Pillar 3 Annual Report 2020

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**") (as amended), 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 the data and information presented within this Pillar 3 Annual Report for the year ended 31 December 2020 (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. Summary of Risk Profile

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

CET1 capital adequacy ratio (NBG, Basel III)

10.4%

Minimum regulatory requirement – 7.4%

2019	11.5%
2020	10.4%

Cost of credit risk ratio (IFRS)

1.9%

+1.0 ppts y-o-y

2019	0.9%
2020	1.9%

Liquidity coverage ratio (NBG, Basel III)

138.6%

Minimum regulatory requirement – 100%

2019	136.7%
2020	138.6%

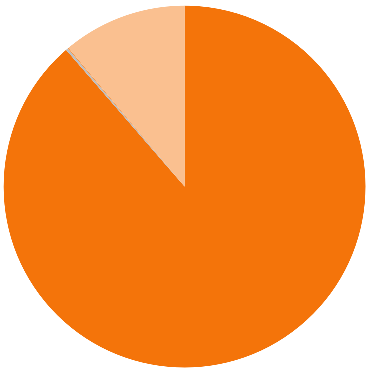
Net stable funding ratio (NBG, Basel III)

137.5%

Minimum regulatory requirement – 100%

2019	132.5%
2020	137.5%

2020 RWA



	2020 kGEL	2019 kGEL
Credit Risk	14,216,128	12,064,506
Counterparty credit risk	31,970	59,125
Market Risk	12,720	52,737
Operational risk	1,779,276	1,691,801
	16,040,094	**13,868,169**

Capital and liquidity positions have been one of the main focuses of the Bank's BCP plan during 2020 on the back of the COVID-19 pandemic outbreak.

The Bank's capital adequacy ratios have remained robust, and comfortably above the minimum regulatory requirements. A y-o-y decline in capital ratios was primarily due to a c.GEL 400mln general provision created in March 2020 under the local regulatory accounting basis in agreement with the NBG (and consistent with the NBG's guidance for the Georgian banking sector in general) that covers its expectations of estimated credit losses on the Bank's lending book for the full economic cycle. We continue to generate high levels of internal capital as a result of both the Bank's high return on average equity, and the improved risk-asset intensity of our lending growth on the back of the new regulatory environments.

The Bank's liquidity and funding positions have remained strong. The Bank maintained substantial excess liquidity in 2020, primarily for 1) risk mitigation purposes on the back of the ongoing COVID-19 crisis, as outflow of customer funds was expected at an early stage of the pandemic outbreak, which however did not materialise; client deposit balances continue to grow to date; and 2) the repayment of local currency bonds in June 2020. The Bank has strong support from international financial institutions and has secured c.GEL 635 million undrawn long-term loan facilities from DFIs at 31 December 2020 with up to seven years of maturity.

Against the backdrop of the economic downturn, the quality of our customer lending has been resilient, reflecting the significant reduction in the portfolio risk over the last few years. We entered the COVID-19 environment with a de-risked banking sector – at the beginning of the pandemic our non-performing loans were at historically low levels. This was driven by the prudent application of the Bank's risk management policies, as well as the shift in the loan portfolio mix from high-yielding unsecured to more secured consumer lending that followed the introduction of responsible consumer lending regulation by the National Bank of Georgia in 2018. The absence of high levels of corporate leverage, and the strong Government support programmes for both individuals and businesses is also expected to partially mitigate the negative economic impact of COVID-19.

We have taken a significant ECL provision in the first quarter of 2020 to cover all expected credit losses through the full economic cycle. Following the lockdown and subsequent reopening of the economy, we have now individually reviewed all of our SME and corporate borrowers, and the provision estimated in the first quarter has proved to be sufficient. Our corporate, SME, and SOLO segment portfolios all continue to perform better than initially expected. As a result, cost of credit risk ratio increased from 0.9% in 2019 to 1.9% in 2020.

1.4. 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 6
Remuneration policy (Article 450)	Article 7	Section 7

2. Ownership and Group Structure

2.1. Ownership

As at 31 December 2020, 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 was 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 2020 and 2019, 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, 2020	31 December, 2019
JSC Georgia Capital**	19.90%	19.90%
Fidelity Investments	6.15%	0.09%
Harding Loevner LP	4.50%	4.78%
Van Eck Associates Corporation	3.26%	2.78%
Dimensional Fund Advisors (DFA) LP	3.04%	2.90%
JP Morgan Asset Management	1.50%	3.52%
Others	61.65%	66.03%
Total*	**100.00%**	**100.00%**

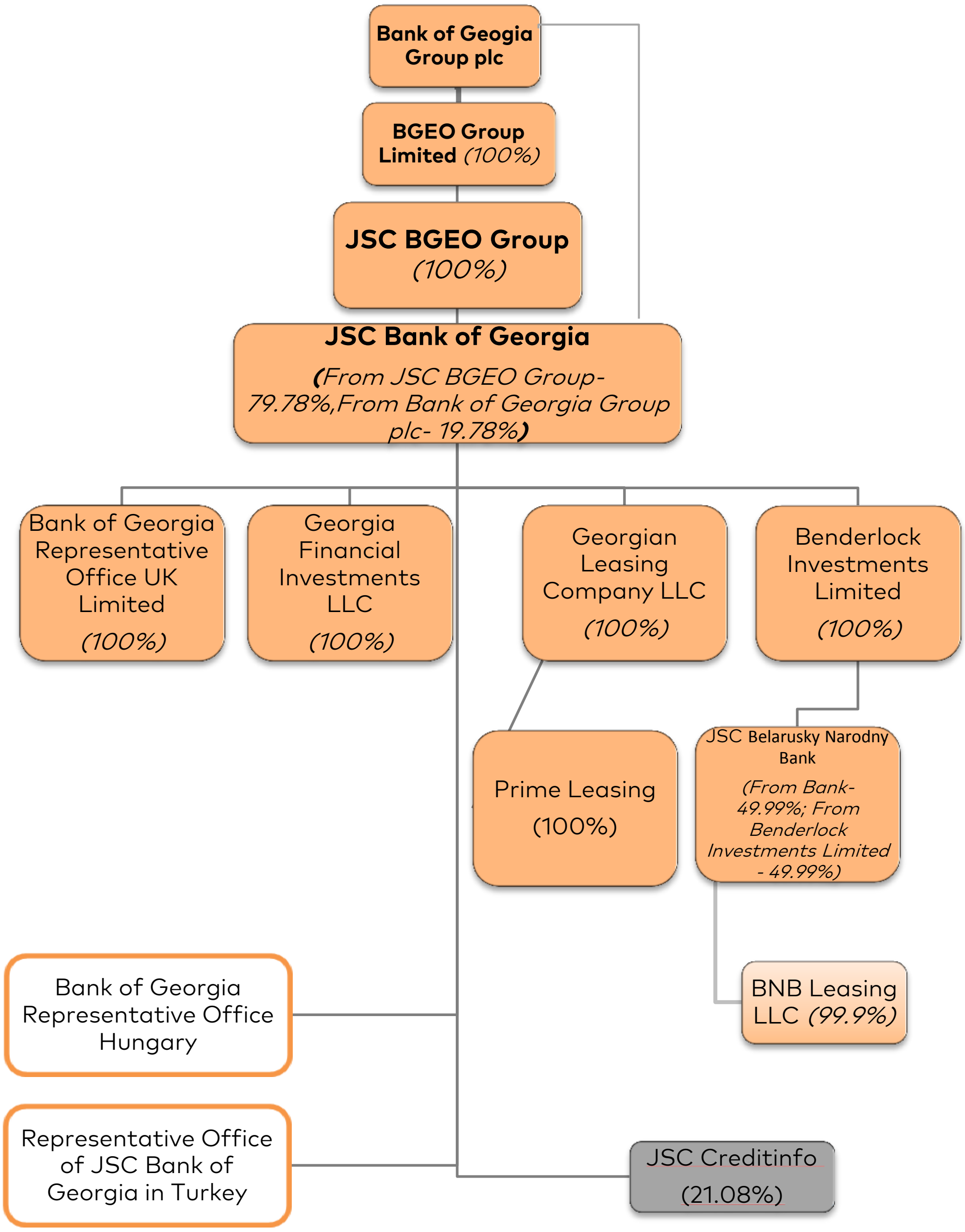
** For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the BoGG group companies.*

*** 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 239 of Bank of Georgia Group plc Annual Report 2020, 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 2020, 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**") (as amended), 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, nomination 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.

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.

If the convention of the GMS is necessary, then, 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.

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 2020

- On 30 January 2020, the shareholder owning more than 75% of the voting shares of the Bank, JSC BGEO Group approved step-down of Mr Andreas Wolf from the position of the independent member of the Supervisory Board;
- On 10 July 2020, the shareholder owning more than 75% of the voting shares of the Bank, JSC BGEO Group approved not to distribute dividends from 2019 full-year profit considering the COVID-19 pandemic outbreak impact.

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.

