



# **CORPORATE GOVERNANCE POLICY**

JSC PASHA Bank Georgia

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## Purpose

The purpose of the Corporate Governance Policy (the “Policy”) is to provide guidance to the governing bodies and relevant employees of JSC PASHA Bank Georgia (the “Bank”) and is intended to communicate general concepts, principles, directions, and requirements for implementing the best corporate governance practices in the Bank.

## 1. Terms and Abbreviations

### 1.1. Terms

The following terms are used in the Policy:

**Executive Director** - a member of the Board of Directors who has executive responsibilities in the management structure;

**Governing Bodies** - the Supervisory Board and the Board of Directors;

**Non-Executive Director (NED)** - a member of the Supervisory Board without executive responsibilities in the Bank, a director who is not involved in day-to-day activities of the Bank;

**Stakeholder** - a person, group, or organization that has interest or concern in an organization. Some example of key stakeholders are shareholders, directors, employees, customers, creditors, government (and its agencies), suppliers, and the community from which the business draws its resources;

**Senior Executives** - members of the Board of Directors and heads of the departments and functional units;

**Two Tier Board** - Board structure in which responsibilities are divided between a supervisory board of non-executive directors led by the chairman and a board of executive directors led by the CEO.

### 1.2. Abbreviations

The following abbreviations are used in the Policy:

**CEO** - Chief Executive Officer;

**CRO** - Chief Risk Officer;

**GMS** - General Meeting of Shareholders;

**NBG** - National Bank of Georgia;

**SID** - Senior Independent Director.

## 2. INTRODUCTION

The purpose of the Corporate Governance Policy (hereinafter the “Policy”) is to define basic corporate governance principles for JSC PASHA Bank Georgia (hereinafter the “Bank”) and provide guidance to the Bank’s governing bodies with respect to raising and maintaining standards and best corporate governance practices in the Bank.

By adopting and complying with the Policy, the Bank confirms its desire to demonstrably lead and promote good corporate governance. In order to foster the confidence of its stakeholders, the Policy goes beyond the established legal and regulatory framework and embraces both nationally and internationally recognized corporate governance principles and practices.

The Bank defines corporate governance as a set of structures and processes for the direction and supervision of the Bank, which involves a set of relationships between the Bank's shareholders, the Supervisory Board, and the Board of Directors with the purpose of creating long-term shareholder value. It views corporate governance as a means to improve operational efficiency, attract financing at a lower cost, and build a better reputation. It also views a sound system of corporate governance as an important contribution to the rule of law in Georgia and an important determinant of the role of the Bank in a modern economy and society.

The Bank demonstrates its commitment to the best corporate governance standards by developing and furthering:

- Responsible, accountable, and value-based management;
- Effective oversight and executive bodies that act in the best interests of the Bank, seek to enhance shareholder value in a sustainable manner; and
- Appropriate information disclosure and transparency, as well as an effective system of risk management and internal control.

The Policy is reviewed on an annual basis in the context of changing regulation and emerging best practices with a view to enhancing the Bank's governance.

The Policy is classified as public and published on the Bank's website.

### **3. BACKGROUND**

JSC PASHA Bank Georgia is a subsidiary of OJSC PASHA Bank and part of PASHA Holding - a diversified investment group with interests in banking, insurance, property development, construction, tourism, and other sectors, operating in Azerbaijan, Georgia, and Turkey.

#### **Vision**

A leading regional and credible strategic investor governed by utmost integrity, sound corporate governance, advanced technology solutions and managed by the competent human talent to stimulate sustainable economic growth, professional entrepreneurship and to facilitate the regional business partnership.

#### **Mission**

Promote capital-efficient investments in the non-oil industry in Azerbaijan and neighboring economies to serve their growing investment needs, to stay committed to encouraging a culture of innovation and creativity, and to being a representation of best corporate practice, trust, continuity, and respect for all our stakeholders: our countries of presence, shareholders, employees, clients and partners.

JSC PASHA Bank Georgia represents a regional bank, providing high-quality corporate and investment banking services to large, medium, and small enterprises.

### **4. PRINCIPLES OF CORPORATE GOVERNANCE**

The Bank honors and recognizes all the general principles for good corporate governance:

- **Fairness:** the Bank is committed to acting in a fair and ethical manner towards all shareholders and stakeholders, as it believes that ethical conduct underpins good corporate governance.
- **Accountability and Responsibility:** the Supervisory Board of the Bank is accountable to the shareholders for the way in which it has carried out its responsibilities. Similarly, the Board of Directors is responsible for the exercise of powers delegated to them and is accountable to the Supervisory Board for their achievements and performance.
- **Transparency:** the Bank is committed to providing accurate and understandable information to shareholders and other stakeholders on all material matters regarding the Bank, including its financial condition, performance, ownership, and governance structure in a manner easily accessible to interested parties without giving away commercially sensitive information.

The members of the Supervisory Board, the Board of Directors, and every employee of the Bank act in accordance with all applicable laws and regulations and comply with ethical standards of business conduct as defined by the Bank's [Code of Ethics](#).

## 5. GENERAL GOVERNANCE STRUCTURE

The Bank has a two-tier corporate governance structure, which means that there is a Supervisory Board composed solely of non-executive directors and a Board of Directors composed solely of executive directors of the Bank.

The Supervisory Board and the Board of Directors hold primary responsibility for implementing and maintaining effective corporate governance within the Bank. They are responsible for the Bank to have a well-defined organizational structure, which ensures allocation of responsibilities, effective identification of risks, management, monitoring and reporting procedures and practices, adequate internal control mechanisms, including robust administrative and accounting procedures, effective IT systems and controls for risk management, remuneration policies and procedures.

The Supervisory Board is responsible for general oversight of the Bank and of the Board of Directors, for evaluating senior management's decisions, ensuring that the Supervisory Board members receive adequate and sufficient information from senior management, including explanations and confirmation that senior management activities are in full compliance with the strategies, risk appetite, and Bank's internal control mechanisms.

The Supervisory Board members are appointed and dismissed from office by the shareholders. The Supervisory Board is led by the Chairman. It advises the Board of Directors and must be involved in decision-making on all fundamental matters affecting the Bank.

The Board of Directors is responsible for managing the Bank. It is led by the Chairman of the Board of Directors, who is the CEO. Its members are appointed and dismissed from office by the Supervisory Board.

The Supervisory Board, consisting entirely of non-executive directors (the "NEDs") includes:

- The representative of shareholders;
- Independent director/s; and
- Any other person (s) matching the legal requirements for membership.

The Board of Directors at all times consists of at least five executive directors.

The Bank, at the time of approval of the Policy, has the following governing bodies:

- General Meeting of Shareholders;
  - Supervisory Board;
  - Supervisory Board Committees;
  - Board of Directors;
  - Board of Directors Committees; and
- 
- Control functions: Internal Audit; Risk Management; Compliance; Corporate Secretary.

The Supervisory Board may set up other committees to increase its efficiency if it decides so and if such a decision does not contradict the legislation.

The Supervisory Board shall ensure that the internal control functions are properly positioned and supported and that they carry out their responsibilities independently, objectively, and effectively.

