Mr Breach also serves as an Independent Non-Executive Director of BoGG plc, as well as a Chairman of BoGG plc's Remuneration Committee and a member of the Risk and Nomination Committees. He previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Remuneration, Nomination and Risk Committees.

Skills and experience:

In 2013, Mr Breach co-founded Gemsstock Limited, a UK FCA regulated fund manager, where he also serves as an Executive Director. In 2010, Mr Breach also founded Furka Advisors AG, a Swiss-based asset management firm, and served as an Executive Director until founding Gemsstock Limited, which manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser. com, a web-based curator of current affairs writing, established in 2008. Mr Breach serves as a Director of Gemsstock Limited, the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an adviser to East Capital.

Education:

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

- **Jonathan Muir**
  Independent Member

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

Skills and experience:

Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000).

Education:

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

- **Cecil Quillen**
  Independent Member

Cecil Quillen was elected as an Independent Member of the Supervisory Board of the Bank in June 2018. Mr Quillen also serves as a member of the Bank's Audit and Corporate Governance, Remuneration, Nomination and Special Committees. He also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Audit, Remuneration and Nomination Committees.

Skills and experience:

Mr Quillen is a lawyer and a London-based US partner of Linklaters LLP, the global law firm. He is the leader of the firm's US securities practice. Mr Quillen works on a broad spectrum of securities and finance matters. A particular focus of his practice has been transactions in the CIS, and in central and eastern Europe. Mr Quillen is an officer of the Securities Law Committee of the International Bar Association, chairing its Regulatory Subcommittee, and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of UK Friends of Harvard University and the University of Virginia Law School Foundation. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia, and is a registered foreign lawyer in England and Wales.

Education:

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

- **Véronique McCarroll**
  Independent Member

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

Skills and experience:

Ms McCarroll has over 30 years' experience in Financial Services, with a strong focus on Corporate and Investment Banking, Risk Management and Digital banking. She currently heads Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. Prior to this role, she has been an Executive Director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and has spent 19 years in consulting firms, helping large banking clients on financial matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/Ernst & Young. Ms McCarroll started her career with Banque Indosuez in Capital Markets in 1986, serving in various front office fixed income and then market risk management roles. Ms McCarroll also teaches Finance at Paris Dauphine University.

Education:

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

Andreas Wolf was appointed as an Independent Member of the Bank's Supervisory Board on 6 December 2018. Mr Wolf also served as a member of the Bank's Audit and Corporate Governance, Nomination and Special Committees. He also served as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Audit and Nomination Committees. Mr Wolf stepped down from the Supervisory Board on 31 January 2020 due to other business commitments.

Supervisory Board Diversity and Independence

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

The Supervisory Board believes that its size and composition are appropriate. In particular, the Supervisory Board has determined that each of its' members is independent in character and judgement. Similarly, on Bank Supervisory Board level, each of the members is independent in character and judgement. Each of the Bank's Supervisory Board members occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Supervisory Board's deliberations through their experience and insight enabling them to contribute significantly to decision-making. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual.

The Bank values diversity in all forms. At 31 December 2019, 6 different nationalities were represented on the Bank's Supervisory Board of eight Directors. The Bank is committed to sustaining and developing gender balance. At 31 December 2019, two of eight Directors were women.

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

Succession Planning and Supervisory Board Appointment Procedures

At the Bank level, members of the Supervisory Board may be appointed and dismissed at a GMS according to the process defined in the Bank's charter. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board, for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The statutory term of each Supervisory Board member is four years. The Supervisory Board as well as each holder of voting shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board.

Furthermore, holders of shares representing in aggregate at least 20.0% of the issued share capital have the right to nominate, subject to the existence of a vacancy on the Supervisory Board, their representative to the Supervisory Board. The members of the Supervisory Board are elected by cumulative voting. A member of the Supervisory Board may serve as a member of the Management Board at the same time. The members of the Management Board may not hold a majority of the seats in the Supervisory Board. According to the Bank's Charter the Supervisory Board elects the Chairman and the Vice-Chairman from its members.

The Chairman of the Supervisory Board (or in case of his/her absence, the Vice-Chairman) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board. Meetings of the Supervisory Board shall be held at least once per quarter. A written notification with the respective agenda shall be sent at least eight days prior to the anticipated date of the meeting.

The Bank believes that effective succession planning mitigates the risks associated with the departure or absence of well qualified and experienced individuals. The Bank recognises this, and its aim is to ensure that the Supervisory Board and Management Board are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver the Bank's strategy. The Bank also recognises that continued tenure brings a depth of Bank-specific knowledge that is important to retain.

Role of the Supervisory Board

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

The Bank believes that the success of the implementation of its strategy requires for the strategy to be aligned with the Bank’s internal governance framework. The Bank views a strong system of risk management and internal controls as essential to governance in allowing the Bank to pursue its strategy in a way that risk appetite can be set and risks identified, assessed, managed and reported effectively.

By setting the tone at the top, establishing the core values of the Bank and demonstrating leadership, the Supervisory Board is able to implement the key policies and procedures the Bank has created in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of his or her dealings.

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

The Bank is mindful of its wider obligations and considers the impact its decisions will have on the Bank’s various stakeholders, such as the employees, the shareholders, the customers and the clients, the environment and the community as a whole.

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

Responsibilities of the Bank’s Supervisory Board include:

- Supervising the activities of the Management Board;
- Appointing and dismissing the General Director and other directors, concluding and terminating service contracts with them, as well as establishing a code of conduct for the members of the Management Board;
- Approving and amending the Bank's policy and other regulatory requirements;
- Inspecting the Bank's accounts and property, including inspection of conditions of cash desk, securities and assets, personally or with the help of invited experts;
- Requesting reports of the Bank's activities from the Management Board (including information concerning associated companies and subsidiaries) and reviewing the information provided by internal audit or external inspections;
- Convening an extraordinary general meeting, if necessary;
- Reviewing annual reports and the proposals of the Management Board on profit distribution;
- Representing the Bank in proceedings against the Bank's General Director and other directors;
- Approving the annual budget;
- Electing Supervisory Board committee members;
- Making decisions in other cases provided by applicable laws; and
- Approving the decisions of the Management Board (see page 27)

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

- Acquisition and disposal of a stake in other companies if the amount of such stake/share exceeds 50% (fifty percent) of the total equity of such company or the volume of the transaction exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and property ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Establishment and liquidation of branches;
- Investments, the partial or total amount of which exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Borrowing funds in excess of 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Securing loans, if they fall outside the scope of routine economic activity;
- Launching new banking activity(ies) or terminating or suspending existing banking activity(ies);
- Determination of general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director and other management board members, and any other top managers so selected by the supervisory board);
- Appointment and discharge of trade representatives;
- Approval of agreement(s) or contract(s) pursuant to which a non-recurring expense or several-tranche expenditure of the Bank is to be made which exceeds 1% (one percent) of the Bank's equity value as at the end of the previous calendar month;
- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, their classification and adequate provisioning;
- Redemption of the Bank's shares in cases envisaged by the applicable laws or effected through share buy backs (including without limitation of the treasury shares); and
- Other activities that may be defined by the applicable laws.

Operation of the Supervisory Board

During the year, there are usually four scheduled in-person meetings for the Bank's Supervisory Board. For the rest of the meetings the discussion and approval were held either through teleconference or through email correspondence. Since COVID-19 outbreak the Supervisory Board meetings are held through videoconference calls.

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

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

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

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

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

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

The Chairman and General Director maintain frequent contact (in person or otherwise) with each other and the other Supervisory Board members throughout the year outside of the formal meetings.

Supervisory Board Induction, On-going Training and Professional Development

On appointment, each Supervisory Board member takes part in an induction programme, during which he or she meets members of executive management, receives information about the role of the Supervisory Board and individual members, each Supervisory Board Committee and the powers delegated to these Committees. The new member is also advised of the legal and other duties. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual's previous experience and knowledge.

The Bank is committed to the continuing development of the Supervisory Board members in order that they may build on their expertise and develop an ever-more detailed understanding of the business, markets and regulatory environment in which the Bank operates and of the evolving corporate governance framework.

All of the Supervisory Board members participated in an on-going training and professional development throughout 2019, which included briefings, site visits, development sessions and presentations by members of management, external speakers and the Bank's professional advisors.

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

Evaluation of the Supervisory Board Performance

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

In 2019, the Supervisory Board undertook an internal effectiveness review of the Supervisory Board as a whole and its Committees. As a result of evaluation the Bank is confident that the Supervisory Board has a good balance of skills, experience and diversity of backgrounds and personality that encourages open, transparent debate and challenge. The results of the evaluation rated the Supervisory Board highly in most of the areas and confirmed that the Supervisory Board operated effectively. The Supervisory Board also recognised the areas for further improvement and set objectives for 2020 to address these. Based on the evaluation, the Supervisory Board's objectives for 2020 are:

- encourage the development of a culture of teamwork and initiative-taking at all levels of the Bank;
- pursue the digital transformation of the Bank;
- achieve more diversity at the Supervisory Board and at the top levels of the Bank.

In addition, in September 2019, the Supervisory Board members met to evaluate the performance of the Chairman led by the Senior Independent member, and concluded that the Chairman continues to show effectiveness in leadership. The Chairman also met with members without the General Director present in December 2019.

Due to the first quarter of 2020, the BOGG Board/the Bank's Supervisory Board set an action plan – Business Continuity Plan (BCP) – as a response to the COVID-19 pandemic outbreak. The key objective of the action plan is to help curb the spread of COVID-19 in Georgia; to provide clarity and security for employees in a safe working environment; to care for its customers and adapt to their needs during the changing circumstances; to have regard to the continuing impact of COVID-19 and the attendant uncertainties on the Bank's financial position; and to ensure the continued delivery of the Bank's products and services. The BCP enabled the Bank to adjust to the new environment and to transition to the new operating model effectively. See details of the BCP and the measures implemented by the Bank in Recent Developments section on page 30.

Supervisory Board and Committee Meeting Attendance

Details of the Supervisory Board, and Committee meetings attendance in 2019 are presented below.

Members	Board	Audit and Corporate Governance Committee	Nomination Committee	Remuneration Committee	Risk Committee
Neil Janin	6 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 3 of 3 ad hoc	n/a
Alasdair Breach	6 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 3 of 3 ad hoc	4/4
Tamaz Georgadze	5 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 2 of 3 ad hoc	4/4
Archil Gachechiladze	6 of 6 scheduled 3 of 3 ad hoc	n/a	n/a	n/a	1/1
Hanna Loikkanen	6 of 6 scheduled 3 of 4 ad hoc	6 of 6 scheduled 3 of 4 ad hoc	2/2	1 of 1 scheduled	n/a
Véronique McCarroll	5 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	n/a	4/4
Jonathan Muir	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	n/a	n/a
Cecil Quillen	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	2 of 2 scheduled 3 of 3 ad hoc	n/a
Andreas Wolf[1]	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	n/a	n/a

[1] Mr Andreas Wolf stepped down from the Board on 31 January 2020

Committees

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

The Bank's Supervisory Board has the following Committees:

- the Audit and Corporate Governance Committee;
- the Risk Committee;
- the Nomination Committee (From 22 January, 2019);
- the Remuneration Committee and;
- Special Committee *(From 7 January, 2019)*.

- Audit and Corporate Governance Committee

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

The rights and obligations of the Audit and Corporate Governance Committee are to:

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

- provide oversight of and interaction with the Bank's internal and external auditors and ensure their adequate functioning, independence and effective cooperation;
- frame policy on internal audit and financial reporting;
- approve, or recommend to the Supervisory Board or shareholders, the appointment, remuneration and dismissal of external auditors;
- oversee the establishment of accounting policies and practices by the Bank;
- ensure relevance of Bank's internal governance structure with the requirements and the Bank's internal rules/documents on corporate governance;
- ensure there exists an effective decision-making system inside the Bank that provides assessment of reputational risks when making decisions, as well as complying with relevant legislation and the Bank's internal standards and rules;
- take responsibilities and perform duties set by the Georgian Code of Ethics and standards of professional conduct for commercial banks;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Supervisory Board.

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

Hanna Loikkanen, Jonathan Muir and Cecil Quillen are members of the Audit and Corporate Governance Committee of the Bank. The composition of the Audit and Corporate Governance Committee was last approved on 22 January 2019. Jonathan Muir serves as a chairman of the Audit and Corporate Governance Committee.

- Risk Committee

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

Alasdair Breach, Tamaz Georgadze and Véronique McCarroll are members of the Risk Committee, the composition being last approved on 25 February 2019. Tamaz Georgadze serves as Chairman.

- Nomination Committee

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

- Remuneration Committee

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

The members of the Bank Remuneration Committee are: Alasdair Breach (Chairman), Hanna Loikkanen, Neil Janin, Tamaz Georgadze and Cecil Quillen, the composition was last approved on September 19, 2019.

- Special Committee

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

Jonathan Muir, Cecil Quillen and Véronique McCarroll are members of the Special Committee, the composition being last approved on 25 February 2019 and Jonathan Muir serves as Chairman.

Terms of Reference and Reporting to the Supervisory Board

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

Committee Meeting Attendance

Details of the Bank's Committee meetings attendance in 2019 are presented on page 17 above.

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

On BoGG level, the BoGG Board members are elected by BoGG Shareholders' Annual General Meeting and they are divided into "Executive" and "Non-executive" directors (the "**Non-Executive Directors**"). Seven out of eight members of BoGG Board were independent non-executive members. Each of the Chairman and Non-Executive Directors has clearly defined roles within the BoGG Board structure.