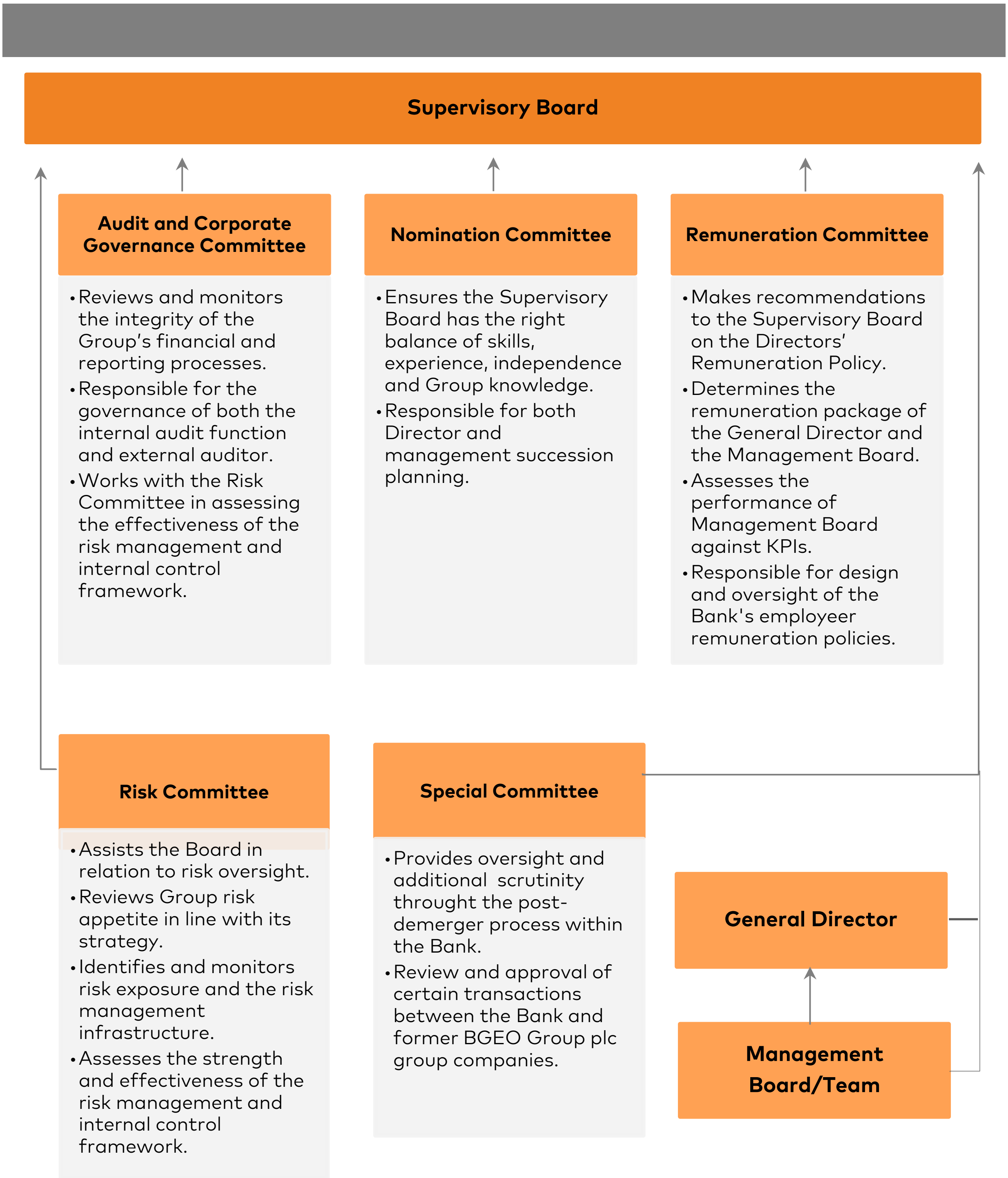
3.3. The Supervisory Board, the Committees and interaction with the BoGG Board

In accordance with the Charter and applicable Georgian laws, it is the responsibility of the Supervisory Board to supervise the Management Board of the Bank. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principles, and is ultimately responsible for identifying and controlling risks. It approves the Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems, and approves certain decisions that fall outside the scope of the respective authorities of the Credit Committees (including approval of 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. As at 31 December 2020, the Supervisory Board comprised seven members (details provided below). The Supervisory Board members are appointed for four-year terms, and their reappointment and term 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. The 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, Remuneration and Special Committees are described below.

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



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

Terms of Reference and Reporting to the Supervisory Board

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

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

As at 31 December 2020, the Supervisory Board consisted of seven members. On 31 January 2020, Mr. Andreas Wolf, stepped down from the Supervisory Board.

The bios of the Supervisory Board members' and their professional backgrounds are outlined below:

- **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 serves as a Chair of the Remuneration Committee and is also a member of the Bank's Nomination 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 of 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 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. 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 SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In 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) and as a Non-Executive Director and a member of HR Committee at Finnfund, a Finnish state owned development financier. 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 serves as a member of the Bank's Remuneration Committee, Risk Committee and the Nomination Committee. Mr Breach also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Remuneration, Risk and Nomination Committees. He previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Remuneration, Nomination and Risk Committees.

Skills and experience:

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 advisor 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 of BGEO Group plc, after serving as an advisor to BGEO Group plc's Board of Directors since December 2016.

Skills and experience:

Mr Muir has over 30 years' experience working as a professional in accounting and finance. He 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 appointed as an Independent Member of the Bank's Supervisory Board 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 U.S. partner of Linklaters LLP, the global law firm. He is the leader of the firm's U.S. 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 and chairs its Regulatory Affairs sub-committee and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of 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 the 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 is currently Deputy CEO at Orange Bank, with responsibility for finance, data office, risk and compliance, having previously headed 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 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 the Bank's 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 2020, six different nationalities were represented on the Bank's Supervisory Board of seven members. The Bank is committed to sustaining and developing gender balance. At 31 December 2020, two of seven members were women; therefore, female representation on the Supervisory Board is currently 29%.

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.

The Supervisory Board is also considering the implications of the recent publication of an update to the NBG's Code of Corporate Governance for Commercial Banks (which were published on 5 February 2021), although no changes need to be made before the end of 2021, and in some cases not until the end of 2022. The Supervisory Board will build any new requirements into its regular succession planning discussions, specifically in the light of the Group's commitment to the "mirror board" structure for the BoGG plc's Board of Directors and the Bank's Supervisory Board.

As the current composition of the Supervisory Board stands, two specific requirements of the updated NBG Code need to be met by 31 December 2021: the requirement that the chairman of the Supervisory Board, and the chair of the Risk Committee shall be independent - with the status of an independent member being terminated after the expiration of seven years after the initial appointment of a member of the Supervisory Board. As a result of these requirements:

- it is anticipated that Neil Janin, the Chair of the Board of Directors of BoGG plc, and of the Bank's Supervisory Board, will step down from these roles before the end of December 2021, but will remain on both Boards as a non-independent member to facilitate a smooth transition to a new Chair of the respective Boards; and
- Tamaz Georgadze, will step down as Chair of the Risk Committees of both Boards before the end of December 2021. He will continue to serve on both Boards.

The Boards have commenced their processes to consider successors to the roles of both Chair and the Chair of the Risk Committee, and further announcements will be made in due course.

Succession Planning and Supervisory Board Appointment Procedures

Members of the Supervisory Board may be appointed and dismissed at a GMS, or by the shareholder with more than 75% shareholding without a need to convene 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 30)

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

The Supervisory Board usually meets four times a year in Georgia in person. For the rest of the meetings the discussion and approval is held either through teleconference or through email correspondence. However, due to the global COVID-19 pandemic and ensuing travel restrictions, the Supervisory Board met by video conference in 2020, both for its scheduled in-person meetings and those meetings convened to monitor the impact of the COVID-19 pandemic.

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

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

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

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

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

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

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

Due to the magnitude and unprecedented nature of the COVID-19 pandemic, the Supervisory Board convened on a number of occasions to discuss the impact of the pandemic. During such meetings, the Supervisory Board and its Committees considered matters including:

- the implementation of employee-focused protective measures, including providing clear communications to employees on protective measures being introduced to ensure their safety and wellbeing;
- consideration of the duty of care to customers, and how working practices could adapt to suit their needs during the changing circumstances;
- the operational and financial performance of the Bank, and consideration of its liquidity and capital position;

- the decision not to recommend a 2019 dividend;
- consideration of operational and technology solutions where adaptive measures might be needed arising from home working by employees; and
- the Bank's participation in any Georgian Government coronavirus loan schemes and engagement with the regulator on matters including the options for Georgian banks to make use of capital buffers, and updates on management's engagement with the regulator.

The Senior Independent Member supports the Chairman in his role, acts as an intermediary for other Independent Members where necessary and liaises with the Members outside of the Supervisory Board and Committee meetings.

In 2020, as per good practice, the Chairman met with the Independent Members and the Senior Independent Member held a meeting with the Supervisory Board member without the Chairman.

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 so that they 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 members of the Supervisory Board participated in an on-going training and professional development throughout 2020, which included briefings, development sessions and presentations by members of management, external speakers and the Bank's professional advisors. During the year, the Bank's Chief Legal Officer provided updates on regulatory and legislative changes, including the changes to the Code of Corporate Governance for the Commercial Banks as adopted by the National Bank of Georgia and related changes in appointment process and renewal of the Supervisory Board and independence criteria.