## **6. THE SUPERVISORY BOARD**

### **6.1. Role and Responsibilities of the Supervisory Board**

The Supervisory Board is the key decision-making body of the Bank, responsible to shareholders for creating and delivering sustainable shareholder value by providing entrepreneurial leadership and direction to the Bank. The Supervisory Board approves the Bank's values, vision, mission, and ensures that the Bank is managed in full compliance with the principles of fairness, competence, professionalism, and business ethics. The Supervisory Board is responsible to develop the organizational and governance structure in a way that eliminates potential conflicts of interest and ensures that no individual or group of individuals have unlimited decision-making powers. The Supervisory Board approves the Code of Ethics and continuously assesses the role of the Board of Directors in establishing and fostering an ethical environment and culture, monitors the effectiveness and impartiality of the whistleblowing policies of the Bank and satisfies itself that the Board of Directors report on all the important matters and that the whistleblowers are protected from retaliation, any kind of potential harm and discrimination. The Supervisory Board determines the strategic objectives and monitors their execution, together with CRO and other members of the Board of Directors defines the Bank's risk appetite, monitors the activities of the Board of Directors, ensures that members of the Supervisory Board receive sufficient information, including assurances from the Board of Directors that the Bank's activities are fully in line with the Bank's strategy and risk appetite statement, ensures the effectiveness and independence of control functions, implementation, and maintenance of effective management processes that involve the development of relevant strategies and procedures concerning the maintenance of business continuity in the Bank. The Supervisory Board monitors transactions with the related parties and for this purpose ensures the existence of appropriate policies and procedures in the Bank. The Supervisory Board assesses non-financial, including environmental and social risks along with financial risks.



The Supervisory Board provides overall strategic direction within a framework of rewards, incentives, and controls, demonstrates ethical leadership, and promotes the collective vision of the Bank's purpose, values, culture, and behaviors. Members of the Supervisory Board act in a way they consider, in a good faith, will promote the success of the Bank for the benefit of the shareholders as a whole and, in doing so, have regard for other stakeholders as well.

The primary responsibilities of the Supervisory Board are: reviewing and approving corporate strategy; approving annual budget and business plan with financial forecasts; setting objectives and monitoring performance; oversight of major capital expenditures, acquisition and divestments; ensuring a formal and transparent system for the nomination and election of directors, and the replacement of directors; responsibility for succession planning; reviewing its own performance; overseeing the integrity of the Bank's accounting and financial reporting systems; overseeing the integrity of the external audit process; overseeing the process of disclosure and communications, and being available for dialogue with shareholders; ensuring that an appropriate system of internal control is in place; responsibility for risk policy; overseeing a formal risk management process; monitoring and managing conflicts of interest, including misuse of corporate assets and related party transactions; ensuring compliance with all regulatory and supervisory requirements; ensuring independence and effectiveness of control functions; ensuring establishment and functioning of effective management processes, which includes forming strategies and procedures for ensuring continuity during the outflow of the material risk takers of the Bank; determining the rights and obligations of members of the Board of Directors, monitoring and supervising their activities; responsibility for the alignment of remuneration of executive directors and other senior executives with the long-term interests of the Bank and its shareholders.

The Supervisory Board regularly meets with the Board of Directors and control functions to discuss policies, controls, and address significant risks. It reviews the information and explanations presented by the Board of Directors with constructive criticism.

The Supervisory Board has a duty to act in accordance with its powers, the Bank's [Charter](#) and the [Schedule of Matters Reserved for the Board Decision](#) (Annex #2), and only exercise powers for the purposes for which they are conferred.

The Bank's Supervisory Board as a whole or its individual members cannot delegate their duties and responsibilities to others. This restriction does not apply in cases when the Supervisory Board delegates its duties and responsibilities to the Supervisory Board committees and when such delegation is permissible under the Law of Georgia on the Activities of Commercial Banks.

## **6.2. Supervisory Board Membership Criteria**

The Supervisory Board seeks members with extensive experience and expertise and a reputation for integrity. Members of the Supervisory Board should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated, and be selected based upon contributions they can make to the Supervisory Board and their ability to represent the interests of shareholders. The Supervisory Board will

also take into account the diversity of a candidate's perspectives, background, and other demographics.

The Supervisory Board membership criteria and appointment process is regulated by the Bank's [Standard on Appointment of Administrators](#).

### **6.3. Board Composition, Size and Term of Office**

The Supervisory Board composition (competencies, skills, and appropriate mix) is adequate for oversight duties and the development of the Bank's direction and strategy. Each individual member of the Supervisory Board has the experience, knowledge, qualifications, expertise, and integrity necessary to effectively discharge their duties and enhance the Supervisory Board's ability to serve the long-term interests of the Bank and its shareholders. In order to enhance unbiased oversight, the Bank believes that independent non-executive members should be in the Supervisory Board.

The Bank's Supervisory Board shall be composed of at least five Supervisory Board members/non-executive directors. At least one-third of the Supervisory Board, but not less than 2 (two) members shall be independent members. At least 20% of the Supervisory Board (at least 1 member) shall consist of female representatives.

The number of members of the Supervisory Board is capped at five members provided that the number of the members shall be odd at all times. The current size of the Supervisory Board may be revised from time to time to reflect the changing needs of the business.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders with a maximum term of four years. The authority of the Members of the Supervisory Board shall be extended until the next General Meeting. Any member whose term of office ends can be reelected. Early termination of the authority of the Supervisory Board Member shall be made based on a decision taken solely by the General Meeting of Shareholders.

The expiration of the term of the Supervisory Board members shall take place in different periods according to the rotation plan to avoid a simultaneous replacement of the members of the Supervisory Board.

### **6.4 Nomination Process**

The Supervisory Board is responsible to develop and present for approval to the General Meeting of Shareholders a formal, rigorous, and transparent procedure for the appointment of the Supervisory Board members. The procedure of identifying candidates for membership shall be transparent so that the shareholders can see what type of person the Bank is looking for and why a particular individual has been appointed. The search for new members of the Supervisory Board is conducted by the Nomination and Remuneration Committee of the Supervisory Board. The Chairman of the Supervisory Board and members of the Nomination and Remuneration Committee interview each potential new member, who has typically been identified with the assistance of external search consultants, before their appointments are recommended to the

General Meeting of Shareholders for approval. The Nomination and Remuneration Committee is responsible for considering succession planning for non-executive as well as executive directors, for conducting an annual review of succession planning and proposing changes to the process as necessary.

Factors considered by the Nomination and Remuneration Committee and the Supervisory Board in its review of potential candidates include:

- Prominence in business, institutions, or professions;
- Integrity, honesty, and the ability to generate public confidence;
- Demonstrated sound and independent business judgment;
- Financial literacy and experience with financial institutions;
- Risk management experience;
- The professional experience required to contribute to the Supervisory Board committees;
- The ability to devote sufficient time to the Supervisory Board and committee work;
- Residency in and familiarity with the geographic regions where the Bank carries on business;
- The competencies and skills that the Supervisory Board considers each existing member to possess.

Independence. The Supervisory Board ascertains which member is to be deemed independent. The definition of independent director is provided in Annex #1 of the Policy, the definition complies with Georgian legislation and complemented by internationally recognized definitions.

The Supervisory Board has also concluded that the following behaviors are essential for all Supervisory Board members and will assess its members against these criteria:

- Provides an objective challenge to management;
- Is prepared to challenge others' assumptions, beliefs, or viewpoints as necessary for the good of the Bank;
- Questions intelligently, debates constructively, challenges rigorously, and decides dispassionately;
- Is willing to stand up to defend their own beliefs and viewpoints in order to support the ultimate good of the Bank; and
- Has a good understanding of the Bank's businesses and affairs to enable them to properly evaluate information and responses provided by management.