On the Bank's Supervisory Board level, there are no "executive" directors, as the executive powers are carried out by the management of the Bank as exemplified below. Supervisory Board is appointed by GMS as described above at Section 3.2. The Supervisory Board elects its own Chairman and Committee members.

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

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

Succession Planning and BoGG Board/Supervisory Board Appointment Procedures

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

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

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

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

3.4. Management Board and Management Team

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

Name	Current Position
Archil Gachechiladze	General Director
Sulkhan Gvalia	Deputy General Director, Chief Financial Officer
Levan Kulijanishvili	Deputy General Director, Chief Operations Officer
Mikheil Gomarteli	Deputy General Director, Retail Banking - Emerging and Mass Retail, and Micro Business Banking
George Chiladze	Deputy General Director, Chief Risk Officer
Vakhtang Bobokhidze	Deputy General Director, Chief Information Officer
Giorgi Pailodze	Deputy General Director, Corporate and Investment Banking

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

Name	Current Position
Eter (Etuna) Iremadze	Head of SOLO Business Banking
Zurab Masurashvili	Head of SME Business Banking
Ekaterine Liluashvili	Head of Wealth Management
Andro Ratiani	Head of Innovation
Levan Gomshiashvili	Chief Marketing Officer
Nutsa Gogilashvili	Head of Customer Experience and Human Capital Management
Nino Suknidze	General Counsel, Georgia

Below are outlined the Bank's Management Board and Senior Management Team members' professional backgrounds:

- **Archil Gachechiladze**
  General Director

Archil Gachechiladze was appointed as General Director and CEO of the Bank and Bank of Georgia Group PLC on 28 January 2019. Prior to his recent appointment, Mr Gachechiladze served as CEO of Georgian Global Utilities (formerly part of BGEO Group PLC) from January 2017 to January 2019. Mr Gachechiladze joined the Bank in 2009 as Deputy General Director, Corporate Banking (2009-2013) and has since held various roles within the Bank and its holding and sister companies, such as Deputy General Director, Investment Management (2013-2015), CFO of JSC BGEO Group (2015-2016) and Deputy General Director, Corporate and Investment Banking (2016-2017). Mr Gachechiladze has over 17 years' experience in the financial services sector, including various senior positions both in local and international organisations, such as TBC Bank (2008-2009), Lehman Brothers Private Equity (currently Trilantic Capital Partners) (2006-2008), Salford Equity Partners (2002-2004), European Bank for Reconstruction and Development (EBRD) (2001-2002), KPMG and the World Bank's CERMA (1998-2000). Mr Gachechiladze received his undergraduate degree in Economics from Tbilisi State University, and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

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

Mr Gvalia was appointed as Deputy General Director, Chief Financial Officer of JSC Bank of Georgia in May 2019. Mr Gvalia has extensive experience in banking having worked in a number of senior management roles at the Bank, including Chief Risk Officer (2005-2013) and Head of Corporate Banking (2013-2016). Mr Gvalia previously served as Deputy CEO of TbilUniversalBank, prior to its acquisition by the Bank of Georgia in November 2004. Prior to his recent appointment, Mr Gvalia was the founder and CEO of E-Space Limited, Tbilisi – the only Georgian company developing the electric car charging infrastructure in Georgia. He also serves as a non-executive independent director at Inecobank (Armenia) since 2018. Mr Gvalia received a law degree from Tbilisi State University.

- **Levan Kulijanashvili**
  Deputy General Director, Chief Operations Officer

Levan Kulijanishvili was appointed as Deputy General Director, Chief Operations Officer of JSC Bank of Georgia in September 2017, prior to which he served as BGEO Group PLC's CFO and as Deputy General Director, Finance of the Bank from February 2016. He has been with the Bank since 1997. During his over 20 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 (until his appointment as Deputy General Director), Finance, Head of the Internal Audit department (2000 to 2009), Manager of the Financial Monitoring, Strategy and Planning department (1999 to 2000) and Head of the Financial Analysis division (1997 to 1999). Mr Kulijanishvili received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

- **Mikheil Gomarteli**
  Deputy General Director, Retail Banking - Emerging and Mass Retail, and Micro Business Banking

Following the split of Retail Banking into two segments in February 2017 due to significant growth in the Retail Banking business, Mr Gomarteli assumed the role of Deputy General Director responsible for Emerging and Mass Retail Banking and Micro Business Banking of JSC Bank of Georgia. Prior to this, Mr Gomarteli had served as the sole Deputy General Director of Retail Banking since February 2009. He has been with the Bank since December 1997. During his over 20 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007 to February 2009), Head of Business Development (March 2005 to July 2005), Head of Strategy and Planning (2004 to 2005), Head of Branch Management and Sales Coordination (2003 to 2004), Head of Branch Management and Marketing (2002 to 2003) and Head of Banking Products and Marketing (2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

- **George Chiladze**
  Deputy General Director, Chief Risk Officer

George Chiladze was appointed as Deputy General Director, Chief Risk Officer of JSC Bank of Georgia in September 2013. He re-joined the Bank having already served as Deputy General Director, Finance, from 2008 to 2012. From 2012 to 2013, Mr Chiladze was Deputy CEO at the Partnership Fund, and he served as general director of BTA Bank (Georgia) from 2005 to 2008. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the US at the Programme Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Chiladze received a PhD in Physics from Johns Hopkins University in Baltimore, Maryland, and an undergraduate degree in Physics from Tbilisi State University.

- **Vakhtang Bobokhidze**
  Deputy General Director, Chief Information Officer

Vakhtang Bobokhidze was appointed as Deputy General Director, Chief Information Officer of JSC Bank of Georgia in March 2018, prior to which he served as Head of IT since April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position of Chief Information Officer. Mr Bobokhidze received his undergraduate and MBA degree from Tbilisi State University.

- **Giorgi Pailodze**
  Deputy General Director, Corporate and Investment Banking

Giorgi Pailodze was appointed as Deputy General Director, Corporate and Investment Banking of JSC Bank of Georgia in June 2019. Mr Pailodze has extensive experience in the global financial services sector, having worked for international and local banking institutions. Prior to joining the Bank, Mr Pailodze was a Vice President at Evercore, an investment banking advisory firm, where he was based in London (2017-2019) and New York (2015-2017). In his role at Evercore he provided strategic, debt and equity advice to corporate and private equity clients across a range of sectors. Prior to joining Evercore, Mr Pailodze spent two years in corporate and investment banking at Citigroup in New York. Mr Pailodze started his banking career in Georgia, where he held various managerial roles at TBC Bank and HSBC Bank Georgia. Mr Pailodze received his MBA degree from Cornell University and his undergraduate degree in business administration from Caucasus School of Business.

- **Eter (Etuna) Iremadze**
  Head of SOLO Business Banking

Eter Iremadze was appointed as Head of SOLO Business Banking of JSC Bank of Georgia in May 2019. Ms Iremadze has over 18 years of experience in financial services. She joined the Bank in 2006 and has held various senior positions, including Head of Blue Chip Corporate Banking Unit covering structured lending, M&As, significant buyouts in the country, as well as project financing. Prior to her recent appointment, Ms Iremadze served as Head of Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group PLC), where she was working under the direct supervision of the CEO since 2017. Ms Iremadze received her undergraduate degree in Economics and Commerce from Tbilisi State University and received her MBA from Grenoble Graduate School of Business.

- **Zurab Masurashvili**
  Head of SME Business Banking

Zurab Masurashvili was appointed as Head of SME Business Banking of JSC Bank of Georgia in May 2019. Prior to this appointment, Mr Masurashvili has held several senior positions in the Bank since 2015, including Head of Express Business, Head of MSME Business and Head of Retail Business Banking. Mr Masurashvili has extensive experience in financial services. From 2002-2007, he held several positions in international organisations such as EBRD’s Small Enterprise Lending Programme, the World Bank’s Access to Rural Finance in Bangladesh and GTZ’s Micro Finance and Reform of Rural Finance Sector. From 2007-2015, prior to joining the Bank, he served as a Deputy Chairman of the Board of Directors in JSC Privatbank. Mr Masurashvili received his undergraduate degree in Geology from Georgian Technical University.

- **Ekaterine Liluashvili**

  Head of Wealth Management

Ekaterine Liluashvili was appointed as Head of Wealth Management of JSC Bank of Georgia in May 2019. Ms Liluashvili has extensive experience in financial services. She joined the Bank in 2008 and has held various senior positions, including Head of International Business Development (2015-2019) and Private Banker (2008-2015). Prior to joining the Bank, Ms Liluashvili worked at Bank Republic (Société Générale Group) as a Private Banker. Ms Liluashvili received her undergraduate degree in business administration from European School of Management Tbilisi and holds a degree in Banking from University of Cooperative Education – Berufsakademie Mosbach, Germany, with a specialisation in private banking.

- **Andro Ratiani**

  Head of Innovation

Andro Ratiani was appointed as Head of Innovation of JSC Bank of Georgia in January 2018. Mr Ratiani has extensive experience in the global financial services sector, having worked for international banking institutions and financial service providers. Prior to joining the Bank, Mr Ratiani was Director – Global Head of Product Management at IHS Markit, a leading Financial Services Information provider, where he was based in New York (2014-2018). In his role at IHS Markit, he was overseeing and managing Global and US-based Strategic Technology projects for Syndication Lending. Prior to joining IHS Markit, Mr Ratiani spent six years in UBS AG Investment Bank and Wealth Management Bank in New York, where he led multiple strategic technology projects. Before his UBS roles, Mr Ratiani worked for Wells Fargo (2009-2011), during a major acquisition phase of Wachovia Bank. Mr Ratiani started his banking career in Georgia, where he held various roles at Bank of Georgia's Corporate and Investment Banking Department (2002-2006). Mr Ratiani received his undergraduate degree in business administration from University of Hawaii and his Master's degree in technology management from Columbia University.

- **Levan Gomshiashvili**

  Chief Marketing Officer

Levan Gomshiashvili was appointed as Chief Marketing Officer of JSC Bank of Georgia in May 2019. Mr Gomshiashvili has extensive experience in marketing. He started his career in Georgian Railway, covering advertising and project management. Before joining the Bank, Mr Gomshiashvili was the founder of HOLMES&WATSON, creative agency, where he acted as Account Manager for clients operating in banking, as well as other sectors. Mr Gomshiashvili is also the founder of Tbilisi School of Communication, an educational facility with an emphasis on ExEd. Mr Gomshiashivili received his MSc in Management from University of Edinburgh.

- **Nutsa Gogilashvili**

  Head of Customer Experience and Human Capital Management

Nutsa Gogilashvili was appointed as Head of Customer Experience and Human Capital Management in August 2019. Ms Gogilashvili has over eight years of experience in financial services, including various senior positions both in local and international organisations. She joined the Bank in May 2016 and has held various senior positions, including Head of Strategic Processes of Corporate and Investment Banking in 2016 and Head of Customer Experience Management since January 2017. Prior to joining the Bank, she served as Head of Strategic Planning and Budgeting of TBC Bank. Ms Gogilashvili had previously worked in London as analyst at JP Morgan covering several product control roles (2011-2014). Ms Gogilashvili received her MSc in Finance from Cass Business School in London and an undergraduate degree in Economics from Moscow State Institute of International Relations.

Nino Suknidze
General Counsel, Georgia

Nino Suknidze was appointed as General Counsel in December 2017. Prior to joining the Bank, Ms Suknidze worked as Counsel at an international law firm, Dentons Georgia. Ms Suknidze held a position of Legal Director at international law firm DLA Piper Georgia for several years after serving as a Senior Associate at the same company. Prior to starting her career at a law firm, Ms Suknidze served as a legal adviser to financial director of United Energy Distribution Company of Georgia and senior legal adviser at Georgian representative office of PA Consulting Group GmbH. Ms Suknidze has experience of working with Georgian non-governmental organisations on various legal projects and worked as a foreign legal intern with various law firms in the US and the Netherlands. Ms Suknidze obtained her LLM (cum laude, Nuffic scholar) in Business and Trade Law from Erasmus University Rotterdam. She graduated with honours from the faculty of International Law and International Relations of Ivane Javakhishvili Tbilisi State University, and is qualified as a lawyer specialising in international law. Ms Suknidze is a certified attorney and a member of the Georgian bar.

Responsibilities of the Management Board

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

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

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

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

The following activities may be carried out by the Management Board only with the approval of the Supervisory Board:

- Acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Establishment and liquidation of branches;
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Borrowing funds in excess of 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Securing debt financing, if such financing falls outside the scope of routine economic activity;
- Launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- Adopting general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director, other members of the Management Board and any other top managers so selected by the Supervisory Board);
- Appointment and dismissal of trade representatives;
- Approval of an agreement or contract pursuant to which the expenditures of the Bank (payable by single or several tranches) exceeds 1.0% of the Bank's equity value as of the end of the previous calendar month;
- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;
- Determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- Redemption of the Bank's shares in cases envisaged by the applicable laws, including the redemption of treasury shares;
- All exposures to a single group of borrowers over US$25.0 million must be approved by the Supervisory Board; and
- Other activities that may be prescribed by applicable laws.

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

4. Risk Management

Overview

The Bank believes that in order to have an effective risk management framework, there needs to be a strong risk management culture within the Bank and for this purpose risk management is ingrained in everyday business activities. The Bank seeks to create an environment where there is openness and transparency in how decisions are made and risks are managed and where business managers are accountable for the risk management and internal control processes associated with their activities. The Bank's culture also seeks to ensure that risk management is responsive, forward-looking and consistent.