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

Following a tender process for suitable evaluators, in 2020 the Supervisory Board engaged Farman & Partners, a specialist consultancy firm, to conduct a comprehensive review of the Supervisory Board's composition, succession planning, expertise, dynamics, management and focus of meetings, support, culture, and risk management and oversight. The evaluation was conducted via a detailed questionnaire which sought to capture both quantitative and qualitative data on the Supervisory Board's processes and behaviours, along with performance of the Committees, and also via a one to one discussion between each Supervisory Board member and the external facilitator. The results of the evaluation were discussed by the Supervisory Board both in a formal setting, and in ongoing informal discussions.

The evaluation highlighted areas in which the Supervisory Board was operating well and also identified areas of focus for the coming year. Overall, it was the view of the member that the Supervisory Board and the Committees discharge their respective responsibilities effectively, which is supported by good working relationships, both between members, as well as between the Supervisory Board and management. Farman & Partners has no other connection with the Company.

The Supervisory Board further took part in an exercise facilitated by COCREA to ensure the ongoing culture of openness and debate between the Supervisory Board members. As part of this process, Supervisory Board members undertook an extensive one on one interview process and also a group discussion facilitated by COCREA. COCREA has no other connection with the Company.

The Supervisory Board also recognised the areas for further improvement and set objectives for 2021 to address those recommendations arising from the evaluation. Based on the evaluation, the Supervisory Board's objectives for 2021 are:

- to further improve and strengthen succession planning and diversity at the Supervisory Board and at the top levels of the organisation. This will include working closely with the Nomination Committee and HR;
- to further focus on the development of ESG matters and to create an appropriate framework for climate-related disclosures specifically; and
- to further improve Supervisory Board and Committee support processes, including improvements to the consistency in quality of Supervisory Board meeting materials.

These objectives are in addition to the priorities the Supervisory Board has set for itself with regards to culture, and the embedding of our values and business principles across all parts of the Bank. In addition, in September 2020, 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 2020.

The Supervisory Board was able to successfully implement the Bank's business continuity plan in response to the COVID-19 pandemic during 2020, which saw the majority of our employees move to remote working from the safety of their homes. The Bank's priority has been protecting the health and safety of all its employees and customers, and it continues to monitor best practice and Government advice and provide regular updates to employees on such matters. More detail on this can be found in Response to the COVID-19 pandemic section on pages 47 to 50 of this report.

Supervisory Board and Committee Meeting Attendance

Details of the Supervisory Board and Committee meetings attendance in 2020 are presented below.

Members	Board	Audit and	Nomination	Remuneration	Risk	Special
Neil Janin	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	N/A	N/A
Alasdair Breach	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	4/4	N/A
Tamaz Georgadze [1]	8 of 8 scheduled 1 of 2 ad hoc	N/A	3/3	5/5	4/4	N/A
Hanna Loikkanen	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A	N/A
Véronique McCarroll	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	N/A	4/4	1/1
Jonathan Muir	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	N/A	N/A	1/1
Cecil Quillen	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A	1/1
Andreas Wolf [2]	N/A	N/A	N/A	N/A	N/A	N/A

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;
- the Remuneration Committee and;
- the Special Committee.

1 Mr Georgadze was unable to attend one ad hoc Supervisory Board meeting due to a prior commitment; however, he provided full comments on the materials discussed to the Board ahead of the meeting.
2 Mr Wolf stepped down from the Supervisory Board on 31 January 2020

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 monitor the functioning of the Internal Audit of the Bank;
- ensure the independence of the Internal Audit from the Supervisory Board and the Management Board;
- approve the operation plan of the Internal Audit for the following fiscal year;
- review the quarterly reports of the Internal Audit, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- supervise the activities of the Internal Audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the Internal Audit and individual auditors;
- approve the annual operations plan by quarters prepared by the Internal Audit and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Supervisory Board and the Management Board, ensure the cooperation of the Internal Audit with other structural units of the Bank;
- make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of the Bank's Internal Audit, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the Internal Audit) to the Management Board on the employment/dismissal of the other staff of Internal Audit, as well as on remuneration of such staff;
- 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 26 September 2020. Hanna Loikkanen serves as Chairman.

- 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 26 September 2020 and Véronique McCarroll 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 2020 are presented on page 21 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**"). Eight of nine members of BoGG Board are independent non-executive members (in accordance with the UK Corporate Governance rules applicable to BoGG plc). Each of the Chairman and Non-Executive Directors has clearly defined roles within the BoGG Board structure.

On the Bank's Supervisory Board level, there are no "executive" directors, as the executive powers are carried out by the management of the Bank as exemplified below. The Supervisory Board is appointed by GMS as described above 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, and Risk). The Bank's Supervisory Board performs similar functions on the Bank level and maintains ultimate responsibility for the Bank's governance and management.
- The BoGG Board sets the Group strategy, oversees its implementation and sets the Group policies, which are cascaded down to key operating subsidiaries as appropriate. The BoGG Board and the Bank's Supervisory Board, respectively, monitor the BoGG management team and the Management Board's execution of strategy and financial performance in a number of ways including:
  - Regular reports at BoGG Board meetings and the Supervisory Board meetings from the Bank's General Director, Chief Financial Officer and Deputy General Directors on matters including strategy, progress against strategy and financial performance;
  - Updates at each regularly scheduled meeting of each BoGG Board Committee Chairmen and the Supervisory Board Committee Chairmen;
  - Updates at each regularly scheduled meeting on macroeconomics and business segment performance;
  - Updates at each regularly scheduled meeting of Audit and Corporate Governance Committee on Internal Audit, with serious matters reported to the BoGG Board and the 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 the BoGG Board and for the Bank by the Supervisory Board;
- The BoGG Board has a schedule of defined matters reserved for the BoGG Board and meets at least quarterly to discuss strategic matters and business performance. The BoGG Board committees have documented terms of reference.

<u>Succession Planning and BoGG Board/Supervisory Board Appointment Procedures</u>

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

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

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

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

3.4. Management Board and Management Team

As at the date of this report the 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[3]	Current Position
Archil Gachechiladze	General Director
Sulkhan Gvalia	Deputy General Director, Chief Financial Officer
George Chiladze	Deputy General Director, Chief Risk Officer
Levan Kulijanishvili	Deputy General Director, Chief Operations Officer
Vakhtang Bobokhidze	Deputy General Director, Information Technology, Data Analytics, Digital Channels
Mikheil Gomarteli	Deputy General Director, Mass Retail and Micro Business Banking
Eter (Etuna) Iremadze	Deputy General Director, Premium Business Banking (SOLO)
Zurab Kokosadze	Deputy General Director, Corporate Banking

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

Name	Current Position
Zurab Masurashvili	Head of SME Business Banking
Levan Gomshiashvili	Chief Marketing Officer
Nutsa Gogilashvili	Head of Customer Experience and Human Capital Management

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

- **Archil Gachechiladze**
  General Director

Mr 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 with the Bank and its holding and sister companies, such as Deputy General Director, Investment Management (2013-2015), CFO of BGEO Group (2015-2016) and Deputy General Director, Corporate and Investment Banking (2016-2017). Mr Gachechiladze has over 20 years of experience in financial services, including various senior positions in both 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), the 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.

[3] Giorgi Pailodze stepped down from his role as the Bank's Deputy General Director, Wealth Management and Investment Banking on 31 January 2021.

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.

George Chiladze
Deputy General Director, Chief Risk Officer

Mr 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.

Levan Kulijanashvili
Deputy General Director, Chief Operations Officer

Mr 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 (2000-2009), Manager of the Financial Monitoring, Strategy and Planning department (1999-2000) and Head of the Financial Analysis division (1997-1999). Mr Kulijanishvili received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

Vakhtang Bobokhidze
Deputy General Director, Deputy CEO, Information Technology, Data Analytics, Digital Channels

Mr 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 Deputy CEO, Information Technology, Data Analytics, Digital Channels. Mr Bobokhidze received his undergraduate and MBA degrees from Tbilisi State University.

Mikheil Gomarteli

Deputy General Director, 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 25 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007-February 2009), Head of Business Development (March 2005-July 2005), Head of Strategy and Planning (2004-2005), Head of Branch Management and Sales Coordination (2003-2004), Head of Branch Management and Marketing (2002-2003) and Head of Banking Products and Marketing (2000-2002). Mr Gomarteli received his undergraduate degree in Economics from Tbilisi State University.

Eter (Etuna) Iremadze

Deputy General Director, Premium Business Banking (SOLO)

Ms Iremadze was appointed as Deputy General Director, Premium Business Banking of JSC Bank of Georgia in January 2021, prior to which she served as Head of Premium Business Banking since May 2019. Ms Iremadze has around 20 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. Ms Iremadze also served as Head of the Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group plc), where she was working under the direct supervision of the CEO (2017-2019). 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 Kokosadze

Deputy General Director, Corporate Banking

Mr Kokosadze was appointed as Deputy General Director, Corporate Banking of JSC Bank of Georgia in January 2021, prior to which he served as Head of Corporate Banking under the direct supervision of General Director since May 2020. Mr Kokosadze has around 20 years of experience in financial services. He joined the Bank in 2003 as Junior Corporate Banker and since has held various senior positions, including Senior Corporate Banker (2006-2009), FMCG Sector Head (2009-2016), Deputy Head of Corporate Banking (2016-2017) and Head of Corporate Banking (2017-2020), under the supervision of Deputy General Director, Corporate and Investment Banking. Mr Kokosadze has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. Mr Kokosadze received his undergraduate degree in business administration from Caucasus School of Business and his MBA degree from Grenoble Graduate School of Business.