## **6.5. Restrictions and External Directorships**

A person shall not be eligible to be elected to the Supervisory Board and based on a decision of the General Meeting of Shareholders excluded therefrom if such person:

- Is a member of the Supervisory Board or Board of Directors in more than 7 other companies registered in Georgia;
- Is an administrator in any other commercial bank registered in Georgia, except for the case when he/she occupies administrator's position in a bank subject to control by the given bank or the Bank which is controlling the given bank;

- Has been deprived of the right to be a member of the Supervisory Board by the law;
- Has taken part in any operation or transaction that has resulted in a substantial loss for a commercial bank or a non-bank depository institution – credit union and derogated the rights of a commercial bank and a non-bank depository institution – credit union depositors or other creditors, or lead the commercial bank or the non-bank depository institution – credit union to insolvency or bankruptcy;
- Has engaged in abusive practice when acting as an administrator of a bank or a non-bank depository institution - credit union;
- Has previously served as an administrator of a commercial bank or a non-bank depository institution – a credit union, and as the result of his or her activities, the commercial bank or non-bank depository institution – credit union has become insolvent;
- Failed to fulfill any financial obligation to a bank or a non-bank depository institution – credit union;
- Has been declared bankrupt;
- Has been convicted of a serious crime, terrorism financing, and/or legalization of illicit income or other economic crimes;
- Has been recognized inactive (unable to discharge his/her duties) by the court;
- Does not have sufficient knowledge and experience to carry out his/her duties. The level of the administrator's knowledge and experience must be in accordance with the scope and complexity of the bank and his/her duties.

The members of the Supervisory Board shall limit their work on other positions in order to ensure due performance of their duties as the members of the Supervisory Board.

The Supervisory Board members shall inform the Chairperson of the Supervisory Board about other positions (before occupying this position) that may be of importance to the Bank or for the fulfillment of their obligations. If the Chairperson determines that there is a risk of a conflict of interest, the matter shall be discussed by the Supervisory Board. The Secretary shall keep a list of the positions of each of the Supervisory Board members occupied outside the Bank.

The same restrictions are as well legally binding to members of the Board of Directors.

Members of the Supervisory Board shall notify the Supervisory Board about any external appointments in any other company within one month after the appointment. The Supervisory Board members of the Bank are expected to ensure that other commitments do not interfere in the discharge of their duties.

## **6.6. Board Meetings and Attendance**

- The Supervisory Board meetings shall be held in such frequency as it is necessary for the relevant functioning of the Supervisory Board. The meetings of the Supervisory Board shall be held at least once in a quarter.
- The Chairperson of the Supervisory Board calls the Supervisory Board Meetings.
- The Supervisory Board collectively is responsible for setting its own agenda. In practice, an Annual Calendar of board meetings is circulated at the beginning of the financial year

and all directors have the opportunity to propose items for the agenda via the Corporate Secretary.

- A regular term for calling the Supervisory Board Meeting shall be set by the Supervisory Board's decision and it may change only upon its sole discretion. Invitations shall be sent electronically before the meeting. The written explanation and/or other relevant documentation related to each issue of the agenda shall be attached to the agenda.
- In case of indispensable necessity and due to the best interests of the Bank it may be possible to use a shorter timeframe for calling the meeting of the Supervisory Board. In this case, the notification shall be sent a minimum two working days before the meeting provided that the Supervisory Board members do not object to such accelerated terms. If the meeting is called within the accelerated terms, the members of the Supervisory Board shall receive the explanatory note from the management explaining the reasons and necessity of calling the meeting within such accelerated terms.
- Each member of the Supervisory Board, the Chairperson of the Board of Directors, and the Board of Directors collectively shall have a right to request adding an item to the Supervisory Board Meeting agenda.
- The Supervisory Board members, who participated in the meeting, shall have no right to request annulment of the decision on the ground that they received the notification in violation of the stated rules.
- The Supervisory Board meetings may be held at any place. Meetings may as well be held by means of a telephone conference, videoconference, or other communication tools considering the fact that participants of the meeting will have a possibility to communicate with each other simultaneously.
- The Chairperson of the Board of Directors and Chief Risk Officer shall attend as many meetings of the Supervisory Board as possible unless the Supervisory Board announces that it holds the meeting without the attendance of the members of the Board of Directors. In case of the request of the Supervisory Board, other members of the Board of Directors and other staff members may also attend the Supervisory Board meetings.
- The member of the Supervisory Board may be represented by the other delegated person (not being a member of the Supervisory Board) only based on an advance decision taken by the General Shareholders Meeting. In case of the nonexistence of such consent, the member of the Supervisory Board shall be represented only by the other member of the Supervisory Board considering the fact that one member represents only one member. In both cases, the delegation of authority shall be carried out based on the signed Power of Attorney.
- All members of the Supervisory Board are expected to attend each meeting unless there are exceptional circumstances that prevent them from doing so. If the member of the Supervisory Board often fails to attend meetings of the Supervisory Board, the Chairperson shall raise an issue of his/her responsibility.
- The meetings of the Supervisory Board shall be led by the Chairperson of the Supervisory Board or in case of his/her absence, the meeting shall be chaired by SID, in case of absence of the latter, by one of the members elected by the majority of the members of the Supervisory Board.

- All papers and matters discussed at meetings of the Supervisory Board and its committees are strictly confidential and papers are retained by the Corporate Secretary following board meetings unless alternative arrangements are agreed upon.
- The Chairman will from time to time and at least once semi-annually meet with all members without the participation of executive directors before each board meeting to brief them on the business of the meeting and to address any concerns that they may wish to raise.
- Chief Executive Officer and other executives are presented with ample opportunity to present during Supervisory Board meetings so that they gain the necessary exposure and experience in interacting with the Supervisory Board and the Supervisory Board, in turn, can obtain direct information and better gauge on the next generation of managers and leaders.
- The Bank's Corporate Secretary/Acting Corporate Secretary acts as secretary to the Supervisory Board and the Supervisory Board Committees and drafts the meeting minutes. She/he shall document all the resolutions adopted at such meetings precisely with arguments put forward by the members in support or against approval of the agenda items.

#### **6.6. The process of decision-making and the quorum**

- The members of the Supervisory Board, if possible, shall try to take the decision unanimously.
- The Supervisory Board shall be considered as convened and have the authority to make decisions if the meeting is attended or represented by 51% of its members. If the Supervisory Board is unable to make decisions, the Chairperson may within no later than 8 (eight) days, convene the new meeting, which will be considered as convened if is attended by no less than 25% of its members. If the Supervisory Board is still unable to make decisions, the power of the Supervisory Board shall be deemed terminated and the Chairperson shall convene the General Shareholders Meeting. In case of impossibility to attend the meeting, the Supervisory Board member may present his/her opinions to the Chairperson in a written form regarding the issues of the agenda.
- The decisions of the Supervisory Board are made on the basis of a simple majority of the members taking part in the meeting. Each member of the Supervisory Board has the right to one vote. The refusal for taking part in voting shall not be allowed. If the number of the votes is equal, the Chairperson's vote shall deem decisive.
- The Supervisory Board shall be collective responsibility for the relevant fulfillment of its own obligations.
- Concerning each meeting of the Supervisory Board, the relevant minutes shall be drafted. The minutes shall reflect the process of discussion and decision-making and shall rely on the audio or electronic records of the meeting. Minutes are signed by the Chairperson and the Secretary of the meeting. The minutes shall be stored together with the documentation of the Bank. Each member of the Supervisory Board shall receive a copy of the minutes.

- The minutes shall be considered approved if the members of the Supervisory Board do not submit their disagreement concerning the content of the Minutes to the Chairperson within two working days after its dissemination. If the Chairperson is unable to decide regarding such disagreement, the decision shall be adopted at the following meeting. The following items shall be included in the minutes: The place and time of the Meeting (if the meeting is being held via a video conference and teleconference, these facts shall be mentioned); The list of attendants of the meeting; The agenda of the meeting; The summary of the discussions; The results of the voting concerning each issue; Decisions taken by the Supervisory Board;
- The Chairman and a secretary of the Supervisory Board meeting shall sign the minutes.
- The decisions made by the Supervisory Board may be revealed to the public through the announcement made by the Chairperson and/or the Secretary of the Supervisory Board.

### **6.7. Induction, Training, and Access to Advisers**

The Bank offers an orientation program to new members of the Supervisory Board and the Board of Directors on its business, and on other subjects that will assist them in discharging their duties. All members receive induction on joining the Board to get knowledge of the company and get access to its operations and staff. The Chairmen are responsible for ensuring that new members receive full, formal, and tailored induction.