In 2019, the Bank commenced the implementation of its new Risk Management Framework Policy and Risk Appetite Framework Policy, which are based on Enterprise Risk Management's three lines of defence model and mirror the requirement of the Corporate Governance Code as adopted by the NBG. The new framework and policies were implemented in 2020. The three lines of defence model is intended to enhance the understanding of risk management and control by clarifying roles and duties within the Bank of different risk management bodies and units in order to increase the effective management of risk and control. The underlying premise of this model is that through the oversight of the Bank's Management Board and Supervisory Board, the following three lines of defence are identified (and ascribed relevant responsibilities) for the effective management of risk and control:

- **First Line of Defence**: relevant business unit, the "risk owner": The first line of defence is handled by front-line and mid-line managers who have day-to-day ownership and management over relevant business units of the Bank. The "risk owners" are accountable for initial identification, assessment, management, monitoring and reporting of risks in terms of products, activities, processes and systems under their management. The first line of defence shall also: (i) participate in defining the Bank's risk appetite approaches; (ii) integrate risk appetite approaches and risk culture into daily activities; (iii) introduce controls and processes to effectively manage risks; and (iv) introduce awareness-raising activities related to risk culture.

- **Second Line of Defence**: The second line of defence provides an additional level of support to the first line of defence, by putting in place senior management who bring an additional level of expertise to the risk management process, and provide additional support to, and monitoring of, "risk owners" to ensure that risks and controls are properly managed. The second line of defence comprises the Bank's risk management function and compliance units, both of which are independent of the first line of defence and have the power to monitor the Bank's risk-taking processes and assess risks and related matters independently of the relevant business lines and "risk owners". The risk management function is represented by an organised structure under the Deputy CEO, the CRO, comprising a Credit Risk Department, a Portfolio Risk Management Department, an Operational Risk Management Department, Informational Security Department and a Quantitative Risk Management and Risk Analytics Department. The CRO has a leading role in operating the second line of defence. They coordinate risk management processes, as well as implement appropriate policies. The second line of defence for the Bank's AML risk management is undertaken by the AML and Compliance Department under the Bank's COO, which is responsible for managing and monitoring the Bank's products and processes and ensuring compliance with the applicable regulations. Managing compliance risk in the field of financial reporting, as well as managing the Bank's tax risks, is the responsibility of the Bank's finance function, which operates under the Bank's Chief Financial Officer ("**CFO**"). Legal risk management is the responsibility of the General Counsel and its subordinate structural units. The aforementioned structural units also participate in adherence to compliance requirements, and in the organisation of the general control environment as part of the second line of defence.

- **Third Line of Defence: Internal Audit**: The third line of defence provides assurance to the Supervisory Board that the first and second lines of defence's efforts are consistent with expectations. The third line of defence is independent of the first and second lines of defence and is responsible for assessing the consistency and effectiveness of the Bank's internal control system, the effectiveness of the first and second lines of defence, and the overall risk management policy. Internal audit is also responsible for the adequate and independent evaluation of risk appetite management processes, systems and reporting functions.

Together with three lines of defence, the risk function of the Bank has produced the Bank's Risk Appetite Framework Policy, which serves as the primary guideline for each line of defence when treating and managing identified risks. The risk management bodies of the Bank have been brought into line with the Risk Appetite Framework Policy and have their relevant responsibilities categorised under the Risk Management Framework Policy and the Risk Appetite Framework Policy.

The Bank has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Bank's objectives are attained. The Supervisory Board recognises its responsibility to present a fair, balanced and understandable assessment of the Bank's position and prospects. It is accountable for reviewing and approving the effectiveness of internal controls operated by the Bank, including financial, operational and compliance controls, and risk management. The Supervisory Board recognises its responsibility in respect of the Bank's risk management process and system of internal control, and, oversees the activities of the Bank's external auditors and the Bank's risk management function which have been delegated to the Audit and Corporate Governance and Risk Committees. The Audit and Corporate Governance and Risk Committees monitor internal control over operating and compliance risk through discussions with the Deputy General Directors - Chief Risk Officer, Chief Financial Officer and Chief Operating Officer, Head of AML and Compliance, Head of Internal Audit and other executive management board members on a quarterly basis. Any key issues identified are escalated to the Supervisory Board. The Supervisory Board also receives regular presentations directly from the head of each risk unit. Important risk and internal control issues are addressed in such presentations.

The Bank's risk management processes framework is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- risk assessment - qualitative and quantitative assessment of a particular risk;
- risk appetite - determination of an acceptable risk level;
- risk treatment - monitoring and mitigation;
- risk monitoring and reporting - on-going monitoring and control allowing efficient adjustments in case of any changes in the conditions on which the preliminary risk assessment was made; and
- analysis of the effectiveness of the risk management system.

The Supervisory Board's mandate includes determining the Bank's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks faced are consistent with the Bank's overall goals and strategic objectives.

The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. This section describes Bank's risk management policies and procedures in respect of those risks. Business risks such as changes in the environment, technology and industry are monitored through the Group's strategic planning process.

Recent Developments

As a result of global pandemic in relation to COVID-19, The Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (the "**BCP**") aimed at curbing the spread of COVID-19 in Georgia, mitigating the negative impact on business and the community and at complying with regulation and guidance of Georgian governmental institutions. The Bank started developing the BCP at the end of January 2020, such that all of its operations would be successfully adapted to the new operating environment, while establishing the health and safety of all staff and customers as the number one priority. The BCP is focused on three main pillars: Operating efficiency (employees, customers and community), capital, and liquidity and funding positions

Operating efficiency. The Bank has put in place a number of initiatives in order to reduce physical interaction and prevent the spread of coronavirus, whilst maintaining the full banking capability required to support and assist its customers.

Safety measures

- The Bank's main branches remain open with additional security measures introduced as discussed below. The Bank reduced the physical presence of bankers in the Bank's service centres. Two-week shifts have been introduced in front offices and other service areas throughout the business, to ensure ongoing availability of team members
- Most Express branches remain open, however, the Bank has initiated the temporary closure of the customer service support areas of these branches, with only the self-service terminals and ATM areas remaining open
- Banking services, where possible, are conducted exclusively via call centres, which is operating remotely, with employees working from home with significantly increased capacity since March 2020.
- A three-month grace period on principal and interest payments has been introduced on all retail loans in order to significantly reduce the requirement for customers to physically visit Bank branches
- The Bank has further increased focus on its digitalisation strategy and introduced various initiatives to incentivise the transfer of customers' activity to digital channels
- In the Bank's back office environments, the majority of staff are now working from home
- Additional safety measures have been introduced in the Bank's locations. Glass barriers have been installed for teller/operators to ensure secure interaction with customers; all employees are required to wear gloves and face masks and are equipped with hand sanitisers. The Bank's premises, as well as ATMs and self-service terminals, are sanitised twice a day, and all employees and customers entering the Bank premises have to undergo mandatory body temperature checks. Maximum of three customers are allowed to enter the branch at the same time. Cash center is split in two locations and operating in two-week shifts, where employees have to follow even stricter protocols and procedures in order to minimise the infection risk due to direct interaction with cash.

Support to customers and community

- All retail clients have been given the opportunity to defer applicable loan principal and interest payments for three months
- Corporate customers and all legal entities operating in the tourism industry have been given an immediate loan restructuring opportunity. Specific sectors include the hotels, as well as restaurants, travel agencies, and passenger transportation companies, amongst others

- In order to ensure uninterrupted secure service for customers and incentivise the use of remote channels, the Bank has temporarily removed fees for transactions executed through its internet and mobile banking platforms for a three month period. Furthermore, in collaboration with mobile service providers in Georgia, Bank of Georgia ensures full access to the mBank, even in the offline mode, without an internet connection. Finally, the Bank launched a nationwide educational campaign with informative and instructive videos (more than 100 pieces of educational content), which help people to get familiar with and learn easily how to use the mBank application
- The Bank financed and donated 20,000 laboratory tests of COVID-19, 10 respirators, 50,000 face masks and 60,000 gloves to the Ministry of Health of Georgia to support the battle to prevent the virus spread.

The Government anti-crisis stimulus plan. The Government announced a series of support measures designed to mitigate the negative economic impact of COVID-19. The anti-crisis plan was presented by the Prime Minister of Georgia on 24 April 2020 and includes a social assistance package for individuals, as well as tax exemptions and various funding mechanisms for businesses. A total of GEL 3.5 billion will be allocated for implementing the economic stimulus plan, of which GEL 1.035 billion will be used to support citizens, GEL 2.11 billion to support businesses and GEL 350 million will be spent to enhance the country's healthcare system. The stimulus plan may be further expanded and the 2020 revised Government budget document, which will be available in May 2020, will detail the full picture of measures.

Support to businesses

- Property and income tax payments postponed for four months until 1 November 2020 for hospitality sector companies; Approximately 4,500 companies affected, and around GEL 90 million will remain in this sector of the economy. This initiative was further updated as part of Tourism recovery plan presented on 7 May 2020: Tourism sector companies will fully be exempted from property tax payments in 2020 (resulting in savings of GEL 45 million), while personal income tax payments for this sector companies will be postponed until the end of 2020 (around GEL 90 million)
- Small-size hotels will receive a bank loan interest payment subsidy for six months; GEL 10 million has been allocated for the measure and around 850 companies already registered. This initiative was further updated as part of Tourism recovery plan presented on 7 May 2020: GEL 60 million has been allocated to subsidise bank loan interest payments for hotels, which will affect around 3,000 hotels operating in hospitality industry. Additional GEL 5 million will be allocated to support travel agencies and tourist guide operators
- Hotels offered to turn into quarantine zones at a specified rate reimbursed by the Government
- Customs clearance for car importers postponed for 90 days until 1 September 2020; Around 38,000 importers affected, resulting in saving of GEL 50 million
- For all infrastructure projects, the State has insured against an increase in the price of construction materials totalling c.GEL 200 million
- With the support of local banks, legal entities were given the opportunity of loan restructuring; 7,000 legal entities have already benefited
- VAT refunds to double to approximately GEL 1.2 billion from initially planned GEL 600 million
- Government subsidised prices of nine food products – rice, buckwheat, pasta, oil, flour, wheat, milk powder, sugar and beans; Agreement concluded with large importers, allocating GEL 15 million for the measure
- Support to agriculture development (grants, bank loans and irrigation systems)
- GEL 600 million long-term local-currency resource to be provided to commercial banks
- GEL 500 million will be allocated for supporting businesses, through:
    - GEL 300 million credit guarantee scheme – GEL 2 billion loan portfolio coverage, with 90% guarantee cover on new loans and 30% on restructured loans

  - Co-financing scheme under the State programme "Produce in Georgia" – loan/lease co-financing period increase from 24 to 36 months; the interest rate co-financing mechanism change ; increase the coverage of the programme; lower minimum loan/lease limit; increase working capital funding

Support to individuals

- Individuals, who lost jobs during the pandemic, will receive a monthly allowance of GEL 200 for a period of six months
- Individuals with monthly salary of GEL 750, who have not been laid-off during the pandemic, will be exempt from income tax payments for the next six months; In case of monthly salary of GEL 1,500, the exemption will apply to the GEL 750 tax base
- Self-employed or unemployed individuals who are able to prove that they lost income due to the pandemic outbreak, will receive GEL 300 as a one-off assistance
- Socially disadvantaged groups (320,000 people), as well as adults and children with disabilities (40,000 people), will be entitled to a monthly financial assistance of GEL 600 for the next six months
- Three-month utility payments (electricity, water and sanitation charges for more than 1.2 million families and natural gas payments for more than 670,000 families) of GEL 150 million will be subsidised by the Government
- With the support of the local commercial banks, retail clients were given the opportunity to defer loan payments for three months; 600,000 citizens have already benefited from this measure.

Reopening timeline

- On 24 April 2020, the Prime Minister of Georgia presented a timeline for gradually lifting the coronavirus-related restrictions and resuming economic activity. The reopening plan commenced on 27 April 2020 and will be executed in six phases, two weeks per stage, depending on the epidemiological situation in the country. On 7 May 2020, the Prime Minister announced an update to the plan, with target to re-open Georgia's borders to foreign tourists from 1 July 2020, while domestic tourism will resume from June 15th. Detailed Tourism Recovery plan was presented as a top priority with GEL 200 million allocated to this industry initiatives and aim to promote Georgia as a safe destination, which will be shortly followed by support schemes for agriculture, construction and development, and anti-crisis actions in education.

International support. Georgian authorities have mobilised US$3.0 billion financing from the International Monetary Fund (the "**IMF**") and other international partners (US, EU, World Bank, KFW, AFD, EBRD, EIB, ADB, etc.) to respond effectively to the COVID-19 pandemic associated economic crisis. Georgia's long-lasting ties with these institutions, prudent economic policymaking of recent years and the country's aspiration to democratic changes made this support from long-standing partners possible. Of this funding, US$1.5 billion is earmarked for the public sector and US$1.5 billion for the private sector. The IMF's financing is c.US$400 million, of which US$200 million will be made available immediately to the budget, US$100 million to the National Bank of Georgia (the "**NBG**") in the second half of 2020, and another US$100 million in 2021. With this support, the estimated stimulus in 2020 will be substantial at 11-15% of GDP, which will help to finance healthcare and macroeconomic stabilisation initiatives.

At the end of March 2020, NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The measures, which were introduced with immediate effect, were mainly focused on capital adequacy and liquidity initiatives that allow banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations.