Zurab Masurashvili
Head of SME Business Banking

Mr 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. During 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. During 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.

Levan Gomshiashvili
Chief Marketing Officer

Mr 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 Gomshiashvili received his MSc in Management from the University of Edinburgh.

Nutsa Gogilashvili
Head of Customer Experience and Human Capital Management

Ms Gogilashvili was appointed as Head of Customer Experience and Human Capital Management of JSC Bank of Georgia in August 2019. Ms Gogilashvili has ten 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.

Responsibilities of the Management Board

The Management Board and the Senior 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 by the charter, shall consist of the General Director and not less than three Deputy General Directors. The Management Board of the Bank is accountable to the shareholders and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. Any member of the Management Board shall have the right to request from any Supervisory Board member that a meeting of the Supervisory Board be called and he/she may address such meeting.

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

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Corporate Governance 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 2020 and obtained assurance from the Management Board and the Internal Audit as well as discussions and assurance from External 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 2020, and that these systems continued to operate effectively up to the date of approval of this Report. The review did not identify any significant weaknesses or failings in the systems. Although we did not identify any significant weaknesses or failings, we continuously strive to improve our framework and focus on further mitigating our key risks, especially as they evolve.

Bank risk management

The Bank is the principal driver of the Bank's revenue and operates in the financial services sector, therefore, its risk management and internal control frameworks are fundamental to that of the Bank. The work undertaken by the Bank's risk management bodies feeds back directly to the Bank. Given the significance of the Bank, the risk management and internal control frameworks in place at the Bank are described below.

Management of risk is fundamental to the Bank and is an essential element of the Bank's operations. 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. The following is a description of the 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 Bank's strategic planning process.

The Bank's risk management framework is based on the principle of continually assessing risk throughout the life of key operations 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 –ongoing 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.

Risk management structure

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:

- The first line of defence is handled by relevant business unit's front-line and mid-line managers, the Risk Owners, 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 also: (i) participates in defining the Bank's risk appetite approaches; (ii) integrates risk appetite approaches and risk culture into daily activities; (iii) introduces controls and processes to effectively manage risks; and (iv) introduces awareness-raising activities related to risk culture.

Second Line of Defence:

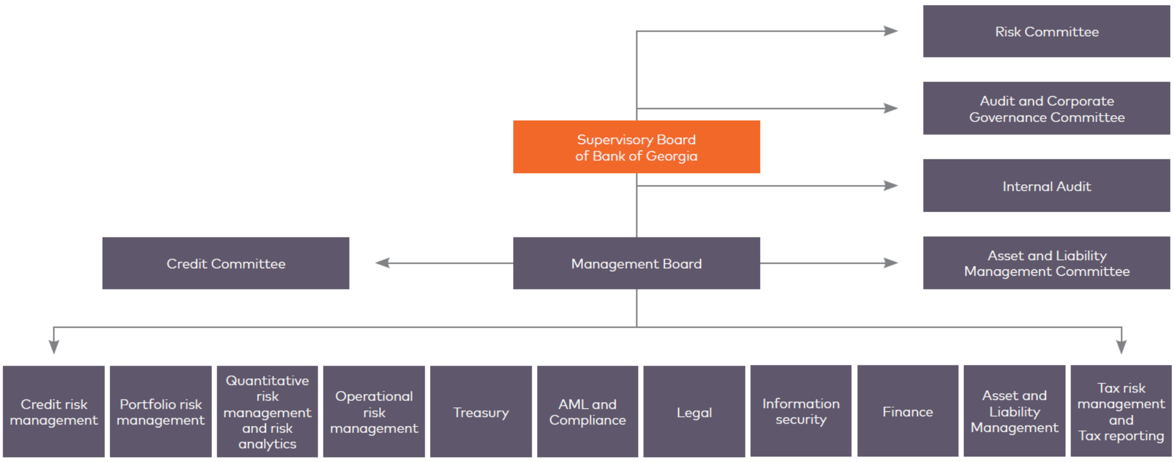
- The second line of defence provides an additional level of support to the first line of defence, with senior management who bring an additional level of expertise to the risk management process, and provide additional support to, and monitoring of, Risk Owners to ensure that risks and controls are 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 - Chief Risk Officer, comprising Credit Risk department, a Portfolio Risk Management department, Quantitative Risk Management and Risk Analytics department, Operational Risk Management department, Informational Security department, and Legal department. The Deputy CEO – Chief Risk Officer has a leading role in operating the second line of defence. They coordinate risk management processes, and 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 Deputy CEO – Chief Operations Officer, 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, under the Bank's Deputy CEO – Chief Financial Officer.
- 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:

- The third line of defence is handled by the Internal Audit department.
- 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 described below 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.

Risk management bodies of Bank of Georgia



Risk management bodies

The principal risk management bodies of the Bank are the Supervisory Board, Audit and Corporate Governance Committee, Risk Committee, Management Board, Internal Audit, Credit Committee, Asset and Liability Management Committee (ALCO), AML and Compliance, 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 execution 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 function. The Bank's Internal Audit function (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 Management Board. The Head of the Internal Audit, also known as Chief Audit Officer, is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit and Corporate Governance Committee. Internal Audit discusses the outcomes of all assessments with the Management Board and reports its findings and recommendations to the Bank's Audit and Corporate Governance Committee. Internal Audit's scope of work is to determine 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 – financial and non-financial (including strategic, credit, compliance, regulatory, Environmental, Social and Governance, market, liquidity, reputational, operational risks, as well as emerging risks) – are appropriately identified, assessed and managed across the Bank, including in 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 economically, used efficiently, and protected adequately;
- programmes, plans and objectives are achieved in line with predetermined expectations; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed in a timely and proper manner.

In order to fulfill its function, Internal Audit has unrestricted access to all 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 risks in respect of loans for retail and wealth management clients, micro loans, SME loans, corporate loans and counterparty loans. These committees are: the Retail Banking Credit Committee, Micro loans Credit Committee, SME loans Credit Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (FGCRMC). 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 comprises tiers of subcommittees. The FGCRMC comprises two tiers of subcommittees. The Committee consists of six members – the Bank's Deputy CEO – Chief Risk Officer, Deputy CEO – Chief Financial Officer, Deputy CEO – Corporate and Investment Banking, Head of Quantitative Risk Management Department, Head of Treasury and Head of Global Banking Business Direction. A majority of votes is enough for approval. If the net exposure exceeds US$ 10.0 million, then the decision is deferred to the ALCO.

The Credit Committee for retail loans comprises three tiers of subcommittees (for risk management purposes, loans for wealth management clients are classified as retail loans), for micro loans of one tier and for SME loans three tiers of subcommittees. 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. The 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 subcommittees. Participation by the Bank's CEO is required for exposures exceeding US$ 10.0 million, which are also subject to the Supervisory Board approval. All exposures to single group borrowers over US$ 35.0 million require approval by the Supervisory Board. Lower tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed, typically two to three times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its members.

The Problem Assets Committee is chaired by one of the following: the Head of the Problem Loan Management department (first level pertains to loans of up to GEL 500,000), the Bank's Deputy CEO – Chief Operations Officer (second level pertains to the loans in the range of GEL 500,000 – 1,000,000) and the Bank's Deputy CEO – Chief Risk Officer (third level pertains to loans above GEL 1,000,000). The Problem Loan Management department manages the Bank's exposures to problem loans and reports to the Bank's Deputy CEO – Chief Operations Officer. Decisions in terms of all corporate loans managed by the Problem Loan Management department are made by Deputy CEO – Chief Operations Officer and Deputy CEO – Chief Risk Officer.

The Corporate Recovery Committee is chaired by the Bank's Deputy CEO – Chief Risk Officer, 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 Bank's Deputy CEO – Corporate and Investment Banking.

ALCO. 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. ALCO designs and implements respective risk management and stress testing models, regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms. Specifically, ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position limits with respect to overnight and intra-day positions;
- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with the 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 attract funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance direction/the ALM unit.

The ALCO is chaired by the Bank's CEO and meets ad hoc, with decisions made by a majority vote of its members. ALCO members include the Bank's CEO, Deputy CEO – Chief Financial Officer, Deputy CEO – Chief Risk Officer, Deputy CEO – Corporate and Investment Banking, Deputy CEO – Retail Banking, the Head of ALM unit and the Head of the Treasury department. The Head of the Finance direction acts as a secretary of 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.

ALCO is the key governing body for capital adequacy management, as well as for respective risks identification and management. ALCO establishes limits and reviews actual performance over those limits for NBG Basel III capital adequacy regulation. The Finance direction is in charge of regular monthly monitoring of, and reporting on, the 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 direction prepares the NBG Basel III capital adequacy actual reports, as well as their forecasts, budgets and different stress scenarios, while ALCO and the Management Board regularly review them, identify risks, issue recommendations and, if applicable, propose action plans.

Legal Department. The Bank's Legal Department's principal purpose is to ensure: (i) the Bank's business and/or structural units receive due legal support; (ii) the Bank's activities conform to applicable legislation; and (iii) the possible losses from the materialisation of legal risks are minimised. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, 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, increasing the effectiveness of the legal structures of the Bank's transactions and systemisation/standardisation of the Bank's legal documentation with a view to optimise and achieve easier and more automated and de-risked transacting process 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.