An Induction Course may include:

- Strategy, mission, vision, and organizational structure of the Bank;
- Providing copies of minutes of previous board meetings and copies of current strategy document;
- Documents that the Supervisory Board has approved;
- Visits to key company sites;
- Product presentations;
- Meetings with management and staff;
- Meetings with external advisers of the company, such as the auditors; and
- Meetings with shareholders.

The Board members should receive updates when there is a change in an important aspect of the law or when new regulations are introduced that affect the Bank's operations or its governance.

The Bank provides general access to and meets all the costs of training courses, seminars, conferences, different events, etc. to its Board members.

Members of Supervisory Board committees may need to be updated or may need to acquire greater in-depth knowledge of matters affecting the work of their committee. The particular training and development need for each member is assessed by the Chairman, but each member can make suggestions about the type of training or development that might be suitable for him personally.

The Board shall have the ability to retain independent legal counsel, accounting, or other consultants to advise the Board when necessary. The Bank shall meet the costs of independent professional advice obtained jointly or severally where such advice is necessary to enable the obligations imposed on an individual(s) to be properly fulfilled. The existing procedure in this regard requires reference to the Corporate Secretary who will inform the member(s) of the existence of relevant advice already in the hands of the Bank or facilitate externally.

### **6.8. Chairman of the Supervisory Board**

The Chairman of the Supervisory Board is elected from members of the Supervisory Board. The Chairman is responsible for the overall effective functioning of the Supervisory Board, for the establishment of trust and collegial relations between the Supervisory Board and its members, for coordination and effective co-operation between the Supervisory Board and the Board of Directors.

Senior Independent Director (SID) is elected from independent members of the Supervisory Board. SID is also Deputy Chairman of the Supervisory Board. He/she assumes the position of the Chairman of the Supervisory Board when the Board discusses the matters towards which the Chairman of the Supervisory Board has any potential conflict of interests.

### **6.9. Independent Advice**

The Supervisory Board and its committees can retain independent legal counsel, accounting, or other consultants to advise the Supervisory Board when necessary. The Bank will meet the costs of independent professional advice obtained jointly or severally where such advice is necessary to enable the obligations imposed on an individual(s) to be properly fulfilled. The existing procedure in this regard requires reference to the Corporate Secretary who will inform the member(s) of the existence of relevant advice already in the hands of the company or facilitate externally.

The Board of Directors shall allocate relevant budget for independent consultancy services for the Supervisory Board during the budget planning process.

Information on required consultancy services and professional training shall be provided to NBG on annual basis.

### **6.10. Remuneration**

The General Meeting of Shareholders (hereinafter “GMS”) of the Bank approves the Remuneration Policy, incentive schemes, and performance-based bonuses linked to the Bank’s performance for the Supervisory Board members as well as for the executive directors and senior executives of the Bank. GMS shall be informed on all those cases when deviations from the policy took place, indicating the reasons for the deviations.

The Remuneration Policy covers an explanation of the fixed and variable components of remuneration, the maximum limit, if any, set for each remuneration component, criteria for determining the performance of governing body members, links between remuneration and



short term/long term performance, the terms and parameters of the annual bonus system and other non-monetary remuneration (shares, stock options, insurance, pension schemes, severance arrangements, and so on).

The Nomination and Remuneration Committee is responsible for ensuring that the Remuneration Policy is followed.

### **6.11. Board Effectiveness Review**

The Supervisory Board conducts an annual effectiveness review in order to evaluate the performance of the Supervisory Board as a whole, Supervisory Board committees, and of individual members. Annual evaluations may be independently facilitated. The independent external facilitator should be used at least once in three years. The performance evaluation process will differ from year to year but will normally take the form of a detailed questionnaire supplemented by individual interviews with each member of the Supervisory Board and Supervisory Board committees. The Chairman may hold private meetings with each member of the Supervisory Board to discuss the evaluation results and individual performance. Chairmen of the Supervisory Board committees are responsible for the evaluation of their committees. The Supervisory Board reports on the Supervisory Board's performance to the Shareholders General Meeting.

The Supervisory Board periodically reviews the Supervisory Board's and committees' structure, size, and composition and assesses the effectiveness of internal governance policies and practices.

Data used in the effectiveness review process and the results of the review should be published under Pillar 3 requirements and sent to the National Bank of Georgia.

### **6.12. Relations with Shareholders**

The Supervisory Board shall determine the date and the venue of the General Shareholders Meeting, the record date of General Shareholders Meeting, and other rights under the Georgian law and the Charter. The Supervisory Board shall encourage the shareholders to obtain information necessary for making a decision.

The Supervisory Board shall ensure the protection of the rights of separate shareholders and procedures related to the General Shareholders Meeting as stipulated by the law, the Charter, and internal regulatory documents.

The Chairperson of Supervisory Board shall ensure attendance of the members of the Board of Directors and the Supervisory Board (except the cases when they are absent for a valid reason) at the General Shareholders Meeting if this does not contradict the Law, the Charter, and the regulatory rules.

The General Shareholders Meeting shall be chaired by the Chairperson of the Supervisory Board and in case of his/her absence, the shareholders shall elect the Chairperson of the Meeting.

The minutes of the General Shareholders Meeting shall be available for the shareholders of the Bank within no later than one month after the meeting.

The decision made by the General Shareholders Meeting may be revealed through the announcement made by the Chairperson of Supervisory Board or the Secretary of the Meeting. The Supervisory Board shall pay attention to the attendance and the speech of the external audit at the General Shareholders Meeting during which the annual financial report is discussed. The external audit may need to respond to questions related to the authenticity of its financial reports at such meeting.

## **7. BOARD COMMITTEES**

To carry out its activities more effectively and efficiently, the Supervisory Board can set up committees in addition to those that must be set up according to the acting legislation. The name, the field of activities, and the powers of the committee as well as the number and competencies of its members, and as needed, the operational procedures, will be determined according to the Policy.

The Supervisory Board shall be collectively responsible for decisions made and activities implemented by the Committees. The Committee shall only exercise such powers that are explicitly attributed or delegated to it and its actions as a whole shall not exceed powers of the Supervisory Board. Decisions that, by law, shall be taken by the Supervisory Board shall not be delegated to the Committee.

Each Committee shall provide information to the Supervisory Board explicitly and in a timely manner about the form of using the delegated authority and of any major development in the area of its responsibilities. Each Supervisory Board member shall have unrestricted access to all Committee meetings and all records. The Supervisory Board shall receive a report from each Committee of its deliberations and findings.

Each committee shall have a clearly documented statute defining its mandate and activities, including but not limited to the issues such as reporting to the Supervisory Board, restrictions on committee membership, the roles, and responsibilities of the committee members.

The committee statutes shall be regularly reviewed by the committee members, particularly concerning committees' duties and responsibilities.

The Supervisory Board shall periodically review the composition of the committees. Plans for continual refreshing of the Board should be seen as a natural process of change and development for maintaining an effective board by bringing in new skills and experience.

The Supervisory Board committees should be provided with requested information by the Bank. Besides, they should be able to meet with the Bank's control functions, external consultants, or external auditors, without attendance by members of the Board of Directors.

Committees should have unrestricted access to any information of the Bank. Additionally, they should be able to meet the control functions of the Bank without executive directors being present.

A sufficient number of independent members of the Supervisory Board shall be represented in the committees, who shall have a leading role in the committees' activities. Committees shall include at least 3 (three) members of the Supervisory Board and shall have sufficient powers to enable them to fulfill their duties and responsibilities properly.

Besides, chairmen of Audit and Risk Management Committees shall be independent members of the Supervisory Board.

The final responsibility concerning the decisions of the Supervisory Board committees is vested upon the Supervisory Board.