Capital adequacy initiatives

- Combined buffer - the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0% indefinitely
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by 2/3rds indefinitely
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

General loan loss provisioning relating to COVID-19. NBG requested the Georgian banks to create general provisions under the local accounting basis in the first quarter of 2020, the accounting basis is that used for calculation of capital adequacy ratios. The specific quantum of the provision reflects the NBG's current expectation of estimated credit losses on the lending book of the banking system for the entire economic cycle, given current economic expectations. The NBG considers the banking system capital ratios to be sufficiently in excess of the expected minimum capital requirements, to be able to absorb this upfront general provision, whilst maintaining sufficiently comfortable buffers over the required minimum capital ratios.

Liquidity initiatives

- Liquidity coverage ratio (LCR) requirements (for local and foreign currency, as well as total requirement) may be revisited and reduced, if necessary. On 1 May 2020, NBG temporarily cancelled the 75% LCR requirement for local currency for a one-year period, or until further communicated by NBG
- Mandatory reserve requirements may be revisited and reduced, if necessary
- The eligibility criteria for repo-eligible securities has already been extended by NBG and may be revisited further, if necessary, to support GEL liquidity

Other initiatives

- The deadline for submitting previously planned stress testing results to NBG was postponed until the end of May, 2020
- NBG will not impose any monetary sanctions in case of breach of economic normatives and limits driven by external factors (e.g. reserves, exchange rate depreciation)
- NBG on-site audits, except for ongoing anti-money laundering reviews, postponed indefinitely
- All new regulatory changes and requirements postponed until September, 2020, or until further communicated by NBG. This does not apply to regulations with regard to open banking, XBRL reporting and resolution framework.

Bank of Georgia's capital adequacy ratios, funding and liquidity positions have been strong, and remain comfortably above the Bank's minimum regulatory requirements. As of 31 March 2020, the Bank's liquidity coverage ratio stood at 121.1% and net stable funding ratio at 123.5%, compared to the 100% minimum required level. The CET1, Tier 1 and total capital adequacy ratios were 8.3%, 10.6% and 15.3%, respectively, comfortably in excess of the respective minimum required levels of 6.9%, 8.7% and 13.3%.

The NBG considers the Bank's capital ratios to be sufficiently in excess of the expected minimum capital requirements, to be able to absorb this upfront general provision whilst maintaining a sufficiently comfortable buffer over the required minimum capital ratios. This is supported by the Bank's recent track record of strong profitability, and capacity to generate high levels of internal capital.

In addition, on 2 April 2020, the Bank drew-down the second tranche of the US$107 million subordinated syndicated loan facility signed in December, 2019, in the amount of US$55 million. The Bank received the NBG's approval on classification of the facility as a Bank Tier 2 capital instrument under the Basel III regulation since April, 2020 and will further improve the overall capitalisation of the Bank.

Strategy

The Bank comprises: 1) Retail Banking (the "RB") principally providing consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities, The Retail Banking business targets the emerging and mass retail and mass affluent segments, together with small and medium enterprises and micro businesses; 2) Corporate Investment Banking (the "CIB") - comprising Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients.

During the first half of 2019, following the appointment of the new Chief Executive Office in January 2019, the Bank further strengthened the management team and in June 2019, introduced an updated strategy. The Bank's key strategic targets in the medium to long-term are as follows: (i) achieving ROAE of at least 20% each year, (ii) achieving annual growth in its portfolio of loans to customers and finance lease receivables of approximately 15%; and (iii) achieving an annual dividend payout ratio of between 25% and 40%.

Considering the COVID-19 pandemic related developments and its impact on Georgia, banking sector and the economy as a whole, during next two years the Bank will not be focusing on the loan book growth, but rather will direct its efforts towards lending to the sectors it sees potential in during these challenging times, with prudently evaluating risk factors, digitalisation and cost efficiencies.

In order to achieve its medium to long-term targets, the Bank intends to pursue the following long-term strategies:

- ***Continue to pursue a client-centric, solutions-based and multi-brand strategy in the RB segment***. Over the past decade, RB has been the primary driver of growth with a consistently strong performance, reaching more than 2.5 million clients, and RB's net loan portfolio increasing ten times (during the period from 2009 to 2019). Through its well-established and recognised brands (including Express Bank for its emerging retail clients, Bank of Georgia for its mass retail clients, Solo for affluent retail clients, and micro, small and medium size enterprises (the "MSME") banking), the Bank has transformed its RB franchise from a product-focused business model to a client-centric business model, with more effective tailored services offered via the Bank's multi-brand strategy. The Bank has also introduced a solution-based offering by creating a digital ecosystem, where clients can fulfil a variety of needs through a single integrated experience. The Bank has made significant progress in developing highly popular digital platforms, such as its mobile and internet banking applications. These have included the user-friendly, multi-feature mBank and internet banking applications for individual customers and the newly launched Business iBank for MSME and corporate clients. The Bank has also developed attractive loyalty programmes.

- ***Grow the Solo and MSME businesses.***
  - The Bank achieved its target of reaching 40,000 Solo clients by the end of 2018 ahead of schedule in the third quarter of 2018, and it currently has 54,542 Solo customers. The Bank intends to continue growing its Solo franchise by enhancing the engagement and loyalty of existing customers through improved Solo offerings which are intended to maximise profit per client and product per client, as well as enhanced digital offerings and bundled solutions. In order to further strengthen the Bank's client-centric model for Solo clients, two internal sub-segments have been created: top affluent and mass affluent clients. The Bank offers each sub-segment tailored services, including banking and lifestyle solutions that meet clients' needs and are adapted to their lifestyles. Given the exclusive nature of the Solo brand, going forward the Bank intends to target growth primarily through existing clients.
  - The Bank is committed to serving its MSME clients by offering them a wide range of financial services, combined with flagship onboarding, support and advisory programmes and an increasing range of digital channels. The Bank believes that MSME customers offer significant upside potential and is targeting to increase its MSME loan market share from 31.6% as of 31 December 2019. By the end of 2019, the MSME client base had grown to 220,603 customers. The Bank is focused on developing new products for MSMEs, such as preapproved loans, which are based on centralised financial data on SMEs and which streamline the lending process. In 2019, the Bank introduced an innovative device, Smart POS, which combines the functions of traditional POS and cash terminals and enables the client to save costs and obtain credit limits via both cash and card transactions. The Bank also supports the MSME onboarding process with its flagship support initiatives, including businesshub.ge, which contains advisory content for businesses, #icreate, which allows clients to showcase their successes, and Women in Business, which is a programme designed to offer businesswomen consulting services along with financial products. In 2019, the Bank also commenced offering Business iBank, a new business internet banking platform for MSME as well as corporate clients. In achieving its aims in relation to MSME clients, the Bank intends to rely on its extensive presence throughout Georgia, including 267 retail branches, 933 ATMs, 15,592 POS terminals and its call centre with sales competence.
- ***Further growth in CIB after successful deconcentration***. In 2018, the Bank resumed growth in the CIB business after successfully completing a CIB loan portfolio deconcentration exercise in 2017. As of 31 December 2019, the Bank's top ten CIB clients accounted for 8.7% of the total loans to customers portfolio, compared to 8.4% as of 31 December 2018 (calculated based on consolidated JSC Bank of Georgia’s figures prepared in accordance with the International Financial Reporting Standards (the “IFRS”)). The Bank intends to grow its CIB business while continuing to manage concentration risk. The Bank further intends to continue to apply its capital-light business model, whereby it syndicates loans in order to free up capital and support fee income growth. This model is favourable in terms of ROAE and reduces credit risk. CIB is also focusing on developing new non-lending products, such as factoring, supply chain finance and mezzanine finance products, as well as its project finance offering. Finally, the Bank intends to develop sector expertise by introducing regular in-depth research across different industries and to develop its investment banking and commodity finance offerings.

- ***Regional private banking hub***. The Bank believes that Georgia is well placed to become a regional private banking hub due to its relatively sophisticated regulatory system (including AML legislation, which requires reporting entities, including commercial banks, to monitor and report suspicious transactions and submit cash transaction reports on transactions exceeding GEL 30,000 or the foreign currency equivalent), high standards of customer protection and favourable tax laws. The Bank's investment (wealth) management business (which is part of its CIB business) provided private banking services to 1,557 high net worth individuals from 77 countries as of 31 December 2019. Through representative offices and/or subsidiaries located in London, Budapest, Istanbul and Tel Aviv, the Bank raises awareness on its investment (wealth) management products and/or conducts market research and information sharing internationally. This business leverages the Bank's research knowledge and capabilities and expertise in the Georgian market and neighbouring markets. In January 2019, the Bank opened a new office in the centre of Tbilisi, which is dedicated to serving the Bank's investment (wealth) management clients. The Bank's investment (wealth) management brand identity leverages not only the Bank's reputation and expertise but also the favourable reputation of Georgia as a country with a stable business environment. The Bank aims to become a regional hub for private banking in terms of wealth management offering. It aims to achieve US$ 3 billion in assets under management by 2024 through reinforcing the wealth management product and lifestyle offerings via a wide range of sales and marketing initiatives.
- ***Further development of digital banking experience and digital ecosystems***. The Management regards the digital experience in modern banking as core to the Bank's identity and strategy. The Bank has been actively investing in information technology solutions to offer its RB and CIB clients best-in-class digital banking channels that help to make their everyday lives and businesses easier. In 2019, the Bank launched Business iBank, a new business internet banking platform for its MSME and corporate clients, which comes with features designed to make its use an intuitive and smooth experience. Since the Bank relaunched its fully transformed mobile banking application (mBank) in 2017, it has continuously upgraded the application to improve functionality. In 2019, a personal finance manager ("PFM") tool was added in partnership with Strands, a leading PFM service provider. Using underlying data, the PFM tool studies the financial behaviour of the user and offers recommendations based on the findings. In 2018, the Bank launched the BoG Fintech initiative to support fintech, open banking and other technology-related events. The Bank aims to support the development of digital ecosystems through opening up IT infrastructure and new resources for fintechs to foster innovative services in partnership with the Bank. BoG Fintech is the first step towards implementing an open banking concept within Georgia and consists of three main pillars: supporting the fintech community, API services, and supporting start-ups. In 2019, the Bank started cooperating with the NBG and the State Inspector's Office of Georgia (formerly the Office of the Personal Data Protection Inspector of Georgia) regarding the upcoming open banking regulations in Georgia. In 2019, as part of the Bank's omni-channel digital experience strategy, the Bank completely redesigned and revamped the Bank's primary website, www.bankofgeorgia.ge, and made it more comprehensive and useful. The updated website is a one-stop shop for all products and services that the Bank offers. Importantly, the website comes with fully integrated digital platforms for both retail and corporate clients. The Bank further expanded its efforts to improve the user experience at ATMs and Express Pay terminals, completely replacing the interface design of ATMs with a modern look and making the user experience much simpler. For Express Pay terminals, a smart ordering function was added that analyses the most popular services on each machine at each location and ensures that machines are equipped to provide such services. In order to enhance its client-centric offering, the Bank has developed a digital ecosystem with a number of integrated platforms aimed at providing valued-added solutions to clients in addition to the financial services provided by the Bank. As a result of the aforementioned initiatives, the Bank experienced a significant increase in the number of active internet and mobile banking users in 2019. The number and volume of transactions carried out by individual customers through internet and mobile banking also continued to grow (there was a 91.2% increase in the number of transactions and a 73.3% increase in the volume of transactions during 2019). 93.2% of daily transactions of individual customers were executed through digital channels during 2019.

- ***Expand the loan portfolio while maintaining asset quality***. The Bank will seek to expand its loan portfolio, across both its RB and CIB businesses, as well as its deposit base. It intends to achieve this by capturing a portion of the previously unbanked or underbanked population and by targeting mass affluent customers and MSME customers. The Bank's risk management system is based on the principle of continuously assessing risk throughout the life of any operation. The Bank applies ongoing monitoring and controls and makes adjustments in the event of adverse developments in its risk profile. The Bank determines acceptable levels of risk and continuously analyses the efficiency of its risk management system.

- ***Improve cost and operating efficiency***. The Bank continues to invest in its IT, digital and data capabilities. While this has contributed to higher operating expenses, these investments are already contributing to growth. For instance, the number and volume of transactions carried out by individual customers through internet and mobile banking grew by 91.2% and 73.3% in 2019, respectively. More than 93% of daily transactions of individual customers were executed through digital channels during 2019. Going forward, the Bank intends to continue investing in these capabilities, while also further improving its cost to income ratio.

    - ***Efficiency gains through the optimisation project "Lean"***. Since 2018, the Bank has pursued efficiency opportunities via its project "Lean", which is focused on the transformation and optimisation of operations in three areas: service centres, processes and functions. Transformation of service centres has been aimed at increasing the number of customers served and products sold to them. All of the Bank's flagship branches have been transformed to become more productive and efficient in their services. In relation to processes and functions, the Bank has improved back office procedures, introduced end-to-end process optimisation in the mortgage business, improved the efficiency of task flows in the operations support unit, streamlined processes in the cash and securities settlements unit and reshuffled functions in corporate lending allowing CIB employees to focus on sales and relationships with clients. The project has also entailed moving back office functions of Solo branches to the headquarters of the Bank. In 2019, the Bank's focus in relation to the "Lean" project was on creating a credit administration hub to onboard Solo and MSME clients with streamlined internal contracting processes. In 2019, the Bank also established a new onboarding process for legal entities by setting up a designated team to oversee all current account requests which led to the shortening of account opening times by 60%. The Bank intends to take the back-end of the onboarding process online.