Anti-Money Laundering (AML) and Compliance. 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 procedure, employee training and management of regulatory compliance process) throughout the Bank and its subsidiaries. The Bank's ML/FT framework is based on recommendations, directives and requirements of international organisations, including FATF/Basel, 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 of 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 (Know Your Customer) 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/FT 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 under the local legislation. The reporting process is fully automated and supported by a special software application. Furthermore, the Bank has in place ML/FT risk management capabilities, including transaction monitoring solutions. The online solution allows fully automated monitoring of all transactions against sanctions lists (OFAC, the EU, the UN and other 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 the awareness through the employee training programme.

Bodies implementing the risk management system. The Bank's risk management system is implemented by the Bank's Credit Risk department, Portfolio Risk Management department, Quantitative Risk Management and Risk Analytics department, ALM unit, Treasury, Operational Risk Management, Legal, AML and Compliance and Security departments, Finance direction, the Tax Reporting and Tax Risks Management unit, the Information Security department and other departments. The Credit Risk, Quantitative Risk Management and Risk Analytics, Portfolio Risk Management, Operational Risk Management, Information Security, and Legal departments report to the Bank's Deputy CEO – Chief Risk Officer. The Finance direction, the Treasury department and the Tax Reporting and Tax Risks Management unit report to the Bank's Deputy CEO – Chief Financial Officer. The AML and Compliance department reports to the Bank's Deputy CEO – Chief Operations Officer.

The Quantitative Risk Management and Risk Analytics department, in coordination with the ALM unit and Treasury, 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 ALM unit, under the Finance direction, is responsible for managing the Bank's assets and liabilities and its overall financial structure, and is also responsible for managing funding and liquidity and interest rate 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. It 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 its loan portfolio.

The Portfolio Risk Management department manages and assesses credit risk with respect to the overall loan portfolio and is responsible for providing recommendations on the improvement of loan portfolio quality to minimise credit losses. It develops the Bank's portfolio quality control models/methods and ensures 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 Information Security Department monitors and manages the Bank of Georgia's cyber-security and information systems.

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 actively 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 effective assessment and management of tax risks and the Bank's relationship with the tax authorities, provides practical advice and ensures tax compliance across the Bank.

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 Credit Policies.

Risk measurement and reporting. The Bank measures risk using a method that 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 controlling of risks are 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 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 direction, the ALM unit and Treasury department 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 to 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 with the 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. The Bank also uses the NBG's provisioning methodology in order to comply with National Bank of Georgia's 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 expected credit loss (ECL). 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 CEO – Chief Risk Officer, the Credit Risk department and the Portfolio Risk Management department review the credit quality of the portfolio 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 loans and these are mitigated by the same control processes and policies.

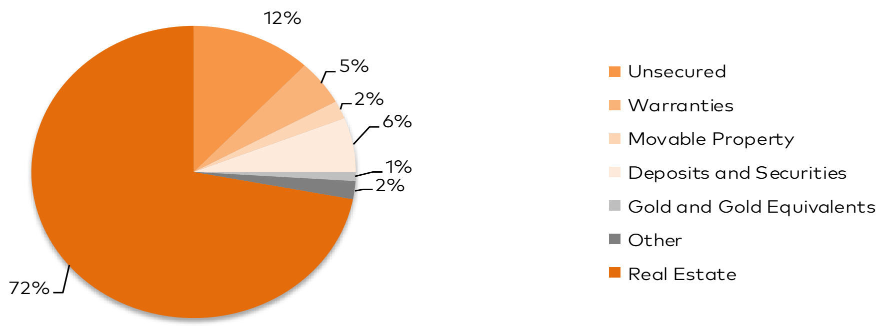
Loan approval procedures. The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies which are approved by the Supervisory Board and/or the Management Board of the Bank. The Credit Committees approve individual transactions.

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 2020, 85.8% of loan to customers was collateralised. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or by the reputable 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 for individually significant loans 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 CEO – Chief Risk Officer, and the Credit Risk department.

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

**Grades are not supposed to be linked to each other across the rating categories above.*

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 direction/the ALM unit prepare and submit monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank 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 ALM unit, Treasury and Funding departments also undertake an annual funding review which 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 ALM unit, 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 capability 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. The Bank maintains sufficient liquidity to comply with the NBG liquidity requirements: Liquidity Coverage Ratio (LCR) >= 100% and Net Stable Funding Ratio (NSFR) >=100%. For the purposes of LCR calculation the run-off ratios applied by the NBG are stricter than recommended by the Basel requirements. In addition, the Bank has more conservative internal limits on liquidity. For the purposes of compliance with the NSFR, the Bank maintains a sufficiently stable funding base considering the term profile of the assets. The ALM unit and the Quantitative Risk Management and Risk Analytics departments regularly forecast LCR and NSFR positions for up to three-month period. In addition, the Bank maintains a cash deposit (mandatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As at 31 December 2020, in line with the NBG's requirements, 25% of customer 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 Georgian Lari on 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% for borrowings with a remaining maturity of one to two years and 5% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserves requirement for Georgian Lari Certificates of Deposits.

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 deposits, borrowing from international credit institutions, inter-bank deposits, debt issuances, proceeds from sale of securities, and principal repayments on loans.

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 the NBG. In addition, open positions in all currencies except for GEL are limited to a maximum of 1% 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 the 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 that 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.

Similar to other Georgian banks, the majority of the Bank's assets and deposits have 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 direction/the ALM unit, Treasury and Quantitative Risk Management and Risk Analytics departments. The Bank calculates a possible change of Economic Value of Equity (EVE) using a calculation method published by the NBG. This method is based on predefined shock and stress scenarios. The NBG has limited the maximum EVE change by 15% of the core capital.

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

Definition: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. 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.

Cyber risk, AML and compliance risk

Information-security threats have continued to increase over the past few years and the Group has seen a number of major organisations subject to cyber-attacks. Fortunately, the Group's operations have not been materially affected and the Group has not suffered a data breach. Over the past few years, as the Group's operations have expanded and the focus has been directed towards more digitalisation of banking products and services, there has been seen an increase in electronic crimes, including fraud, although losses have not been significant. Money laundering (ML) and Terrorism financing (FT) risks, which the Bank has measures in place to guard against, continue to evolve globally. The Bank continues to face stringent regulatory and supervisory requirements related to the fight against ML/TF. Failure to comply with these requirements may lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Group's reputation.

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 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 Bank's 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 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 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 Committee 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 (RCSA); new products assessment; and Key Risk Indicators (KRIs) 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 Operational Risk Management, who reports to the Bank's Deputy CEO – Chief Risk Officer, is responsible for the oversight of the Bank's operational risks.

Emerging risk

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 as appropriate. We also consider the wider macroeconomic risks and escalate these to the Supervisory Board as appropriate in regular presentations.

We recognise the challenges posed by climate change. The Bank has identified Climate Risk as an emerging risk. As such, we intend to integrate climate change-related risks into our credit risk framework and our business resilience assessments. In 2021, we will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

For more information about the Bank's Risk Management, please see JSC Bank of Georgia's Management Report 2020, available as of the date of this Report on JSC Bank of Georgia's official website – [www. bankofgeorgia.ge](www.bankofgeorgia.ge)

Response to the COVID-19 Pandemic Outbreak

The COVID-19 global pandemic has significantly tested the resilience and character of the Bank, together with that of all of our colleagues and customers. The first case of COVID-19 in Georgia was confirmed on 26 February 2020, and since then the pandemic has impacted people, the economy, and the way we live and work in major ways.

In the wake of the global COVID-19 pandemic, the Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia, protecting the health and safety of all our employees and customers, and mitigating the negative impact on our business and communities. The Bank had started to develop the BCP early on, at the end of January 2020, and therefore all of our operations were already successfully adapted to the new operating environment by the end of March 2020, when the full-scale lockdown was introduced in the country. Our BCP rested on the following four resilience pillars:

- Operational continuity
- Supporting public health system and communities
- Abundant liquidity
- Strength of capital

Operational continuity

We have put in place a number of initiatives to reduce physical interactions and prevent spread of the COVID-19, whilst maintaining the full banking capabilities required to support and assist our customers.

Employees

- In light of pandemic developments in Europe in January and February of 2020, we anticipated national lockdown in Georgia and promptly shifted all of our 2,000+ back office employees to remote work, providing them with all necessary technical equipment to work from home.
- The Bank's main branches remained open with additional security measures. We temporarily closed customer service support areas in our Express branches during lockdown, with only self-service terminals and ATM areas remaining open.
- Extensive safety measures have been introduced in the front office, including glass barriers for tellers and operators, distribution of disinfectants, single-use gloves and face masks, among others. The Bank's premises, as well as ATMs and self-service terminals, were sanitised twice a day. All employees and customers entering the Bank's premises still have to undergo mandatory body temperature checks.
- Two-week shifts were introduced in the front office and other service areas across the business during lockdown to ensure ongoing safety and availability of team members.
- Banking services, where possible, were conducted via remote channels, including the call centre, which operated with significantly increased capacity. Fast-tracked resource reallocation and intensive trainings for transferred employees and new-hires were arranged to effectively manage increased customer traffic through this channel.
- Cash centre employees have stricter protocols for clothing and procedures to follow at work in order to minimise the infection risk as a result of handling of cash.
- We provided transportation for front office and cash centre employees when public transport was restricted.