## **7.1 THE AUDIT COMMITTEE**

The Supervisory Board established the Audit Committee to support the Supervisory Board to apply effective corporate reporting and internal controls.

### **7.1.1. Roles and Responsibilities of the Committee**

The Audit Committee focuses on financial reporting, internal and external audits. The main roles and responsibilities of the Committee are to define the Bank financial accounting policy and its approach to internal controls, oversee the financial reporting process, approve financial statements prior to their publication, provide oversight of the Bank's internal audit function, review and approve the internal audit scope and plan, interact with the Bank's external auditors, approve or recommend to the Supervisory Board the appointment, remuneration and dismissal of external auditors, receive internal audit reports and ensure that the Bank's management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other issues identified by internal and external auditors or other control functions, oversee the establishment of Bank accounting policies and practices, review the third-party opinions on the design and effectiveness of the overall risk governance framework and internal control system, ensure adequate functioning and independence of internal and external audits and their effective cooperation, review recommendation letter prepared by external audit and monitor that managers take corrective actions to solve the problem. The members of the Audit Committee should have free and unfettered access to senior management, the internal audit, and all risk management functions. The Audit Committee has a particular role, acting independently from the executive directors, to ensure that the interests of shareholders are properly protected concerning financial reporting and internal controls.

The Audit Committee should review whistleblowing procedures, by which staff of the Bank can confidentially, raise concerns about possible financial reporting or other improprieties. The Audit Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and an appropriate follow-up actions.

The core functions of the Audit Committee are concerned with oversight, assessment, and review of other functions and systems in the Bank.

The Audit committee should annually review the independence of the external auditors and publish information in the Pillar 3 reports particularly on: a. the aggregate amount of fees paid to the external auditors for that financial year, b. a breakdown of the fees paid in total for audit and non-audit services respectively, or a negative statement in the company's Annual Report. Where the external auditors also supply a substantial volume of non-audit services to the Bank, the audit committee should keep the nature and extent of such services under review, seeking to maintain objectivity and avoiding conflicts of interest.

The Audit Committee is required to assess internal audit function performance at least annually.

### **7.1.2. Composition of the Committee**

The Audit Committee consists of at least three members, the majority of whom are independent members of the Supervisory Board. The Chairman of the Audit Committee shall be independent and at the same time shall not be the Chairman of the Supervisory Board and/or of any other committee. At least two members of the Audit Committee, including the Chairman of the Committee, shall have financial education and experience and the ability to analyze financial statements.

Appointments to the committee are made by the Supervisory Board on the recommendation of the Nomination and Remuneration Committee. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

### **7.1.3. Restrictions**

Acting or former partner/director of the Bank's current external audit firm, who was involved in the Bank's auditing service, may not be a member of the Bank's Audit Committee:

- within 12 months after leaving the position of the partner/director of the audit firm; or
- if despite of leaving the position, he/she has any financial interest in the audit firm.

### **7.1.4. Committee Meetings**

The Committee should meet at least quarterly taking into account key dates of the financial reporting and audit calendar. As a general rule, sufficient time should be allowed between Audit Committee meetings and meetings of the Supervisory Board to allow any work arising out of the committee meeting to be carried out and reported to the Supervisory Board as appropriate.

Only the Chairman and members of the Audit Committee are entitled to attend meetings of the Committee. It is for the Committee to decide whether other individuals should be invited to attend a particular meeting or a particular agenda item.

The Committee usually meets at least two times a year with senior management. The lead audit partner of the external auditors could also attend a particular meeting or a particular agenda item. The Committee also meets once a year to review and approve the audit plan for the following year for the internal and external auditors and annually appraises the effectiveness of the external auditors.

### **7.1.5. Relationship between the Committee and the Supervisory Board**

The Audit Committee and Internal Audit Department report to the Supervisory Board at least quarterly on how they have discharged their responsibilities. Such reporting includes the significant issues concerning the financial statements, how they were addressed, assessment of the effectiveness of the external audit process. The Committee recommends the appointment or reappointment of the external auditor and on other issues where the Supervisory Board has asked for the Audit Committee's opinion.

## **7.2. THE NOMINATION AND REMUNERATION COMMITTEE**

The Supervisory Board establishes Nomination and Remuneration Committee to help the Supervisory Board to apply a formal, rigorous and transparent procedure for the appointment, succession and setting over-arching principles and parameters of the remuneration policy for the members of the Supervisory Board, Supervisory Board committees, for executive directors of the Bank as well as other responsibilities as defined by the Committee Statutes.

### **7.2.1. Roles and Responsibilities of the Nomination and Remuneration Committee**

Appointing new member of the Supervisory Board is a matter for the GMS, though the committee is responsible for identifying candidates to fill vacancies on the Supervisory Board and nominate them, evaluate the balance of skills, knowledge and experience on the Supervisory Board, and on the basis of this evaluation, prepare a description of the role and capabilities required for the particular appointment, review the time required from a NED, consider candidates for appointment from a wide range of backgrounds, give full consideration to succession planning, regularly review the structure, size and composition of the Supervisory Board, and make recommendations for any changes to the Supervisory Board, keep under review the leadership needs of the Bank, both executive and non-executive, with a view to ensuring that the Bank remains competitive, make available its terms of reference, explaining clearly its role and the authority and ensure that on appointment to the Supervisory Board, NEDs receive a formal letter of appointment, setting out what is expected of them, including time commitment and membership of the Supervisory Board committees.

The committee is responsible for providing recommendations to the Supervisory Board on appointments of executive directors of the Bank, review the nominations, and reasons for resignations, ensure there are adequate policies and procedures relating to the engagement, dismissal and succession of the executive directors, and be actively involved in such processes.

### **7.2.2. Remuneration Policies**

The committee is responsible for drafting and recommending for approval to the GMS the over-arching principles and parameters of the remuneration policy. The policy is designed to support the delivery of business strategy and thereby create value for shareholders. The committee has responsibility for recommending the remuneration for all executive directors and other senior executives or material risk-takers. The committee also recommends any changes to incentive and benefits plans applicable to senior executives.

The Committee regularly reviews and submits recommendations to the Supervisory Board to ensure compliance of the Bank's remuneration policies with international and regulatory standards.

The Committee submits recommendations to the Supervisory Board on annual basis on the remuneration of the members of the Board of Directors and other material risk-takers.

The committee cooperates with the Bank's Risk Management Committee to assess the motivator factors of the remuneration system. The Risk Management Committee, independent

of the HR and Remuneration Committee, checks whether motivator factors of the remuneration system takes into account risks, capital, liquidity, revenue forecast, and time distribution.

The Bank's remuneration system shall promote healthy corporate governance and risk management practices, system should comply with the Bank's activities, risk strategies, goals, values , and long-term interests of the Bank. The remuneration system should not encourage excessive risks taking.

The Bank shall have a documented remuneration policy, which, in addition to other matters, shall include remuneration, including fixed and variable payments, bonus system elements, and payment schedules and periodicity. The remuneration policy shall ensure that the remuneration of employees of control functions does not create the risk of prejudicing the independence of such employees. To maintain the independence of control functions, remuneration of employees should not be dependent on the financial performance of business lines, the performance of which are checked and monitored by these functions.

The Supervisory Board is responsible for monitoring the effective functioning of the remuneration system by the Board of Directors.

Remuneration of members of the Supervisory Board shall take into account the engagement level, responsibilities, efforts, and time commitment of the members. Remuneration of members of the Supervisory Board shall include only fixed remuneration. In addition to remuneration for the membership of the Supervisory Board, the Supervisory Board member may receive additional remuneration, if the member is the chairman, deputy chairman, member, or chairman of the Supervisory Board committees. At the same time difference between the annual remuneration of members of the Supervisory Board on the above-listed positions and the total annual remuneration of other members of the Board who are not on the above positions should not be more than 30%.