    - ***Efficiency gains through agile transformation***. The Bank has been investing in enhancing project delivery effectiveness by further integrating IT and business processes. In 2018, the Bank started an agile transformation to enhance client satisfaction and internal operational efficiency, improve service quality and increase the transparency of resource allocation. The Bank invested in agile cross-functional teams that are collectively responsible for their products and services from start to launch, with one product owner authorised to make decisions on a product backlog. The Bank aims to develop products incrementally, releasing products as soon as possible and continuously collecting and processing feedback from end users. These cross-functional teams share key performance indicators ("KPIs") which incentivise collaboration. In May 2019, the agile transformation was fully rolled-out. The Bank had 34 cross-functional teams with more than 300 employees working on the agile transformation and has set up a corporate culture that empowers the teams. In order to reduce time-to-market, the teams frequently deploy and develop minimum viable products and incorporate regular customer feedback. The Bank aims to optimise the prioritisation process for product development alongside enhancements to quality and stability of software delivery. The Bank is aiming to achieve an integrated digital delivery model which uses next-generation technologies to integrate and automate work processes and connect project stakeholders throughout its lifecycle to the development team.

- ***Customer satisfaction and employee engagement***. The success of the Bank's new strategy depends significantly on customer satisfaction and employee engagement. The Bank has revised the KPIs of the senior management to include Net Promoter Score ("NPS") and Employee Net Promoter Score. There are encouraging signs across business lines showing improved customer satisfaction ("CSAT") and higher employee engagement scores.
    - ***Improve Customer experience***. One of the key pillars of the Bank's new strategy is customer satisfaction. In 2019, the Bank invested in a leading customer experience management platform, Medallia, to help it capture and prioritise high volumes of customer feedback. The objective is to engage customers by capturing their input across the customer journey and across channels and to "close the loop" for every customer. The Bank first launched Medallia across its digital channels in October 2019 and expanded it to the call centres and branches in March 2020. The client response rate is currently 17%, which is relatively high in comparison with other companies globally. The Bank intends to monitor progress on a constant basis and to capitalise on the opportunities presented by client feedback. The Bank further intends to use customer feedback to develop coaching and training programmes for employees, which is crucial for successful customer experience management with Medallia.
    - ***Employee engagement***. The Bank aims to support and celebrate employees who strive to succeed, regardless of their challenges. The Bank strives to unite its employees around its common values and stand by them. The Bank encourages a feedback culture internally. In order to encourage effective internal communication and better connect employees, the Bank has invested in Workplace, a Facebook office platform enabling easier, faster and more open interaction between colleagues which gives employees an opportunity to hear news and developments within the Bank directly from senior management through online webcasts, blogs and news posts.

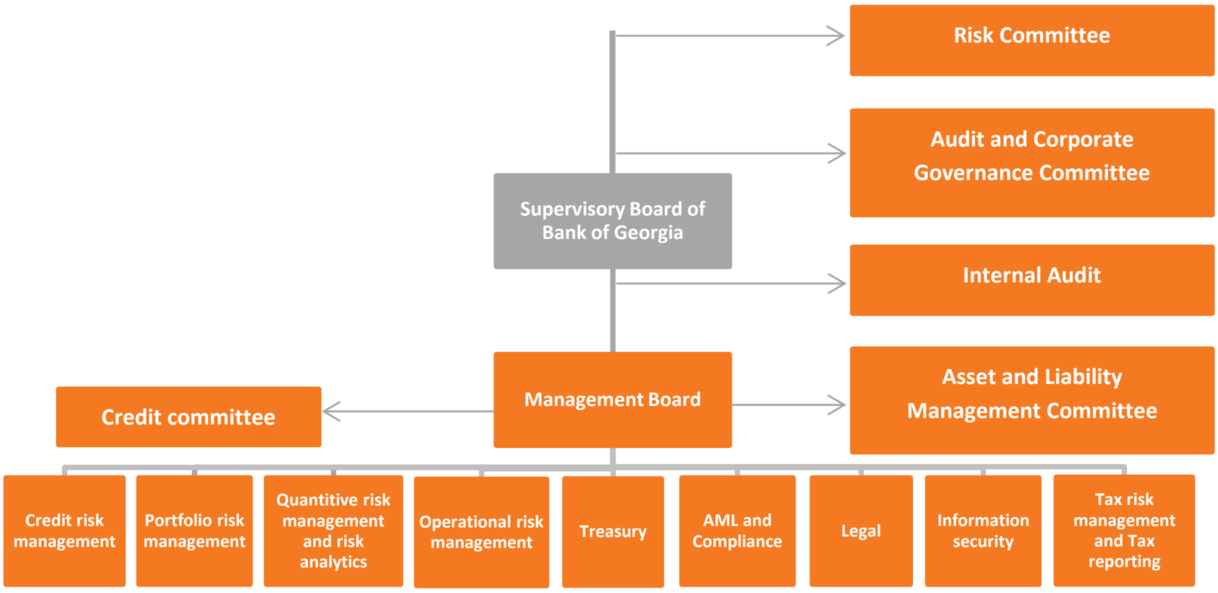
Each year, the Bank reviews the effectiveness of the risk management processes and internal control systems, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2019. The Bank obtained assurance from management, external and Internal Audit.

The Supervisory Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2019. The review did not identify any significant weaknesses or failings in the systems.

Although the Bank did not identify any significant weaknesses or failings, it continuously strives to improve its framework and focus on further mitigating the key risks, especially as they evolve.

Bank's Risk Management Bodies

The principal risk management bodies of the Bank are: the Supervisory Board, the Audit and Corporate Governance Committee, the Risk Committee, the Management Board, the Internal Audit Department, the Treasury, the Credit Committee, the Asset and Liability Management Committee (the "ALCO"), the AML and Compliance department and the Legal department.



Supervisory Board. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principles, and is ultimately responsible for identifying and controlling risks. It approves the Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems, and approves certain decisions that fall outside the scope of the respective authorities of the Credit Committees (including approvals of single borrower lending exposure exceeding US$ 35.0 million). The Management Board presents a comprehensive credit risk report and market risk report to the Supervisory Board for its review on a quarterly basis.

Audit and Corporate Governance Committee. The Audit and Corporate Governance Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Audit and Corporate Governance Committee facilitates the activities of the Internal Audit and the external auditors of the Bank. The Internal Audit also reviews, *inter alia*, AML policies and procedures and presents audit reports on AML to the Audit and Corporate Governance Committee. Reports on overall compliance are received and reviewed on a quarterly basis. The Audit and Corporate Governance Committee is elected by the Supervisory Board.

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

Risk Committee. The Risk Committee has overall responsibility for advising the Supervisory Board on the Bank's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee regularly reviews and approves the parameters and methodology used by the Bank to assess risk and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets standards for accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to, credit risk, market risk and operational risk.

Internal Audit. The Bank's Internal Audit is responsible for the independent assurance of the Bank's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Bank's operations.

Internal Audit is independent of the Bank's Management Board. The Head of Internal Audit, also known as the Chief Audit Officer, is appointed by the Supervisory Board and reports directly to the Bank's Audit and Corporate Governance Committee. Internal Audit discusses the outcomes of all assessments with the Bank's Management Board, and reports its findings and recommendations to the Bank's Audit and Corporate Governance Committee and Risk Committee.

Internal Audit's scope of work includes determining whether the Bank's overall risk management framework, internal control and corporate governance processes, as designed and implemented by the Management Board, are adequate and functioning in a manner to ensure:

- material risks, both financial and non-financial (including strategic, credit, compliance, market, regulatory, environmental, social and governance, liquidity, reputational and operational risks), are appropriately identified, assessed and managed across the Bank, including its outsourced activities;
- interaction between the various governance and risk management groups occurs efficiently and effectively;
- material financial, management and operational reporting is accurate, reliable and timely;
- the Bank's and its employees' conduct is of high integrity and their actions are in compliance with the Bank's policies, standards, procedures, as well as applicable laws and regulations;
- resources are acquired cost-efficiently, used efficiently, and protected adequately;
- programmes, plans and objectives are achieved in line with predetermined expectations; and
- significant legislative or regulatory issues impacting the Bank are recognised and addressed properly and in a timely manner.

In order to fulfil its function, the Internal Audit has unrestricted access to all of the Bank's records, property and personnel.

Credit Committees. The Bank has five credit committees (together, the "Credit Committees"), each responsible for supervising and managing the Bank's credit risk in respect of retail and investment (wealth) management clients, micro loans, SME loans, corporate loans and counterparty loans. The committees are: the Retail Banking Credit Committee, the Micro Loans Credit Committee, the SME Loans Credit Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee ("FGCRMC"). The FGCRMC manages, monitors and controls counterparty risk in relation to financial and governmental counterparties of the Bank. Each Credit Committee approves individual loan transactions.

Each Credit Committee is comprised of tiers of sub-committees. The FGCRMC comprises two tiers of sub-committees. The Committee consists of six members - Deputy General Director, Chief Risk Officer ("CRO"); Deputy General Director, Chief Financial Officer; Deputy General Director, CIB; Head of Quantitative Risk Management and Risk Analytics department, Head of Treasury and Head of Trade Finance. A majority of votes is sufficient for approval. If the potential exposure exceeds US$10.0 million, then the decision is deferred to the ALCO. The Credit Committee for retail loans comprises three tiers of sub-committees (for risk management purposes, loans for investment (wealth) management clients are classified as retail loans), for micro loans - one tier and for SME loans three tiers of sub-committees. Micro loans and SME loan applications of less than US$1.0 million are approved by credit risk managers of the relevant Credit Risk department. SME loans of more than US$1.0 million are approved by the Head of SME Credit Risk Analysis unit. The Credit Committee for corporate loans comprises three tiers of sub-committees. Participation of the General Director is required for exposures exceeding US$10.0 million, which are also subject to the Supervisory Board's approval. All exposures to a single group of borrowers over US$35.0 million must be approved by the Supervisory Board. Lower tier sub-committees meet on a daily basis, whereas higher tier sub-committees meet as needed, typically two to three times a week. Each of the sub-committees of the Credit Committees makes decisions by a majority vote of its respective members.

Problem Assets Committee. The Problem Assets Committee is chaired by one of the following: the Head of the Problem Loan Management department (for loans in amounts of up to GEL 500,000), the Bank's Deputy General Director, Chief Operations Officer (for loans in amounts ranging from GEL 500,000 to 1,000,000) and the Bank's Deputy General Director, the CRO (for loans in amount of over GEL 1,000,000). The Problem Loan Management department manages the Bank's exposures to problem loans and reports to the Deputy General Director, Chief Operations Officer. Decisions in relation to all corporate loans managed by the Problem Loan Management department are made by the Deputy General Director, Chief Operations Officer, and the Deputy General Director, Chief Risk Officer.

Corporate Recovery Committee. The Corporate Recovery Committee is chaired by the Deputy General Director, the CRO and is responsible for monitoring all of the Bank's exposures to loans that are managed by the Corporate Recovery department. The Corporate Recovery department reports to the Deputy General Director, CIB.

Asset and Liability Management Committee. The ALCO is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits. The ALCO designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms. Specifically, the ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position limits with respect to overnight and intraday positions;
- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with established risk management models for foreign exchange risk, interest rate risk and funding liquidity risk;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attracts funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance department and FGCRMC.

The ALCO is chaired by the General Director and meets at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the General Director; Deputy General Director, Chief Financial Officer; Deputy General Director, CRO; Deputy General Director, CIB; Deputy General Director, RB; and the Head of the Treasury department. The Head of the Finance department acts as the secretary of the ALCO.

The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analysis, customer cash flow analysis and concentration risk analysis, for the past periods as well as future projections and forecasts, other financial analysis and further growth projections on a monthly basis.

The ALCO is the key governing body for the capital adequacy management as well as for the respective risks identification and management. The ALCO establishes limits and reviews actual performance over those limits for NBG Basel III capital adequacy regulation. The Finance department is in charge of regular monthly monitoring of and reporting on NBG Basel III capital adequacy compliance with original pronouncements, as well as with ALCO policies. Capital adequacy management is an integral part of the Bank's monthly reporting, as well as the Bank's annual and semi-annual budget approval and budget review processes. The Finance department prepares NBG Basel III capital adequacy actual reports as well as forecasts and budgets and different stress scenarios, while the ALCO and the Management Board regularly review them, identify risks, issues recommendations and, if applicable, propose action plans.

AML and Compliance department. The Bank's AML and Compliance department is responsible for the implementation of the Bank's AML and compliance programme (including the development of AML policies and procedures, transaction monitoring/screening and reporting systems, establishment of correspondent relationship and ongoing monitoring procedures, employee training and management of compliance process) throughout the Bank and its subsidiaries. The Bank’s money laundering/financing of terrorism (“ML/FT”) framework is based on recommendations, directives and requirements of international organisations, including FATF/BCBS, the European Parliament, as well as local regulations. The Bank's Internal Audit conducts annual assessments of the Bank's ML/FT framework and controls, and provides independent assurance on internal controls.

The Bank has adopted a risk-based approach towards ML/FT risks, including a general anti-money laundering policy, ML/FT risk management policy, risk appetite statement, KYC and customer acceptance policy and financial sanctions compliance policy. The Bank's risk-based approach means that it applies enhanced due diligence towards higher ML/TF risks by determining high risk categories of products, customers, services and jurisdictions. The Bank has in place a risk assessment tool for identifying high ML/FT risks throughout the Bank.

The Bank has reporting obligations to the Financial Monitoring Service of Georgia in accordance with Georgian legislation. The reporting process is fully automated and is supported by a special software application. Furthermore, the Bank has in place ML/FT risk management capabilities including transactions monitoring solutions. The online solution allows fully-automated monitoring of all transactions against sanctions list (OFAC, the EU, the UN and similar bodies, including the global news databases). The offline monitoring solution is aimed at identifying suspicious transactions. The Bank has in place a regulatory change management process ensuring timely compliance with new regulations, including the preparation of specific action plans, monitoring the implementation process and increasing awareness through the employee training programme.