Customers

- We offered a three-month payment holiday on principal and interest payments on retail loans in order to significantly reduce the requirement for customers to physically visit branches, and, thus, contain the virus spread, as well as to support our customers during highly uncertain times.
- Corporate customers and MSMEs operating in the tourism industry were given an immediate loan restructuring opportunity.
- We strengthened safety measures in cash vaults and ensured uninterrupted cash supply to the whole Georgian banking system during hard lockdown in the spring of 2020.
- We have further increased focus on the digitalisation strategy and introduced various initiatives to incentivise the migration of customer activity to digital channels, especially to our mobile bank (mBank).

Standing by customers and communities during lockdown

Enabling businesses to adapt and continue operations during lockdown

- In addition to assisting the MSMEs financially, the Bank has also focused on providing educational opportunities for business customers and sharing knowledge and experience with them to contribute to their success. In 2020, the Bank organised a working meeting with companies to teach them to better market their products, sell their products via the largest global platforms, including Amazon, eBay and Etsy, and find new partners.

Enabling more retail customers to go digital

- We temporarily removed fees for transactions executed through our internet and mobile banking platforms for a two-month period during lockdown in the spring of 2020.
- We launched mBank (our mobile banking application) without data package, enabling our customers to access mBank without internet connection or mobile data.
- We have developed and shared educational videos to support more customers in using mBank and in benefiting from more of its embedded tools and features.

Supporting public health

- At an early stage of the pandemic, when it was needed the most, the Bank purchased and donated 20,000 COVID-19 laboratory tests, ten ventilators, 50,000 face masks, and 60,000 gloves to the Ministry of Health of Georgia to support the battle against COVID-19 and help prevent its spread.
- As mentioned above, we have introduced maximum safety measures in our branches to contain the virus spread across the country.

Ensuring abundant liquidity

Since the early stages of the pandemic outbreak, we have ensured that the Bank has sufficient liquidity to meet regulatory requirements, as well as to ensure operational continuity of the business and uninterrupted financial support to our customers.

During 2020, the Bank's liquidity position remained strong and comfortably above minimum regulatory requirements. The Bank maintained substantial excess liquidity throughout 2020, primarily for:

- risk mitigation purposes on the back of the ongoing COVID-19 crisis, as an outflow of customer funds was expected at the early stage of the pandemic, which, however, did not materialise. Client deposit balances have continued to grow to date.
- repayment of GEL 500 million local currency bonds, due in June 2020.

Furthermore, the Bank has strong support from international financial institutions. During 2020, we attracted a number of new long-term borrowings in both local and foreign currencies, totalling c.US$ 300 million, from the International Finance Corporation, the European Investment Bank, FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders, and the European Bank for Reconstruction and Development. These facilities include undrawn committed lines as of the end of 2020 that will further enable us to proactively support our customers and the forthcoming economic recovery.

Ensuring a strong capital position

The Bank's capital position remains robust and comfortably above minimum regulatory requirements amid the COVID-19 pandemic. At 31 December 2020, the Bank's Basel III Common Equity Tier 1, Tier 1, and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively.

Below is a list of factors that affected our capital position and the measures that ensured the strength of the Bank's capital in 2020:

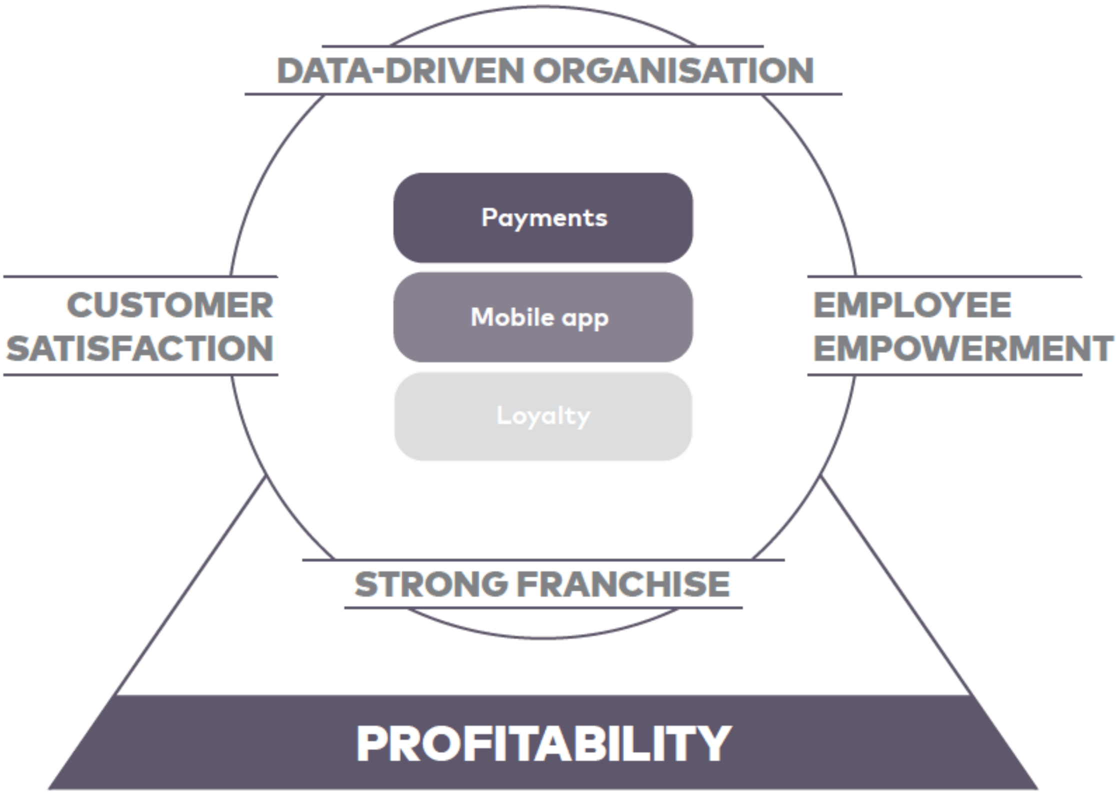
- **Entering the COVID-19 environment with a de-risked banking sector**: introduction of responsible lending regulations in December 2018, followed by a shift in the loan portfolio mix to more secured lending, coupled with Bank of Georgia's robust risk management system, resulted in a consistent decrease in cost of credit risk over the last four years, from 2.6% in 2016 to under 0.9% in 2019. Going into 2020, we expected normalised cost of credit risk at around 1.0-1.2%. This meant that Georgia's banking system overall, and Bank of Georgia in particular, were able to face the pandemic with a healthy balance sheet and de-risked environment. Therefore, despite taking upfront provisions for expected credit losses for the full economic cycle in the first quarter of 2020, our cost of credit risk ratio remained at a manageable level of 1.9% in 2020.
- Upfront provisions for expected credit losses for the full economic cycle: in March 2020, the Bank created a general provision of c.GEL 400 million under the Bank's local accounting basis, which is used for the calculation of capital ratios under the NBG Basel III framework. This represents approximately 3.3% of the Bank's lending book subject to provisioning under the local accounting standards. The NBG considers banks' capital ratios to be sufficiently in excess of expected minimum capital requirements to be able to absorb the upfront general provision for the full economic cycle whilst maintaining a sufficiently comfortable buffer over required minimum capital ratios. On an IFRS basis, the Bank similarly took an upfront provision, built to cover expected credit losses in both the Retail and Corporate and Investment Banking businesses for the full economic cycle.
- Release of capital buffers by the National Bank of Georgia: in March 2020, the NBG introduced an updated Supervisory Plan for the banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic. The measures on capital adequacy have allowed banks to use existing regulatory capital buffers to support customers in current, financially challenging circumstances, to continue normal business activities as much as possible, and to support the economy through ongoing lending operations. As part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully use Pillar 2 or conservation buffers, they are restricted from any form of capital distribution.
- Strong internal capital generation: the Bank has a recent track record of strong profitability and capacity to generate high levels of internal capital. Our CET1 capital adequacy ratio was rebuilt to 10.4% as at 31 December 2020, after coming down to 8.3% as at 31 March 2020 as a result of upfront general provisions for expected credit losses over the full economic cycle.

4.1. Strategy

The Bank comprises: 1) Retail Banking (the "RB") principally provides 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 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.

Strategic focus

Bank of Georgia is a leader in payments business, financial mobile applications, and loyalty programmes in Georgia. By continuously focusing on digitalisation and expanding technological and data analytics capabilities, the Bank aims to anticipate customer needs and offer more personalised, seamless experiences. Employee empowerment, customer satisfaction, and data-driven decisions, coupled with the strong banking franchise, are key enablers in enhancing and developing our strategic objectives. With all these strategic building blocks we have laid the groundwork for the bank of the future, and we are committed to delivering strong profitability and maximising shareholder value.



By harnessing strong customer relationships, continuous digital innovation, and a solutions-based banking approach, the Bank aims to deliver on its medium-term strategy, which is based on at least 20% ROAE and c.15% growth of the loan book.