In discharging its responsibilities, the committee works with and seeks advice from the Supervisory Board and board committees on the management of remuneration risk, including advice on setting performance objectives in the context of incentives.

### **7.2.3. Composition of the Committee**

The committee consists of at least three members. All its members should be professionals other than Executive Directors, including at least one such director who is determined by the Supervisory Board to be a 'financial expert' and who has 'recent and relevant financial experience'. Appointments to the committee are made by the Supervisory Board. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

### **7.2.4. Committee Meetings**

There should be at least quarterly meetings each year. Only the Chairman and members of the committee are entitled to attend meetings. It is for the committee to decide whether other individuals should be invited to attend a particular meeting or a particular agenda item.

### **7.2.5. Relationship between the Committee and the Supervisory Board**

The committee reports to the Supervisory Board on a quarterly basis on how it has discharged its responsibilities.

## **7.3. THE HR COMMITTEE**

The Supervisory Board establishes HR Committee to provide to the Supervisory Board preliminary examinations and recommendations with respect to priority tasks of the human resources management and remuneration policies.

### **7.3.1. Roles and Responsibilities of the HR Committee**

Review quarterly HR Reports, grading system, recruitment, retention and termination policies, the list of the external consultants related to HR Services, ensure the effective participation of the members of the Boards in implementation of the priority tasks of the Human Resources and policies of the Bank, review any proposals, with respect to any major improvements in the Human Resources policy of the Bank, review market analysis, compare the salary levels and employee incentives in the Bank and those in other similar companies, review both internal and external audit finding related to HR issues and review the Bank's draft internal documents that govern the Bank's Human Resources and provide recommendations.

The committee is responsible for providing recommendations to the Supervisory Board.

### **7.3.3. Composition of the Committee**

The committee consists of at least three members. All its members should be professionals other than Executive Directors, including at least one such director who is determined by the Supervisory Board to be a 'financial expert' and who has 'recent and relevant financial experience'. Appointments to the committee are made by the Supervisory Board. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

### **7.3.4. Committee Meetings**

There should be at least quarterly meetings each year. Only the Chairman and members of the committee are entitled to attend meetings. It is for the committee to decide whether other individuals should be invited to attend a particular meeting or a particular agenda item.

### **7.2.5. Relationship between the Committee and the Supervisory Board**

The committee reports to the Supervisory Board on a quarterly basis on how it has discharged its responsibilities.

## **7.4. THE RISK MANAGEMENT COMMITTEE**

The Supervisory Board established the Risk Management Committee to provide assurance to the Supervisory Board that risk management and processes for control over risk are effective.

### **7.4.1. Roles and Responsibilities of the Committee**

The responsibilities of the Risk Committee are to advise the Supervisory Board and assist in discharging its duties and responsibilities regarding risk management, i.e. where risk areas seem to require particular attention, make recommendations to the Supervisory Board, discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the Supervisory Board thereon, and on the Bank's overall current and future risk appetite, report on the state of risk culture in the Bank and review the Bank's risk policies at least annually, oversee that the management has in place processes to promote the Bank's adherence to the approved risk policies, provides recommendations to the Supervisory Board regarding the risk strategies and effectiveness of the policies, including distribution and keeping adequate level of capital for identified risks, monitor the strategies for capital and liquidity management, additionally, all other types of risks including credit, market, operational and reputational risks, in order to ensure adequacy with risk appetite, provide information to the Supervisory Board to help with strategy formulation, for example with regard to risk appetite in the company's strategy, require management to manage risks within the Supervisory Board guidelines for risk appetite, assess risks, review risk register, set decision-making authorization limits, cooperate with and monitor the activities of the Chief Risk Officer, monitor performance of management, review findings of internal audit, ensure risk management system exists and is effective, ensure that the business is being managed within the risk guidelines set by the Supervisory Board and monitor the risk management system to ensure that it is effective, and achieves its purpose. The Risk Management Committee should receive regular reporting and communication from the CRO and other relevant functions about the Bank's current risk profile, the current state of the risk culture, utilization against the established risk appetite, and limits, limit breaches, and mitigation plans.

The Risk Committee must have free and unfettered access to senior management, risk and financial control personnel, and other parties (internal and external) in carrying out its duties.

### **7.4.2. Composition of the Committee**

The committee consists of at least three members, the majority of whom are independent members of the Supervisory Board. The Chairman of the committee shall be independent and shall not be the Chairman of the Supervisory Board and/or other committees at the same time. Appointments to the committee are made by the Supervisory Board on the recommendation of the HR and Remuneration Committee. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

### **7.4.3. Committee Meetings**



There should be at least quarterly committee meetings each year. It is for the committee to decide whether other individuals should be invited to attend a particular meeting or a particular agenda item.

The Chief Risk Officer and Head of the Internal Audit Department shall be invited to all meetings of the Risk Management Committee.

#### **7.4.4. Relationship between the committee and the Supervisory Board**

The committee reports to the Supervisory Board on a quarterly basis on how it has discharged its responsibilities.

The Risk Management Committee should provide a report about material risks and other identified significant issues, including the structure of internal control systems and risk management, effective functioning, continuity, and generally about the risk culture in the Bank to the Supervisory Board at least once a year.

### **7.5. STRATEGY AND BUDGET COMMITTEE**

The Supervisory Board established the Strategy and Budget Committee to provide assurance to the Supervisory Board that the strategic plan is prepared following the vision of the shareholders of the Bank and the annual budget is prepared under the approved strategic plan.

#### **7.5.1. Roles and Responsibilities of the Committee**

The responsibilities of the Strategy and Budget Committee are to advise the Supervisory Board and assist in discharging its duties and responsibilities. The committee is created to ensure control over preparation and effective execution of the Bank's strategy plan, control over implementation and effective execution of the Bank's annual budget, review of all the project of changes proposed by the Board of Directors to the strategy plan/annual budget and advise the Board accordingly, report on execution of the strategic plan to the full Board.

Due to the importance of the Environmental, Social and Governance Standards (ESG) and Corporate Social Responsibility, which also implies the principle of healthy and responsible lending, the Bank should take into account the Environmental, Social and Governance (ESG) issues while developing its Strategy Plan and shall integrate sustainability issues, the environmental, social and governance factors in their long-term strategic development plan within its Corporate Social Responsibility (CSR).

#### **7.5.2. Composition of the Committee**

The committee consists of at least three members. All its members should be professionals other than Executive Directors appointed by the Supervisory Board. Appointments to the committee are made by the Supervisory Board on the recommendation of the HR and Remuneration Committee. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

#### **7.5.3. Committee Meetings**

There should be at least quarterly committee meetings each year. It is for the committee to decide whether other individuals should be invited to attend a particular meeting or a particular agenda item.

#### **7.5.4. Relationship between the committee and the Supervisory Board**

The committee reports to the Supervisory Board on a quarterly basis on how it has discharged its responsibilities.

All committees have statutes containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members.

### **8. THE BOARD OF DIRECTORS**

The Bank understands that day-to-day management of the Bank requires strong leadership from the CEO and the other members of the Board of Directors. It also recognizes the challenge and complexity of running the Bank and believes in teamwork, a collective rather than an individual approach. The Bank has thus established the Board of Directors, chaired by the CEO.

The CEO is the top executive with ultimate executive responsibility for the Bank's operations, compliance, and performance. The CEO serves as the main link between the Supervisory Board and the executive directors.

The Board of Directors has an important role in implementing and maintaining effective corporate governance practices in the Bank. It is responsible for the distribution of functions and responsibilities of the Bank's employees, and effective governance structure, which should ensure accountability and transparency. The responsibilities of the Board of Directors are defined and documented by the Supervisory Board to ensure that no single person has unfettered control of the business.