Legal department. The Bank’s Legal department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank, where necessary, and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank and/or its subsidiaries.

Bodies implementing the Risk Management System

The Bank's risk management system is implemented by the Bank's Credit Risk department, the Portfolio Risk Management department, the Quantitative Risk Management and Risk Analytics department, the Treasury department, the Operational Risk Management, the Legal department, the AML and Compliance and Security departments, the Finance department, the Tax Reporting and Tax Risks Management unit, the Information Security and other departments. The Credit Risk, Quantitative Risk Management and Risk Analytics, Portfolio Risk Management, and Operational Risk Management departments report to the Bank's Deputy General Director, Chief Risk Officer and the Legal department is under supervision of the Bank's General Counsel, who reports directly to the Bank's General Director. The Finance department, the Treasury department and the Tax Reporting and Tax Risks Management unit report to the Bank's Deputy General Director, Chief Financial Officer. The AML and Compliance department reports to the Bank's Deputy General Director, Chief Operations Officer. The Information Security department was under the supervision of the Bank's Deputy General Director, Chief Operations Officer before the end of 2019 and currently reports to the Deputy General Director, Chief Risk Officer.

The Quantitative Risk Management and Risk Analytics department, in coordination with the Treasury department, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, value at risk ("VAR") limits on possible losses and the interest rate policy set by the ALCO.

The Treasury department is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank. The Treasury department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies and management of the quality of the Bank's loan portfolio.

The Portfolio Risk Management department manages and assesses the credit risk with respect to the overall loan portfolio and is responsible for providing recommendations on improvement of loan portfolio quality to minimise credit losses. It develops the Bank's portfolio quality control models/methods and ensures the compliance with the Bank's Credit Policies and established limits.

The Operational Risk Management department identifies and assesses operational risk within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level and develops internal control procedures to address these risks, through (among other things) business-process redesign schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal department monitors all changes in relevant laws and regulations. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Reporting and Tax Risks Management unit focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of these departments is provided with policies and/or manuals that are approved by the Bank's Management Board and/or the Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, Retail Banking operations procedures, the deposit policy and the Credit Policies.

Risk measurement and reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also models scenarios simulating the impact of extreme events.

Monitoring and control of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank, as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control, allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to aggregate risk exposure across all risk types and activities.

The Bank maintains a management reporting system which requires the Credit Risk, Quantitative Risk Management and Risk Analytics, Portfolio Risk Management, Finance and Treasury departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on correspondent accounts with other banks) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, and financial statements are produced, and these are summarised in a quarterly report to the Bank's Supervisory Board and the Risk Committee containing analysis of the Bank's performance against its budget. Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The Bank's Management Board assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board and the Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed to all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank's Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, as well as any other risk developments.

Risk Mitigation and Excessive Risk Concentration

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forward transactions. While these derivatives are intended for hedging, they do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument(s).

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Management of Main Risks

- Credit Risk

Definition: Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation: The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently, if necessary. As a result of these reviews, new loan restructuring tools are introduced. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for ELC/impairment losses. The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts.

The Credit Committees approve individual transactions and the Credit Risk department establishes credit risk categories and the provisioning rates, which are set as per the provisioning methodology. The Bank's Deputy General Director, Chief Risk Officer, the Credit Risk department and the Portfolio Risk Management department review the credit quality of the portfolio and set provisioning rates, in consultation with the Bank's General Director and Deputy General Director, Chief Financial Officer, on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular collateral revaluations. Counterparty limits are established by the use of a credit risk classification system, which assigns a risk rating to each counterparty. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action. The Bank makes available to its customers guarantees/letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loan risks and are mitigated by the same control processes and policies.

Loan Approval Procedures

The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies which are approved by the Supervisory Board and/or the Management Board of the Bank. The Credit Committees approve individual transactions (refer to page 40). Participation of the General Director is required for exposures exceeding US$10.0 million, which are also subject to the Supervisory Board's approval. All exposures to a single group of borrowers over US$35.0 million must be approved by the Supervisory Board.

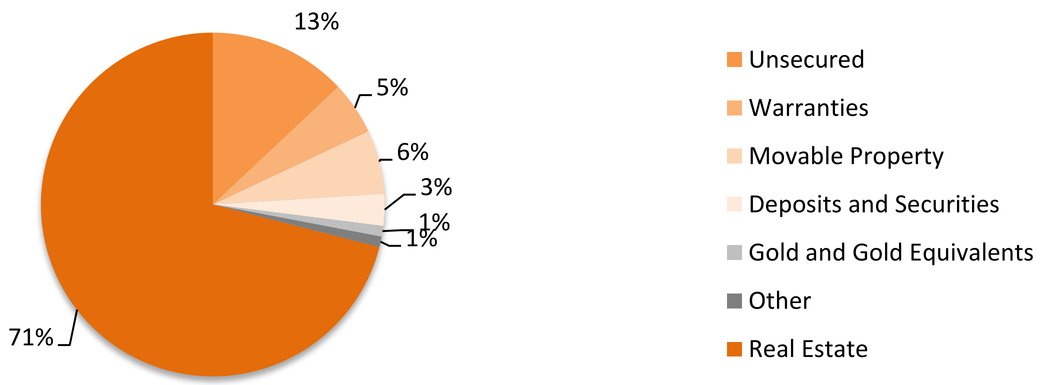
The Bank evaluates Corporate and Investment Banking clients on the basis of their financial condition, credit history, business operations, market position, management, social and environmental risks, level of shareholder support, proposed business and financing plan, legal documents and on the quality of the collateral offered. The appropriate level of the relevant Credit Committee is responsible for making the decision for loan approval based on credit memorandum and, where appropriate, the Credit Risk Manager's report.

The loan approval procedures for Retail Banking loans depend on the type of retail lending products. Applications for consumer loans, including credit cards and auto loans up to GEL 50,000, are approved by the internal scoring system. Applications for mortgage loans of Retail Banking clients are completed by the Mortgage Loan Officer and submitted to the Credit Risk Manager, who evaluate the credit risks and determine the amount, terms and conditions of the loan, which must be approved at the appropriate level of the Credit Committee. In the case of micro financing loans and SME loans of less than US$ 1.0 million, loan officers evaluate loan applications, prepare a project analysis and submit proposals to the relevant Credit Risk Manager, who makes the final decision. Loans of more than US$ 1.0 million to SMEs are approved by the Head of SME Credit Risk Analysis unit. Micro loans up to GEL 40,000 are approved by the internal scoring model.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables. The main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As at 31 December 2019, 86.9% of loan to customers and finance lease receivables was collateralised. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or by the third party asset appraisal company and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report.

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



Measurement

Exposure and limits are subject to annual or more frequent review. The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk department on a continuous basis. The allowance is based on the Expected Credit Loss (ECL) associated with the probability of default in the next 12 months, unless there has been a significant increase in credit risk since the loan origination, in which case the allowance is based on the ECL over the life of the asset. The allowance for credit losses is based on forward-looking information, which takes into consideration past events, current conditions and forecasts of future economic conditions. The Bank establishes the ECL of financial assets on a collective basis and on an individual basis when a financial asset or group of financial assets is impaired. The Bank creates the ECL by reference to the particular borrower's financial condition, the number of days the relevant loan is overdue, changes in credit risk since loan origination, any forecasts for adverse changes in commercial, financial or economic conditions affecting the creditworthiness of the borrower and other qualitative indicators, such as external market or general economic conditions. If in a subsequent period, the amount of the ECL decreases, the previously recognised loss is reversed by an adjusted ECL account. The determination of ECL is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's Management Board, is adequate to provide for expected losses considering forward-looking information.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in excess of US$ 1.0 million and non-significant loans are defined as loans below US$ 1.0 million. The Credit Risk department makes an individual assessment of all defaulted significant loans. Non-defaulted significant loans are given a collective assessment rate. For the purposes of provisioning, all loans are divided into different groups (such as mortgage, consumer and micro loans).

In 2005, the Bank, jointly with certain other Georgian banks and with the CreditInfo Group hf, an international holding of credit information bureaus and a provider of credit information solutions, established JSC Credit Information Bureau Creditinfo Georgia (CIG) to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer information since July 2006. Since 2009, they also share and contribute positive and negative customer credit information to CIG.

Effective 1 January 2018, loans up to US$ 1.0 million secured by real estate are subject to a write-off once overdue for more than 1,460 days. Unsecured loans and loans secured by collateral other than real estate are subject to a write-off once overdue for more than 150 days. Corporate loans and loans above US$ 1.0 million, secured by real estate, may be written off following an assessment by the Bank's Deputy General Director, Chief Risk Officer, and the Credit Risk department.

For retail, micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Group credit risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades		External Rating Grades	
			Credit Bureau	Standard & Poor's
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

Subsequent ECL estimates used as a result of negative economic impact of COVID-19

Against the backdrop of the economic lockdown, the quality of the Bank's customer lending has so far been resilient, reflecting the significant reduction over the last few years in the portfolio risk of the Bank's customer lending. The absence of high levels of leverage in the corporate sector, and the strong Government support programmes both to individuals and corporates is also expected to partially mitigate the negative economic impact of COVID-19.

In 2020 the Bank has taken an upfront provision built to cover the expected credit losses for the full economic cycle. The provision reflects expected credit losses based on a weighted average of the Bank's macroeconomic scenario stress-testing results, over a three-year horizon. Base case scenario (50% probability) assumes negative GDP of 2.7% for 2020; downside scenario (40% probability) assumes negative 7.0% GDP impact in 2020; and upside scenario (10% probability) assumes 2.1% GDP growth in 2020.

The following assumptions were used to estimate the amount of reserves to be built-up for the whole economic cycle in the first quarter of 2020:

- The Bank determined three scenarios (Baseline, Downside and Upside) with macro parameters for three-year horizon and assigned respective probabilities. The weighted average of these scenario results were further considered in estimating expected credit losses (ELC):

	Baseline (50% probability)			Downside (40% probability)			Upside (10% probability)		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Real GDP growth	-2.7%	5.5%	5.0%	-7.0%	2.5%	3.5%	2.1%	7.0%	6.0%
CPI Inflation	4.7%	3.5%	3.0%	7.0%	5.0%	4.5%	4.2%	3.0%	3.0%
GEL/US$ rate	3.3	2.95	2.9	3.8	3.3	3.2	3.05	2.8	2.8

- Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Bank re-considered the existing impairment model and applied management overlays to the methodology to reflect a COVID-19 effect in ECL. In particular, granting the three-month payment holidays to the borrowers was not automatically considered as SICR event (i.e. a trigger to transfer the exposures from Stage 1 to Stage 2). The Bank performed more in depth analysis of the loan portfolio and identified pools of exposures (tourism and hospitality sectors, among others, as well as some of the retail customers) that were most likely to suffer from pandemic consequences in the short to medium term and instead, transferred these exposures to Stage 2

- Further, to estimate the ECL for certain borrowers, in the downside scenario the Bank assigned them Probability of Default (PD) of 1 and used only stressed value of the real estate collateral as an estimate of Loss Given Default (LGD). The ECL was calculated as a weighted average of the scenario results
- In order to reflect the effects of increased unemployment in the country in the Bank's ECL estimation, 12-month PD rates were amended using management expert judgment, resulting in an increase of 12-month PD rate by 5ppts in Baseline scenario and by 10ppts in Downside scenario. The Bank also applied a 15% haircut in Baseline and a 30% haircut in Downside scenario to real estate collateral values and adjusted Cure and Recovery rates. Where relevant, the Bank also used post model adjustments (credit rating override) for certain individually significant borrowers to reflect SICR driven by COVID-19 impact.

Liquidity Risk

Definition: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Monitoring: Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and extreme circumstances. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank's Management Board.

The Finance department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank's Management Board and approved by the Bank's Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Mitigation: The Bank's ability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2019, in line with the NBG's requirements, 25% of client deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 5% of its customers' deposits in GEL as its correspondent account at the NBG. For wholesale funding and Certificates of Deposits, the NBG requires the Bank to set aside 25% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of one to two years and 5% of its unsubordinated GEL wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserve requirement for GEL Certificates of Deposits with maturity of not less than three months.

Funding: In the Georgian marketplace, the majority of working capital loans are short-term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

The Bank's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issuances;
- proceeds from sale of securities; and
- principal repayments on loans.

As a result of COVID-19 pandemic, the NBG will implement certain countercyclical measures in relation to liquidity requirements, if necessary:

- Liquidity coverage ratio (LCR) requirements (for local and foreign currency, as well as total requirement) may be revisited and reduced, if necessary;
- Mandatory reserve requirements may be revisited and reduced, if necessary;
- Eligibility criteria for repo-eligible securities may be revisited, if necessary, to support GEL liquidity.

Market Risk

Definition: The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from mismatches of maturity and currencies between the assets and liabilities, all of which are exposed to market fluctuations.

Mitigation: The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses. In order to address these risks, the ALCO specifically establishes Value at Risk (VAR) limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations and counterparty risk) and the Quantitative Risk Management and Risk Analytics department monitors compliance with such limits.

Currency exchange rate risk: Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket.

The Bank uses the historical simulation method based on 400-business-day statistical data. Its open currency positions are managed by the Treasury department on a day-to-day basis and are monitored by the Quantitative Risk Management and Risk Analytics department. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 10% of the Bank's total regulatory capital as defined by NBG. In addition, open positions in all currencies except for GEL are limited to a maximum of 1.0% of the Bank's total regulatory capital as defined by NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% "tolerance threshold".

The ALCO limits are more conservative than NBG requirements, which allow banks to keep open positions of up to 20.0% of regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate any potential negative impact on its net assets and earnings.