Retail Banking

Customer-centric and solutions-based multi-brand strategy

Over the past decade, Retail Banking has been the main driver of the Banking Business growth. We are a leading retail franchise in Georgia serving more than 2.6 million customers as at 31 December 2020. The Retail Banking segment demonstrated strong performance in 2020, notwithstanding the negative impact of the COVID-19 pandemic. We have substantially improved our customer value proposition and our positioning across key areas.

Our Retail Banking comprises the following segments: Mass Retail, SOLO for affluent retail customers, and MSME banking. Each segment serves and focuses on the specific needs of its respective clientele. The key priorities, strategic objectives, and major developments during 2020 for each sub-segment are described below.

Mass Retail

Our Mass Retail segment provides universal retail banking services, as well as cutting-edge industry solutions, to our emerging and mass retail customers through cost-efficient remote channels such as our Express Pay terminals, mobile and internet banking, and technology-intensive retail branches.

We are a strong retail banking franchise, a leader in the payments business and in the financial mobile application. We are the first-choice bank, especially for Generation Z. In all of the most recent surveys conducted in fall 2020, the Bank clearly comes out "top-of-mind" and is regarded as the most trusted financial institution across all age groups of the Georgian population.

Over the past several years the Bank has evolved from a product-focused to a customer-centric business model, resulting in more tailor-made offerings and solutions for our customers. We have focused on deepening our understanding of customer wants, needs, and behaviours so that we can provide personalised and relevant products and services where and when they are most needed.

Our objective is to be the bank that focuses on the success of our clients. This includes knowing what our customers' financial and non-financial needs are, what they expect, or what they plan for the future. This knowledge is key to delivering on our main strategic pillar — seamlessly predicting and satisfying customers' needs by offering them personalised packaged solutions, through digital channels.

To deliver on the main strategic pillar, we have developed a digital environment where our clients can fulfill a variety of needs in an integrated experience. Our payments ecosystem and convenient channels, including mBank and iBank, are keys to smooth and enjoyable banking experiences. We harness advanced data analytics tools and other technologies, such as Medallia and, going forward, Salesforce, to better anticipate customers' needs and continuously improve customer journeys across all channels. All of this, together with our loyalty programme, enables us to build and maintain ever stronger customer relationships.

Premium Mass Retail customers

Using our data analytics capabilities we have identified more than 40,000 customers with high income and potential. Bank of Georgia's share in these customers' wallet is only 66%. To unlock the potential, we have introduced a new full-coverage service model, under which a dedicated relationship manager will remotely serve our customers and help them fulfil their financial needs by offering a full spectrum of needs-based banking products and services.

40K customers with high income and potential – BOG's share of wallets – 66%

Dedicated
remote RM
Simple and convenient banking experience provided by dedicated remote Relationship Manager

360°
financial planning
RM provides expert solutions that meet customers' financial needs

Full
coverage
RM helps customers fulfil their financial needs by offering a full spectrum of banking products and services

Goal

BOG share of wallet	Product to client ratio	Net Promoter Score
85%	**4.2** Increase by 30%	**80%**

Digital
Onboarding

Enabling Georgians living abroad to open bank accounts and use various services and products

Convenient
tools

Convenient and varied options for account top-ups through partnerships with international companies

Tailored
products

Special deposit and loan products tailored to emigrants' needs

Georgian emigrants

We see significant potential in this segment given the number of Georgians living abroad and the volume of remittances transferred by them. Through the easy process of digital onboarding, convenient tools, and personalised product and service offerings, we aim to unlock the estimated market potential of this segment.

SOLO – a fundamentally different approach to premium banking

The SOLO brand offers a distinct experience, never seen before on the Georgian financial market, to mass affluent customers. The Bank's SOLO clients are given access to exclusive products and the finest concierge-style environment at our 11 specially designed SOLO lounges located across Georgia. SOLO is a unique banking concept in one space, combining privileged financial and advisory services and unlimited lifestyle experiences.

To qualify for SOLO services, a customer needs to have a monthly income of at least GEL 3,000. At SOLO lounges, personal bankers serve our clients and, in addition to providing banking solutions, offer luxury goods and other lifestyle experiences, such as exclusive events, concerts of world-famous artists, special travel tours, SOLO boutique, exclusive benefits, and other hand-picked lifestyle products and services. This unique blend of banking and lifestyle offerings sustains the strong interest in the SOLO franchise.

Strong growth in customer base and portfolios

Since 2015, after SOLO rebranding, we have seen the steady growth of our client base. As at 31 December 2020, SOLO served 60,330 customers, up 10.6% y-o-y, notwithstanding the COVID-19 pandemic outbreak. The share of new customers acquired in 2020 accounted for 16.2% of total SOLO customers at the end of 2020, which clearly demonstrates the ongoing popularity of the franchise in our domestic market.

SOLO Club, a membership group within SOLO launched in 2017, offers exclusive access to SOLO's products and offerings ahead of other SOLO clients, at a higher fee. One such exclusive product is American Express Platinum card, available to SOLO Club members only. Since 2019, SOLO Club members have also enjoyed the benefits of personal assistant service for lifestyle offerings.

Strategic focus

In 2019, we defined the three key pillars – excellence in customer service, increased digitalisation, and tailor-made bundled offerings – as part of our strategic focus to further strengthen SOLO's customer-centric model and deliver on our target of doubling 2018 profit to c.GEL 112 million in three years' time (2018-2021).

Medium-term key objective still valid, notwithstanding the pandemic

SOLO's operations, like those of other business segments of the Bank, have been significantly impacted by the COVID-19 pandemic outbreak.

We aim to further strengthen our key strategic pillars – excellence in customer service and increased digitalisation, which enable us to provide tailor-made bundled offerings, to shift SOLO to the next stage of development. Moreover, despite the impact of the pandemic, we reiterate our medium-term key objective – doubling SOLO's 2018 profit to c.GEL 112 million in three years' time (2018-2021).

Micro, small and medium-sized enterprise banking

Bank of Georgia is dedicated to serving its MSME customers and helping them achieve more of their potential by offering a wide range of financial services, combined with our flagship onboarding, support, and advisory programmes, and convenient digital channels.

Key medium-term objectives

Going forward, our focus on customer needs in the MSME segment will be even more profound. Our medium-term objectives, with digitalisation and offloading as top priorities, are outlined below:

Medium term

- Most preferred MSME bank
- MSME market share of 35%+ in loans to customers
- Keep 20%+ ROAE during growth

Corporate Investment Banking

Bank of Georgia's CIB business is a leading provider of corporate and investment banking solutions in Georgia. Our strong franchise leverages its best-in-class expertise in product design and 360° view of every customer to execute profitable transactions and offer excellent services to its customers. Given our scale, a rich portfolio of banking products and services, and the deep industry and product-specific expertise that we possess, we are the universal bank of choice and top-of-mind advisor for Georgian corporates. We are also the established leader of wealth management services in Georgia.

While aiming for a healthy growth of the Corporate and Investment Banking loan book, Bank of Georgia prudently manages the concentration risk so that the exposure to its top ten clients is maintained at around 10% of the total loan book.

Medium-term strategic objective

Bank of Georgia has built a strong corporate and investment banking franchise, with solid profitability and operational excellence, that has demonstrated great resilience during the pandemic. We have built a strong foundation for the future, and we are well positioned to deliver 20%+ profitability going forward.

Strategic objective – ROAE – 20%+

Strong CIB franchise	Solid profitability	Operational excellence

Corporate Banking

With c.3,100 customers by the end of 2020, Bank of Georgia is a leading corporate lender in the country, with deep sector knowledge and local expertise. We have a well-diversified loan portfolio with strong presence in all major sectors of the Georgian economy.

Our Corporate Banking business is also a leading trade finance provider in Georgia with well-established partnerships with large counterparty banks and international financial institutions. In addition, we provide leasing services through the Bank's wholly owned subsidiary, Georgian Leasing Company, which offers a variety of financial products tailored to different segments, such as small and medium-sized businesses and low-, medium-, and high-income individuals.

In order to offer a universal banking platform to our clients, CIB actively cooperates with other business segments within the Bank, unlocking the benefits of knowledge-sharing, idea-generation, and cross-selling opportunities.

Key strengths of our Corporate Banking business

The success of our Corporate Banking franchise rests on four pillars, which enable us to deliver on our key financial targets and continuously develop our team. This positions us as the universal bank of choice and top-of-mind advisor for Georgian corporates.

Sound credit quality	Operational excellence	Attraction of great talent	Advisory mindset
Prudent lending policy and team expertise	High quality and innovative product and service offerings	Unique programme on the Georgian market to attract and develop top talent	Highly skilled and experienced relationship managers acting as best advisors for our customers

Wealth Management

Our strong franchise comprises our regional Wealth Management practice.

Bank of Georgia's Wealth Management is a private banking arm of our Corporate and Investment Banking, serving high-net-worth individuals through its WM office in Tbilisi. It also has representative offices in London, Budapest, Istanbul, and a subsidiary in Tel Aviv. Since its launch in 2005, our customer base in Wealth Management has reached 1,578 clients from 78 countries as at 31 December 2020.

Despite the challenging market environment and our strict AML approach, we have maintained good momentum in our assets under management, coupled with the robust profitability profile.