The Board of Directors, in cooperation with other functions of the Bank, implements the business strategies and creates effective financial and non-financial risk management systems, facilitates the development and establishment of risk culture, processes, and controls, provides the necessary information to the Supervisory Board to enable them to discharge their duties and responsibilities.

The Board of Directors is responsible for the allocation of responsibilities between the Bank's employees and for the development of an appropriate governance structure ensuring accountability and transparency in the Bank.

#### **8.1. Roles and Responsibilities of the Board of Directors**

The duties and responsibilities of the Board of Directors are to:

- Carry out the Bank's day-to-day business operations following the Georgian legislation, the Bank's strategy and strategic objectives, business plan, budget, internal normative documents and resolutions of the General Meeting of Shareholders and the Supervisory Board;

- Develop the corporate strategy and strategic objectives and submit it to the Supervisory Board for approval;
- Develop the business plan and submit it to the Supervisory Board for approval;
- Develop the annual budget and submit it to the Supervisory Board for approval;
- Present to the Supervisory Board and to the General Meeting of Shareholders financial statements together with Independent Auditors Report of the Bank;
- Submit to the Supervisory Board for approval transactions that go beyond the scope of corporate strategy and strategic objectives, business plan, and the budget (non-standard transactions);
- Report on delivery of performance against the corporate strategy and strategic objectives, business plan, and budget to the Supervisory Board;
- Approve day-to-day operational banking activities including attraction of borrowings, granting lending and trade finance products, approval of loan restructuring, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, implementation of equity investments
- in public companies and sign respective agreements within its decision making and signatory authority limits as approved by the Supervisory Board in Decision Making and Signatory Authority Matrix;
- Approve all kinds of technical assistance, service and purchase agreements, and know-how;
- Supervise units and/or departments of the Bank, ensuring that the Bank provides proper service to its customers;
- Solve the issues of the collateral seizure and take other appropriate measures to protect the Bank against losses;
- Take all reasonable measures to have up to date information on the financial standing of the Bank and make informed decisions on any matter concerning the operation of the Bank; in co-operation with the other governing bodies of the Bank, ensure the maintenance of the Bank's solvency and liquidity and ensure that all measures required for this purpose are taken;
- Ensure the existence of a proper system of risk control in the Bank following requirements of Georgian legislation;
- Prepare complete and accurate annual, semiannual, quarterly reports and other financial information;
- Prepare and submit proposals and draft resolutions, reports, and any other information or documentation requested by or to be presented to the Supervisory Board or the General Meeting of Shareholders;
- Review information provided by an internal or external audit of the Bank, the Audit Committee as well as an expert and/or advisor engaged by the Bank, as well as reports submitted by the managers of the Bank and take appropriate decisions;
- Approve and amend internal regulatory documents of the Bank except those related to privileges of the Supervisory Board;
- Develop internal regulatory documents of the Bank and submit them for the approval to the Supervisory Board;

- Develop and submit for approval to the Supervisory Board the Code of Ethics including whistleblowing procedures;
- Develop and submit the organizational structure of the Bank for approval to the Supervisory Board;
- Approval of structure, size, and composition of committees of the Board of Directors, including appointments and removals of the committee members; reviewing reports of the committees;
- Approve job descriptions for the managerial positions, work schedules, collective labor agreements;
- Decide on appointment, dismissal, and remuneration of the employees of the Bank, except members of the Board of Directors, determine any other matter related to the employees of the Bank;
- Recommend and submit for approval to the Supervisory Board the bonus pool for employees of the Bank, except for bonus amount to be disbursed to front-office function;
- Monitor compliance with the legislation, internal normative documentation, and implementation of resolutions of the General Meeting of Shareholders and the Supervisory Board;
- Execute and implement resolutions rendered by the Supervisory Board and the General Meeting of Shareholders;
- Perform any other duties imposed by the Supervisory Board and the General Meeting of Shareholders.

The Board of Directors shall act within the decision-making limits set by the Decision Making and Signatory Authority Matrix, approved by the Supervisory Board.

The activities of the Board of Directors are led by the Chairman of the Board of Directors who delegates tasks to the Directors with the approval of the Supervisory Board. The Chairman of the Board can select individual members of the Board for specific tasks. However, the Board has the collective responsibility for any decisions and activities undertaken by its members. Any member of the Board can only perform the duties (which are) clearly delegated to him/her and generally, they shall stay within the scope of the Board authority. Each member of the Board is accountable first and foremost to the Chairman of the Board, which is the connecting link between the Supervisory Board and the Board of Directors. At the same time, every member of the Board of Directors is responsible to the Supervisory Board.

The members of the Board of Directors shall:

- Act in good faith and perform their duties prudently in the best interests of the Bank and all the Bank's shareholders;
- Be free to perform their duties as a member of the Board effectively;
- Inform the Chairman of being a related party to any matter proposed for consideration by the Board and refrain from voting on such matter;
- Treat any information which becomes known to them or available as a result of working in the Board as strictly confidential;

- Be responsible for the management of the Bank and the exercise of powers delegated to them by the Supervisory Board;
- Be accountable to the Supervisory Board for their achievements and performance and work within the powers conferred to it by the Supervisory Board;
- Implement the Bank's strategic objectives, strategies, and policies;
- Not delegate their obligations partly or completely to others without preliminary consent of the Supervisory Board;
- Comply with the Georgian legislation, the Bank's Charter, and other internal normative documentation of the Bank during the implementation of their duties;
- Ensure that the information about financial violations and/or violations of the Code of Ethics of the Bank in their possession is delivered to the Chairman of the Supervisory Board;
- Provide suggestions, recommendations, opinions, and issue resolutions;
- Request documents, reports, explanations, and other relevant information from individual directors, the committee members, the Corporate Secretary and/or any other employee of the Bank;
- Invite the committee members, and/or any other employee of the Bank to the meetings of the Board to get explanations and clarifications on the agenda items when necessary;
- Utilize services of outside consultants, experts, and advisors, if necessary.

## **8.2. Membership, Composition, and Term of Office**

The Board of Director's composition (competencies, skills, and mix) is suited to the effective and efficient running of the Bank's day-to-day operations. Each member, including the CEO, has the experience, knowledge, qualifications, and expertise necessary to effectively discharge his or her duties.

Each member of the Board shall be appointed for the term of four years. Their re-appointment shall not be limited. The authority shall be prolonged until the calling of the next Supervisory Board meeting. The Supervisory Board may reappoint the member of the Board before the expiry of the above term. At the same time, any member may resign at any time.

The Supervisory Board concludes relevant agreements with the Directors. The agreement concluded with the Directors is not an employment agreement and as such shall be regulated by Georgian civil legislation and not by the Labour Code of Georgia. The Board shall be composed of at least three (3) Directors, the Chairman of the Board, who is at the same time Chief Executive Officer of the Bank and a member of the Board of Directors. The status and scope of activities of each member shall be defined at their appointment. The Supervisory Board shall be entitled to increase the number of members of the Board at any time.

The Bank's Directors shall manage and represent the Bank. The Bank representation authority shall be vested upon the Chairman of the Board of Directors (Chief Executive Officer), who is authorized to give power of attorney to any other director to act on his behalf for no longer than 3 weeks in a row.

The competence of the Directors shall be determined by the Charter and Georgian legislation currently in force. The Supervisory Board is authorized to approve the regulations of the Bank's managing bodies, which shall determine the rights and obligations of each Director and limitations of their power based on the principal provisions specified in the Charter of the Bank.

Any limitation of the right shall affect any third party only if such limitation is envisaged in this Charter or registered by the LEPL “National Agency of Public Registry”.

The candidate for membership of the Board shall comply with requirements set in the Bank’s Standard of Appointment of Administrators and with Regulation on Fit and Proper Criteria for Administrators of Commercial Banks, approved by the Order №50/04 of the President of the National Bank of Georgia (hereinafter referred to as “NBG”) on June 17, 2014.