Interest rate risk: The Bank has exposure to interest rate risk as a result of lending at fixed and floating interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank’s assets and deposits bear fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank’s Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. The Quantitative Risk Management and Risk Analytics department analyses duration gap and capital sensitivity to interest rate changes. Interest rate risk levels for each currency are monitored by Finance, Treasury and Quantitative Risk Management and Risk Analytics departments.

Prepayment risk: The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

- Operational Risk, including Cyber Security, Information Systems and Financial Crime

Definition: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. The Bank is at risk of experiencing cyber security breaches, unauthorised access to its systems and financial crime, or failures in its banking activity processes or systems, or human error which could disrupt its customer services, result in financial loss, have legal or regulatory implications and/or affect its reputation. The Bank is highly dependent on the proper functioning of its risk management, internal controls and systems, and internal processes, including those related to data protection, IT and information security in order to manage these threats. The Bank may be adversely affected if it fails to mitigate the risk of its products and services being used to facilitate a financial crime. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a risk management and integrated control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks.

The Bank has an integrated control framework encompassing operational risk management, IT systems, corporate and other data security, each of which is managed by a separate department.

Mitigation: The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank’s cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements. The Bank has established a framework, which is in compliance with normative acts defined by Georgian legislation and international standards. Regular review of and amendments to the policy are performed by the Management Board and overseen by the Risk Committee, which are also responsible for setting an overall risk appetite.

The Operational Risk Management department is responsible for the development of policies, processes and procedures for managing operational risks in all products, activities, processes and systems, consistently implementing an operational risk framework throughout the Bank. The Operational Risk Management department is responsible for the identification and assessment of operational risks, detecting critical risk areas or groups of operations with an increased risk level, developing escalation processes, considering business recommendations and mitigation action plans.

The Operational Risk Management department is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance.

Operational risks are identified and assessed by using several methodologies, including: internal loss database collection and analysis, scenario analysis, Risk and Control Self-Assessment, new products assessment, and Key Risk Indicators analysis. To mitigate the impact of operational risk, the Bank applies approaches, including the implementation of control elements in a business process, segregation of duties, access, authorisation and reconciliation procedures, and development of preventive control tools within operating systems.

To ensure that adequate risk management competency levels are achieved and maintained, the Bank provides regular staff education and training courses as part of the risk management process. Specific risk management training sessions are held on an annual basis aimed at providing an overview of the risk management framework.

The Head of the Operational Risk Management department, who reports to the Bank's Deputy General Director, Chief Risk Officer, is responsible for the oversight of the Bank's operational risks.

Financial Crime: The Bank has an anti-money laundering (AML)/counter-terrorist financing (CTF) framework which includes a risk-based approach towards ML/FT risks, KYC, transaction monitoring, sanctions and transaction screening, transaction reporting, correspondent relationship assessment and monitoring, and training programmes. The framework is designed to comply with the local legislation, international standards (FATF recommendations), and international financial sanctions programmes. The Bank continues to enhance its AML compliance function by strengthening the Bank's AML compliance framework, policies and procedures (including ML/FT risk management policy, KYC and Customer Acceptance Policy). The Bank has invested significant resources to further improve its ML/FT risk management capabilities, including transaction monitoring solutions. The Bank has a regulatory change management process in place ensuring timely compliance with new regulations.

Cyber Security and Information Systems: The Bank has security controls in place including policies, procedures and security technologies. It also regularly carries out IT and information security checks internally and with the assistance of external consultants. The Bank has sophisticated anti-virus protection and firewalls to help protect against potentially malicious software. It has increased its internal and external penetration testing and has back-up disaster recovery and business continuity plans in place across the Bank. The Bank improved access control and password protections through the implementation of "Privileged Access Monitoring" for employees with the highest privileged access to confidential and customer data. It has implemented secure e-mail gateway solution which decreased the number of malware attachments by 95%. The Bank has also implemented a Security Information and Event Management solution which now give it a complete view of the changes and events happening in its infrastructure. Oracle database firewall solution has been optimised. Oracle Audit Vault and Database Firewall includes an enterprise quality audit data warehouse, reporting and analysis tools, alert framework, audit dashboard, and sophisticated next-generation database firewall. The Bank has created policies with the help of Cloud Data Loss Prevention and now it monitors and restricts any critical data upload on its internal communication platform including pictures, office files and account numbers. The Bank has established a cyber-security framework, information security risk management framework and information security-related policies. It has dedicated a highly qualified team to security operations unit. It continues to invest in technology to enhance its ability to prevent, detect and respond to increasing and evolving threats. The Bank's cyber security and information systems are managed by the Information Security Department, which is under direct supervision of the Deputy General Director, CRO.

The Bank's Internal Audit provides assurance on the adequacy and effectiveness of its risk management, internal controls and systems in place. These types of operational risk are on the Audit and Corporate Governance Committee's and Risk Committee's regular agendas and are also frequently discussed at the Supervisory Board level.

- Emerging risk

Information compiled from all businesses is examined and processed in order to analyse, control and identify emerging risks. This information is presented and explained to the Management Board and the head of each business division as appropriate. The Bank also considers wider macroeconomic risks and escalates these to the Supervisory Board as appropriate in regular presentations.

The ongoing COVID-19 outbreak has been identified as an emerging risk, and the Bank is monitoring its impact on the business, customers and employees. The Bank has put in place a business continuity plan to mitigate the impact. There is uncertainty regarding the magnitude of the global slowdown that will result from this pandemic. The Georgian economy is well-diversified, both by sector and in terms of trading partner dependence. Nevertheless, if the COVID-19 pandemic leads to a global shutdown, a significant negative impact on tourism in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. For the mitigation actions on COVID-19 risk please refer to Recent Developments section on page 30 and for ECL estimates please refer to Subsequent ECL estimates used as a result of negative economic impact of COVID-19 section on page 48.

The Bank also recognises the challenges posed by the climate change. In 2020, the Bank will be expanding the consideration of climate change issues and risks, and will consider suitable next steps for the Group. The Bank also intends to engage with policy makers on the risks presented by climate change and solutions that the Group can further implement to manage climate-related risks, and consider the appropriateness of disclosing in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

5. Capital Requirements and Regulatory Capital

5.1. Capital Requirements

The current NBG capital regulation is based on Basel III guidelines of the Basel Committee of Banking Supervision (“BCBS”), with regulatory discretion applied by the NBG due to the specifics of the local banking industry. Prior to the full adoption of the Basel III framework, during the transitional period of 30 June 2014 to 31 December 2017, in addition to Basel II requirements, Georgian banks were required to comply with certain regulatory capital ratios under the existing NBG regulation (the NBG Transitional ratios), which were progressively phased out by 1 January 2018. Below is the description of Pillar 1, Pillar 2 and Pillar 3 requirements applicable since the end of the transitional period, within the Basel III based NBG framework.

Pillar 1 requirements (including combined buffer requirements)

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

- the separation of the 2.5% capital conservation buffer, which was previously merged with minimum capital requirements (Common Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently: 4.5% for Common Equity Tier 1 Capital, 6.0% for Tier 1 Capital and 8.0% for Total Regulatory Capital (whereas, previously, the minimum regulatory capital requirements were: 7.0% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Regulatory Capital); and
- the introduction of a requirement that banks hold an additional 'combined buffer' through Common Equity Tier 1 Capital, consisting of the capital conservation, countercyclical and systemic buffers.

The capital conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed quarterly based on the prevailing financial and macroeconomic environment. In addition, the NBG designated three commercial banks in Georgia, including the Bank, as domestic systemically important banks ("DSIBs") for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2, that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency-induced credit risk buffer, a general risk assessment programme buffer ("**GRAPE**"), a credit portfolio concentration buffer, and a net stress-test buffer. The NBG has introduced credit portfolio, single client and sector concentration buffers from 1 April 2018, and the net stress test buffer will become effective from 1 October 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 Capital of 4.5%, Tier 1 Capital of 6.0% and Total Regulatory Capital of 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period (until 1 April 2022), during which the required composition of the buffers will become more stringent by increasing the required proportions of Common Equity Tier 1 Capital and Tier 1 Capital.

As a result of the changes to the regulations relating to capital adequacy requirements introduced by the NBG in December 2017, the Bank became subject to the following Basel III minimum capital requirements as of 31 December 2017:

- Common Equity Tier 1 Capital ratio of 8.1% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.1%);
- Tier 1 Capital ratio of 9.9% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.4%); and
- Total Regulatory Capital ratio of 12.4% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%).

As of 31 December 2018, the minimum capital requirements were increased to:

- Common Equity Tier 1 Capital ratio of 9.5% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.5%);
- Tier 1 Capital ratio of 11.4% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%) and;
- Total Regulatory Capital ratio of 15.9% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 4.4%).

As of 31 December 2019, the minimum capital requirements were increased to:

- Common Equity Tier 1 Capital ratio of 10.1% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 4.0% (Pillar 1 requirements) and Pillar 2 requirements of 1.6%);
- Tier 1 Capital ratio of 12.2% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 4.0% (Pillar 1 requirements) and Pillar 2 requirements of 2.2%); and
- Total Regulatory Capital ratio of 17.1% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 4.0% (Pillar 1 requirements) and Pillar 2 requirements of 5.1%).

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

At the end of March 2020 following Capital adequacy initiatives were introduced by the NBG:

- Combined buffer - the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0% indefinitely
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by 2/3rds indefinitely
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

5.2. Regulatory Capital

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

For the post-balance sheet developments related to capital adequacy requirements and respective ratios please refer to page 33.

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

In GEL thousands	**31 December 2019**	**31 December 2018**
Qualifying common share capital	27,994	27,994
Share premium on qualifying common share capital	190,493	178,531
Accumulated other comprehensive income	(17,031)	27,271
Retained earnings	1,512,267	1,265,288
Common Equity Tier 1 Capital prior to regulatory adjustments	**1,713,723**	**1,499,084**
Revaluation reserves on assets	17,031	(27,271)
Intangible assets (Including Goodwill)	(116,723)	(78,479)
Investments in own shares	(1,984)	(1,185)
Investments in subsidiaries/affiliates (Commercial Organizations)	(9,878)	(12,196)
Investments in the capital of banking, financial and insurance entities	(1,368)	-
Common Equity Tier 1 Capital: regulatory adjustments	**(112,923)**	**(119,131)**
Common Equity Tier 1 Capital	**1,600,801**	**1,379,953**
Additional Tier 1 capital	286,770	-
Tier 1 capital	**1,887,571**	**1,379,953**
Subordinated Debt	464,567	380,077
General Reserves	151,545	122,278
Tier 2 Capital prior to regulatory adjustments	**616,113**	**502,355**
Tier 2 Capital	**616,113**	**502,355**
Total Regulatory Capital	**2,503,684**	**1,882,308**
Risk Weighted Assets	**13,868,169**	**11,338,660**
Common Equity Tier 1 ratio	11.5%	12.2%
Tier 1 ratio	13.6%	12.2%
Total capital adequacy ratio	18.1%	16.6%
Common Equity Tier 1 ratio requirement	10.1%	9.5%
Tier 1 ratio requirement	12.2%	11.4%
Total capital adequacy ratio requirement	17.1%	15.9%

In May 2015, the Bank entered into a USD 90 million subordinated loan agreement with the International Finance Corporation ("**IFC**"). The loan facility, which includes USD 20 million participation from the European Fund for Southeast Europe ("**EFSE**"), has a maturity of ten years. The loan facility has been approved as the Bank's Tier 2 capital by the NBG under Basel II framework and has been grandfathered by the NBG until its maturity to serve as the Bank's Tier 2 capital in light of new Basel III framework. The loan contains certain information and financial covenants customary in a contract with a development financial institution, and the early repayment options in cases of customary events of default (except for insolvency and/or liquidation events per applicable regulations) are available only (i) after expiry of the five years of the term of the facility; and (ii) only after the NBG's prior approval towards such acceleration.

In June 2019, the Bank and EFSE have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier 2 capital under the Basel III framework. In accordance with applicable Tier 2 rules, the loan provides for the possibilities of acceleration by the lender only in case of insolvency or liquidation events as defined in NBG regulations. The other possibilities of early repayment are each subject to the lender obtaining prior NBG approval to do so.

In September 2019, the Bank issued US$ 10.0 million subordinated promissory notes due September 2029, which were purchased by responsAbility Management Company S.A. and responsAbility SICAV (Lux). The subordinated promissory notes qualify as Tier 2 capital under the Basel III framework recently introduced in Georgia. In accordance with applicable Tier 2 rules, the notes provide for the possibilities of acceleration by the noteholders only in case of insolvency or liquidation events as defined in NBG regulations. The other possibilities of early repayment are each subject to the noteholders obtaining prior NBG approval to do so.

In December 2019, the Bank signed a ten-year USD 107 million subordinated syndicated loan agreement arranged by FMO - Dutch entrepreneurial development bank in collaboration with other participating lenders. The first tranche of the facility in the amount of USD 52 million has been drawn-down and included into the Bank's Tier 2 capital by approval of the National Bank of Georgia under the Basel III framework in December 2019, while the second tranche of the facility in the amount of USD 55 million was drew-down and included into the Bank's Tier 2 Capital in April 2020. In accordance with applicable Tier 2 rules, the facility provides for the possibilities of acceleration by the lenders only in case of insolvency or liquidation events as defined in NBG regulations. The other possibilities of early repayment include (i) failure of the facility or its portion to be qualified as Tier 2 Capital by NBG within 45 days of the relevant disbursement; and (ii) repayment with the NBG's specific prior approval in limited cases of illegality or change of control after expiry of 5 years of the term of the facility.