Strategic objective

Diversifying the wealth management offerings

Our aim is to turn Georgia into a regional hub for private banking and extend our client base to nearby countries. Our WM brand identity is based on the virtues of both Georgia and the Bank itself. Bank of Georgia is the leading and highly trusted bank that delivers strong returns and constantly innovates to offer better customer experiences. A stable business environment in Georgia coupled with Bank of Georgia's reputation and expertise make us the perfect bank for affluent individuals to do business with.

Interest rates globally have been declining, and our cost of funding has been declining as well. Over time, we have decreased the yield that we offer to our customers on the depositary products, and, as a result, we have seen a sustained shift from banking products towards investment products. The securities take-up among the Wealth Management customers has increased from 13% in 2015 to around 30% in 2020. We expect this trend to continue in the future.

We actively work on diversifying our Wealth Management offerings in the following directions:

Financial products offerings

Diversifying our portfolio to basic structured securitised products:

- Structured products
- Securitised products
- Asset management
- Third-party products

Advisory products offerings

Increase the share of investment products in our portfolio in collaboration with Galt & Taggart:

- Private investment opportunities
- Portfolio structuring
- Succession planning

Lifestyle products offerings

Dedicated WM lifestyle team to accelerate tailored sales and marketing initiatives:

- WM exclusive offers
- Business Club
- Concierge service

Digital Banking Experience

We regard the digital experience as inherent to our brand identity and core to our strategy. We have been actively investing in information technology and building digital capabilities to offer our customers best-in-class digital channels that make the management of their daily lives and businesses easier and smarter. To keep pace with the speed of digital innovation globally and provide relevant and up-to-date digital solutions to our customers, we continuously analyse the latest trends and practices, consider potential novelties and leverage our agile delivery model to quickly turn new knowledge into the services and experiences our customers need.

Retail digital channels

We are the leader in retail digital channels in Georgia. Our key focus is on mobile and internet banking platforms, and we continuously update and upgrade them to address the preferences of our customers. We saw strong performance in 2020, notwithstanding the slowdown in customer activity due to the COVID-19 pandemic outbreak.

Future of mBank and iBank

We see our mBank and iBank as primary all-in-one channels, covering customers' financial and non-financial needs. Transactional banking is already well covered through digital channels, but we still see opportunity to offload activity from self-service terminals to mBank and iBank. Digital product sales is one of the key priorities for us now. Currently, our product offloading rate is around 20%, and we aim to accelerate sales growth in digital channels and turn mBank into the main sales channel.

We also see major upsides in incorporating non-banking financial services, including retail brokerage services and insurance offers, as well as non-financial services into mBank and iBank.

Business digital channels

In 2019, we released a brand-new business internet banking platform – Business iBank – for our MSME and corporate customers. It comes with plenty of handy features designed to make its use an intuitive and smooth experience. In 2020, we redesigned many of the existing features, while adding new ones, taking into account customer preferences and best practices. We have focused our efforts on making the Business iBank even more useful for business transactions, accounting, payments, money transfers, and administration.

Our aim is to build a best-in-class, industry-leading digital ecosystem.

For more information about the Bank's Strategy, please see JSC Bank of Georgia's Management Report 2020, available as of the date of this Report on JSC Bank of Georgia's official website – www. bankofgeorgia.ge.

5. Responsible Business

Sustainability at the heart of our business

As a leading financial institution in Georgia, we are committed to doing business responsibly, which means looking at all decisions and business processes through the prism of sustainability. Sustainability for us is rooted in the understanding that by driving positive social and environmental impacts, we make our business more resilient and create long-term value for all of our stakeholders.

Operating with a sustainability mindset requires that we prudently manage risks as well as tap opportunities that support the wants and needs of our customers, empower our employees, and enhance the economic and social welfare of local communities while mitigating negative impacts on people and the environment.

Evolving strategy

In 2020, the Bank aligned its corporate purpose and mission with the UN Sustainable Development Goals 2030 (SDGs). Recognising that each of the 17 SDGs have some relevance to the Bank's direct or indirect activities, particular focus is given to the five goals which we consider material to our business. The Bank's contributions to these goals in 2020 are signposted by the relevant icons throughout this report.

Going forward, we will further advance the themes identified under the selected SDGs and improve our reporting to better communicate our environmental and social impacts. We are also embarking on a journey to educate ourselves and our communities on climate change and embed climate change-related risks and opportunities into risk management and strategic decision-making.

For more information about the Bank's environmental, social and corporate governance, please see JSC Bank of Georgia's Management Report 2020, available as of the date of this Report on JSC Bank of Georgia's official website – www. bankofgeorgia.ge.

6. Capital Requirements and Regulatory Capital

6.1. Capital Requirements

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

Pillar 1 requirements (including combined buffer requirements)

The December 2017 amendments to the regulation on capital adequacy requirements for commercial banks made Pillar 1 minimum requirements in Georgia compatible with the 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; 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 was 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, and the net stress test buffer. 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.

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.

Following capital adequacy initiatives were introduced:

- Combined buffer - the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0%.
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
  - 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; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
  - 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.

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.

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 2019:

- 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%).

As of 31 December 2020, the minimum capital requirements were:

- Common Equity Tier 1 Capital ratio of 7.4% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 2.0% (Pillar 1 requirements) and Pillar 2 requirements of 0.9%);
- Tier 1 Capital ratio of 9.2% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 2.0% (Pillar 1 requirements) and Pillar 2 requirements of 1.2%); and
- Total Regulatory Capital ratio of 13.8% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 2.0% (Pillar 1 requirements) and Pillar 2 requirements of 3.8%).

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

6.2. Regulatory Capital

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

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

In GEL thousands	**31 December 2020**	**31 December 2019**
Qualifying common share capital	27,994	27,994
Share premium on qualifying common share capital	227,714	190,493
Accumulated other comprehensive income	57,287	(17,031)
Retained earnings	1,560,331	1,512,267
Common Equity Tier 1 Capital prior to regulatory adjustments	1,873,326	1,713,723
Revaluation reserves on assets	(57,287)	17,031
Intangible assets (Including Goodwill)	(129,913)	(116,723)
Investments in own shares	(2,238)	(1,984)
Investments in subsidiaries/affiliates (Commercial Organizations)	(9,878)	(9,878)
Deferred tax asset	(10,208)	-
Investments in the capital of banking, financial and insurance entities	(2,272)	(1,368)
Common Equity Tier 1 Capital: regulatory adjustments	(211,796)	(112,922)
Common Equity Tier 1 Capital	1,661,530	1,600,801
Additional Tier 1 capital	327,660	286,770
Tier 1 capital	1,989,190	1,887,571
Subordinated Debt	652,043	464,567
General Reserves	178,102	151,546
Tier 2 Capital prior to regulatory adjustments	830,145	616,113
Tier 2 Capital	830,145	616,113
Total Regulatory Capital	2,819,335	2,503,684
Risk Weighted Assets	16,040,094	13,868,169
Common Equity Tier 1 ratio	10.4%	11.5%
Tier 1 ratio	12.4%	13.6%
Total capital adequacy ratio	17.6%	18.1%
Common Equity Tier 1 ratio requirement	10.1%	10.1%
Tier 1 ratio requirement	12.2%	12.2%
Total capital adequacy ratio requirement	17.1%	17.1%

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.

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.

7. Remuneration

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

Remuneration Committee

The Remuneration Committee was first established by the Supervisory Board in May 2006 and currently it consists of 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.

Policies

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 the NBG Corporate Governance code applicable as at 31 December 2021. The Supervisory Board and the Bank take note of the changes introduced to NBG Corporate Governance Code introduced on 5 February 2021, and plan to bring all of the Bank's remuneration policies, plans and agreements in compliance with the changed framework no later than the compliance requirement period which is as of 31 December 2021. As of today, the applicable remuneration policies comprise of specific vesting periods, pension contribution, shareholding guidelines and malus and clawback provisions set out below.

Directors' Remuneration Policy

The below Directors' Remuneration Policy applies to members of the Management Board of the Bank and is construed in accordance with the best practices of UK Corporate executives remuneration. The features set out below are applicable as of the date of this report, and may be subject to change in light of the recent changes of NBG Corporate Governance Code.

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.

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.

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.

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.

2020 Discretionary Remuneration of the Management Board

In March 2021, the Remuneration Committee has resolved, in line with NBG requirements communicated to the Georgian commercial banks that the award of the discretionary remuneration for year ended on 31 December 2020 to the Management Board will remain subject to NBG requirements, with regards to reconstruction of certain pillar 2 capital buffers being duly met by the Bank.

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 policy has been drawn up in close compliance with the NBG Corporate Governance code applicable before 5 February 2021. The Supervisory Board and the Bank take note of the recent changes introduced to NBG Corporate Governance Code, and plan to bring all of the Bank's workforce remuneration policies, equity plans and agreements in compliance with the changed framework no later than the compliance requirement period which is as of 31 December 2021.

As of the date of this report, the Bank's workforce 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	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
Work Year	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[4]
Shares	Grant & deferred 40%	Vested 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.

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.

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

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.

There were no employees, excluding the Management and Supervisory board, whose remuneration for the 2020 fiscal year exceeded GEL 1 million.

References

The Bank	JSC Bank of Georgia
The Directors	Members of the Management Board
The "Report"	Pillar 3 Annual Report 2020
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