6. Remuneration

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

Remuneration Committee

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

Equity Compensation Schemes:

- Management Board

With the recommendation of the Bank Remuneration Committee and approval of the BoGG Remuneration Committee, the Supervisory Board determines on an annual basis the amount of the bonus of the members of the Management Board. In March 2010 the Supervisory Board adopted a Senior Executive Compensation Plan for the Bank's Chief Executive Officer, the Deputy General Directors and certain of the Bank's key executive officers. Since the demerger from BGEO Group plc in May 2018, this has been replaced with the Executive Equity Compensation Plan (as amended from time to time primarily to reflect the requirements of the NBG Corporate Governance Code and the UK Corporate Governance Code). The stock and cash bonuses for the other executive officers and senior employees of the Bank are recommended by the General Director of the Bank and agreed with the Bank Remuneration Committee and the Supervisory Board on an annual basis, as well as agreed with and subject to the approval of the BoGG Remuneration Committee.

- Non-management Employees

The Bank grants share compensation to its non-management employees. Further to the demerger in May 2018 the Employee Equity Compensation Trust was founded with Sanne Fiduciary Services Limited acting as trustee, in order to serve the newly approved Employee Equity Compensation Plan, under which it intends to grant ordinary shares (in the form of conditional share awards) to non-management employees.

The Supervisory Board's and Management Board's Remuneration Policy is currently in full compliance with the standards applicable to the Group under UK Corporate Governance Code, and to the Bank under NBG Corporate Governance code, comprising of specific vesting periods, pension contribution, shareholding guidelines and malus and clawback provisions set out in Key Features of the Policy below.

Key features of the Policy:

The principles of the remuneration policy are:

(i) weighting salary in favour of payment in deferred shares rather than in cash; and
(ii) discretionary performance-based remuneration in the form of deferred shares only and no cash.

The Policy is in tune with relevant guidance including:

- pension contribution by the company the same for the General Director as for the employees;
- shareholding guidelines with an equivalent of 200% of cash plus deferred share salary, also to be maintained for two years' post-employment; and
- malus and clawback provisions enhanced, with prescribed triggers consistent with UK best practice.

Directors' Remuneration Policy

Directors' Remuneration Policy applies to members of the Management Board of the Bank.

Salary in the form of cash and long-term deferred shares

Purpose and link to strategy	Operation	Opportunity
• To closely align Directors' and shareholders' interests. • To promote long-term value creation and share price growth. • To reflect the role and required duties, skills, experience and individual contribution to the Bank. • To encourage commitment to the Bank and to recruit and retain high-calibre talent.	• The level of base salary for Directors is fixed in service agreements. The level of salary is reviewed by the Remuneration Committee of the Supervisory Board when a service agreement is up for renewal or if there is a significant change in circumstances and the Directors and Remuneration Committee agree to consequent changes in their agreements, for example the implementation of a new remuneration policy. • Salary is comprised principally of long-term deferred shares ("**deferred share salary**"), plus a cash salary. • Deferred share salary is awarded in the form of nil-cost options annually in respect of the work year, and is usually expected to be awarded towards the beginning of the work year. It is noted that none of the deferred share salary vests during the work year or the year after. It is also subject to pro rata lapse in the event an incomplete year is worked. • Deferred share salary in respect of a work year will vest over five years from the start of the year in which the salary is earned as follows: 25% will vest on each of the second, third, fourth and fifth anniversary of the start of the work year (see table below in "General Principles of the Policy"). • Upon vesting the Directors also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. • Lapse provisions (natural malus) are built into the deferred share salary as set out in this Policy. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned. Instead the Remuneration Committee considers the discretionary deferred salary as a sufficiently large pool from which to apply the extended malus and clawback provisions if necessary in the circumstances to do so.	• The level of cash salary and number of deferred salary shares are set in the Directors' service agreements, and will be no more than the Remuneration Committee considers reasonable based on Director's duties, skills and experience. • The Remuneration Committee has the discretion to change the split of total salary between the cash salary and the deferred share salary.

Performance-based remuneration – discretionary deferred shares

Purpose and link to strategy	Operation	Opportunity
• In the context of overall Bank performance, to motivate and reward Directors in relation to their contribution to the achievement of the KPIs set for them by the Remuneration Committee towards the beginning of the year. • Performance-based remuneration solely in the form of deferred shares (no cash): - Closely aligns the interests of Directors with shareholders. - Avoids inappropriate risk taking for short-term gain. - Encourages long-term commitment to the Bank.	• Performance-based remuneration is awarded annually entirely in the form of nil-cost options over shares which are subject to vesting ("discretionary deferred shares"). The Bank does not award cash bonuses to Directors. • The Remuneration Committee will determine annually the number of shares to be awarded based on the Directors' achievement of their KPIs set for the work year and the performance of the Bank during that year. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Directors' performance, the Remuneration Committee may decide to base its assessment on alternative measures. The Remuneration Committee also has the discretion to consider the performance of the individual and the Bank as a whole. • Any discretionary deferred shares will normally be granted following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the awards. Any discretionary deferred shares will vest 40% on the third and 60% on the fourth anniversary of the start of the work year (Effectively over four years from the beginning of the work year). • Each tranche will be subject to a further holding period of two years (see table below in "General Principles of the Policy"). • Upon vesting, Directors also receive cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. • There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Bank's performance is unsatisfactory. • Extended malus and clawback, in addition to lapse provisions (natural malus) apply.	• The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year is capped at 100% of total salary (i.e. cash and deferred share salary) calculated as set out in "General Principles of the Policy" below.

Pension

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

Benefits

Purpose and link to strategy	Operation	Opportunity
• Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	• Benefits include: life insurance; health insurance; incapacity/ disability insurance; directors' and officers' liability insurance; company car and driver; mobile phone costs. • Other benefits may be provided from time to time if considered reasonable and appropriate.	• There is no prescribed maximum on the value of benefits payable to Directors. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Director is based.

Deferred share salary

Deferred share salary is the most important element of the Directors' fixed annual remuneration and is commensurate with their role within the Bank. By weighting salary towards a deferred share salary that vest over five years rather than cash, the Directors day-to-day actions are geared towards achievement of the Bank's strategic goals and sustained Bank performance over the long term. Deferred share salary is granted towards the beginning of the work year and vests 25% on each of the second, third, fourth and fifth anniversary from the start of the work year (i.e. over five years from the start of the work year).

If the Directors terminate by reason of death or there is a change of control, unvested deferred share salary shall vest immediately.

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

The deferred share salary is neither a bonus nor an LTIP: it is share salary fixed in terms of shares in Directors' service agreement(s) and is therefore not subject to performance targets or measures. That salary increases or declines in value depending on the Bank performance over the five-year total vesting period, aligning the Directors' interests directly and naturally with those of shareholders. Deferred share salary will lapse pro rata for any incomplete years worked.

Performance-based (discretionary deferred share) Remuneration

No cash bonuses are paid to Directors. Further the Bank does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary.

Instead, Director's individual and the Bank performance is rewarded through an annual award of discretionary deferred shares which will vest in two tranches: 40% on the third and 60% on the fourth anniversary of the start of the work year, and are subject to a further holding period of two years, so that there is a total maximum vesting and holding period of five years.

If the Directors terminate by reason of death or there is a change of control, unvested discretionary deferred shares shall vest immediately to the extent permitted by applicable regulations unless the Remuneration Committee (and/or the Supervisory Board) determines that malus/clawback provisions apply.

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

The Remuneration Committee will determine the aggregate number of shares (if any) that will be awarded to a Director and, the maximum opportunity that a Director may be awarded in a given year is equivalent to 100% of total salary (i.e. cash salary and deferred share salary). This maximum bonus opportunity is calculated as follows: (i) for the share salary element, the number of deferred salary shares; plus (ii) for the cash salary element, cash salary converted into a number of shares calculated using the most recent closing price at the time and date of the Remuneration Committee meeting at which the discretionary deferred share award is determined.

The Remuneration Committee will make the determination on number of shares to be awarded annually in respect of the Directors and will consider the defined maximum opportunity, the Bank's performance and the individual's KPIs when making a determination.

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

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

The Remuneration Committee does not utilise strict weighting of performance measures; this is in order to ensure that it has flexibility to adjust awards for example, if strategic objectives evolve or if business circumstances change during the year. The Remuneration Committee believes that this flexibility ensures that the Supervisory Board can work with Directors so that they do not take excessive risk to achieve KPIs. Even in a "good" year for the Directors (e.g. achievement of most of KPIs), if this coincides with a "bad" year for the Bank (e.g. markets have turned), the Remuneration Committee has the discretion to award little or no discretionary remuneration to the Directors if it considers it appropriate to do so. The precise measures will be determined by the Remuneration Committee.

Malus and Clawback

Discretionary deferred shares are subject to malus and clawback in the following circumstances:

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

Clawback applies for up to two years from vesting.

Discretion of the Remuneration Committee

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

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

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

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

Equity compensation trust

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

Business expenses

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

Remuneration of new Directors

Any new Director would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her maximum remuneration package would comprise the components described in the Policy table above. The Remuneration Committee may, at its sole discretion and taking into account the role assumed by the new Directors, vary the amount of any component in the package up to the limits set out in the Policy table above in relation to new Directors to facilitate the recruitment of the particular individual. In addition, the terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

An incoming Director may be provided with:

- Relocation support, tax support and legal fees depending on the individual's circumstances, including, where relevant, to his or her family. The Bank has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.
- Incentive award of securities intended to facilitate the recruitment of a particular individual. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation.

Update on the Bank's Management Board Remuneration as a result of COVID-19

As a result of the impact of the COVID-19 global pandemic and wider stakeholder considerations, the Bank's General Director, Archil Gachechiladze, will contribute 50% of his 2020 fixed cash salary to support charitable causes in Georgia in their fight to counter the COVID-19 economic and social impact.

Bank of Georgia's Management Board has also voluntarily agreed to reduce their 2020 fixed cash salary by 20%, with effect from 1 March 2020.

JSC Bank of Georgia’s Workforce Remuneration Policy

JSC Bank of Georgia’s Workforce Remuneration Policy is approved by the Supervisory Board of the Bank on the recommendation of the Remuneration Committee and applies to personnel of the Bank hired under employment contracts.

The Bank’s remuneration system is structured in the following categories:

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

Fixed base remuneration consists of cash salary and benefits.

The type and frequency of Standard Variable Remuneration varies by positions according to employee’s performance. Short term incentives may be in the form of cash bonus or shares. The calculation, frequency and proportion of bonus distribution varies by positions. The Bank uses quantitative and qualitative measures in such determination. Payment/granting frequency varies and it can be monthly, quarterly, semi-annual, annual and one-off. The purpose of long term incentives is to motivate the workforce to achieve longer-term strategic objectives and to align performance with shareholder interests. The Company operates employee stock ownership plan (ESOP), via employee benefit trust, with vesting periods of three-years (unless shorter vesting period/accelerated vesting is decided by General Director/respective Deputy General Director) and the vesting condition of continuous employment with the Bank.

Special Variable remuneration of the Material Risk Takers depends on the year-end results, and is granted as follows:

60% of annual variable remuneration (in the form cash or shares) is subject to deferral over a three year period. Release of cash/vesting of shares will take place through three equal installments of 20% during three consecutive years.

2018 Work Year	Grant Point (year 0) e.g. 2019	2nd Year (year 1) 1-Jan-2020	3rd Year (year 2) 1-Jan-2021	4th Year (year 3) 1-Jan-2022
	Grant & deferred	Released/Vested	Released/Vested	Released/Vested
	60%	20.0%	20.0%	20.0%

40% of annual variable remuneration may be awarded in the form of cash or shares. If awarded in the form of shares, it is subject to retention for a minimum six-month period and will be released/vested as described below:

	Grant Point (year 0) e.g. 2019	2nd Year (year 1) 1-Jan-2020[2]
Shares	Grant & deferred	Vested
	40%	40.0%

The vesting schedule of special variable remuneration in the form of shares may be changed, if necessary, for example in the event of a statutory conflict of interest.

[2] Provided minimum 6 months have passed since the grant date.

No more than 50% of annual variable remuneration of the Material Risk Takers may be in cash, the remaining variable remuneration must be paid in the form of shares. Starting from 1 January 2022, variable component of annual remuneration of Material Risk Takers should not exceed 100% of fixed component of the total annual remuneration. Based on a sufficiently reasoned decision of shareholders, the variable component may be increased but shall not exceed 200% of fixed component of the total annual remuneration

Principles of Remuneration for Control Functions within the Bank

- The employees engaged in Control Functions are compensated in accordance with the achievement of the objectives linked to their functions, independently of the performance of the business areas that they control.
- Remuneration of the head of Internal Audit and internal audit personnel is defined by the Audit and Corporate Governance Committee to guarantee the independence of internal audit function and provide compensation system, allowing attraction of human resources with adequate skills, corresponding to the Bank's scale and complexity.
- The methods used for determining the variable remuneration of Control Functions should not compromise staff's objectivity and independence.

Pension

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

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

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

The number of employees, excluding the Management and Supervisory board, whose remuneration for the 2019 fiscal year exceeded GEL 1 million amounted to 2 employees.

References

The Bank	JSC Bank of Georgia
The Directors	Members of the Management Board
The “Report”	Pillar 3 Annual Report 2019
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
The “Charter”	Bank's charter
CRR	Article in REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms
GMS	General Meeting of Shareholders
IFRS	International Financial Reporting Standards
Management Board/Executive Management	Management Board of the Bank
Supervisory Board	Supervisory Board of the Bank