The powers of the members of the Board may be terminated in one of the following ways:

- Resignation. A member of the Board may resign by giving respective written notice to the Chairman of the Supervisory Board at least thirty (30) calendar days before the date of resignation;
- Termination of powers. Powers of a member of the Board may be terminated by the decision of the Supervisory Board.
- Expiration of the term of office. Term of office of a member of the Board shall expire in different periods according to the Succession Plan developed by the Supervisory Board to avoid simultaneous replacement of members of the Board;

Supervisory Board shall elect a new member to the Board of Directors within no later than 6 (six) months after termination of the powers of a member of the Board.

All members of the Board of Directors have the:

- Trust of the Bank’s shareholders, Supervisory Board members, other managers and employees of the Bank;
- Ability to relate to the interests of all shareholders and to make wise and rational decisions;
- Professional expertise and education to be an effective manager;
- Business experience, knowledge of national issues and trends and knowledge of the market, products, and competitors; and
- Financial literacy;

### **8.3. Chairman of the Board of Directors**

The Supervisory Board shall elect one of the members of the Board of Directors as the Chairman of the Board of Directors. The Chairman of the Board of Directors is at the same time the Chief Executive Officer of the Bank.

The rights and responsibilities of the Chairman are determined by this Statute, the Charter of the Bank, and Georgian legislation.

The Chairman of the Board shall:

- Advise the Board and be involved in decision-making;
- With the assistance of HR and Remuneration Committee, supervise the process of appointment of new members of the Board and recommend candidates for approval to the Supervisory Board;
- Ensure that new members of the Board receive full, formal, and tailored induction upon appointment;
- Assess particular training and development needs for members of the Board;

- Review governance processes to ensure they are fit for purpose and recommend or develop initiatives to strengthen and promote high standards of governance within the Bank;
- Conduct periodic performance assessment of members of the Board and report to the Supervisory Board;
- Hold private meetings with each member of the Board to discuss individual performance assessment results;
- Discuss cases of internal disputes and conflicts of interests related to members of the Board, including the issue of the possible resignation of such members;
- Call meetings of the Board, determine the agenda and sign the minutes adopted by the Board;
- Chair meetings of the Board;
- Summon and organize meetings of the Board, ensure respective meeting minutes are documented;
- Ensure compliance of decisions with the Bank's strategy, business plan and the budget;
- Supervise the implementation of the decisions adopted by the Supervisory Board;
- Report to the Supervisory Board on behalf of the Board;
- Carry out consultations with the Supervisory Board and Committees on behalf of the Board;
- Act on behalf of the Bank in relation to the state or other bodies;
- Act on behalf of the Bank without power of attorney, sign the agreements, open bank correspondent accounts, manage cash flow, give the power of attorney and other actions to the Bank employees as deemed necessary;
- Hire employees, sign, cancel or extend employment contract, introduce schemes of vacations, professional developments, training, business-trips, take decisions on administrative fines within the scope of his/her authority;
- Participate in the Supervisory Board and Supervisory Board committee meetings upon request;
- Ensure settlement of issues raised by internal committees and working groups;
- Send information to the Bank's Shareholders upon request needed for relevant decision making;
- Approve information to be published on the Bank's website, except of those approved by the Information Disclosure Policy of the Bank;
- Handle matters related to the ordinary management of the Bank;
- Execute any other duties according to the Bank's Charter and other internal normative documents of the Bank;
- Ensure the organizational-technical activities of the General Meeting of Shareholders, the Supervisory Board, Audit, and any other committees of the Supervisory Board;
- Fulfills other responsibilities as prescribed by the applicable law and internal regulations of the Bank.
- In absence of the Chairman of the Board, rights, and obligations of the Chairman shall be vested upon any two Directors acting jointly unless specified otherwise in the relevant internal order of the Bank.

#### **8.4. Chief Risk Officer**

The Bank shall appoint a CRO who shall be responsible for monitoring the effective implementation of the Bank's risk management policies. CRO shall have sufficient authority, access, and direct reporting line to the Supervisory Board and the Risk Management Committee. CRO is responsible to oversee the effective functioning of the Bank's risk management, including but not limited to providing training for employees for risk management systems, policies, processes, quantitative models, and reports, which are necessary for ensuring that the Bank risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all risk-taking activities. CRO should have sufficient status and authority within the organization, unfettered access, and, for functional purposes, a direct reporting line to the Supervisory Board and the Risk Management Committee. The CRO should meet with the Risk Management Committee of the Supervisory Board regularly, with and without the CEO or other members of Senior Management present. He/she may have meetings with members of the Supervisory Board and the Risk Management Committee without attendance by members of the Board of Directors. Appointment, dismissal, and any other changes shall be approved by the Supervisory Board taking into account the recommendation of the Risk Management Committee. The CRO's performance, compensation, and budget should be reviewed and approved by the Risk Management Committee or the Supervisory Board.

In case of dismissal of CRO, the reasons for dismissal shall be properly documented and the information shall be provided to NBG not later than ten working days after the decision is made. NBG is entitled to discuss reasons of dismissal with relevant parties. The Risk Management Committee is responsible to review and evaluate the performance of CRO.

During the decision-making process, including the decision-making process of the Credit Committee, CRO shall have veto powers on material decisions, if CRO reasonably believes that the decision prejudices / is not in compliance with the Bank's risk appetite. Such cases must be officially documented and provided to NBG, the Bank's Supervisory Board, and the Risk Management Committee.

CRO shall regularly report to the Supervisory Board, the Risk Management Committee, and the Board of Directors. These reports should be made available to NBG immediately upon request. CRO shall be among the five highest-paid directors.

#### **8.5. Reporting**

The Board shall report to the Supervisory Board on how it has discharged its duties and responsibilities on a quarterly basis.

The periodic reports to the Supervisory Board include but are not limited to:

- Financial Performance and Other Activities Report;
- Internal Audit Report;
- Compliance Report;
- Other reports as requested by the Supervisory Board.

#### **8.6. The Board meetings and decision making**



- The Board of Directors meetings shall be held in such a frequency as necessary for the relevant functioning of the Board, but at least once every two weeks.
- The Board meeting is summoned either as regular or extraordinary meetings.
- The notice of each Board meeting confirming the date, time, venue, and agenda must be forwarded to each member of the Board by the Secretary at least two working days before the date of the Board meeting. The notice shall include relevant and appropriate supporting documents for the agenda items to be discussed.
- Taking a decision may be postponed, if it was impossible to inform Board members in a timely manner, the Board members did not receive the necessary information on time, or Board members were not given enough time to prepare for the meeting.
- Each member of the Board shall have a right to request convening general or extraordinary Board meetings and add items to the agenda.
- In case of indispensable necessity and due to the best interests of the Bank the extraordinary Board meetings may also be called. In this case, the notice shall be sent a minimum one working day prior to the meeting, provided that the Board members do not object to such accelerated terms. If the extraordinary Board meeting is summoned, members of the Board shall receive the memo from the requesting body/individual providing details of the necessity of summoning the Board meeting within accelerated terms.
- The Chairman may refuse to convene an extraordinary meeting in one of the following cases: Proposed agenda item is not within the competence of the Board; Proposed agenda item has already been included in the agenda of the next regular meeting scheduled by the Chairman before the receipt of the said call for the meeting; Procedure for submitting a request for the meeting has not been observed.
- The meetings shall be held at any place. The meetings may be held by means of a telephone conference, video-conference, e-mail, or other communication tools considering that participants of the meeting will have a possibility to communicate with each other simultaneously and in case members of the Board are not against such form of decision-making.
- The Board members, who participated in the meeting, shall have no right to request annulment of the decision on the ground that they received the notification in violation of the stated rules.
- If requested so by the Board, other employees of the Bank may also attend the meetings.
- The member of the Board may not be represented by the other delegated person. If the member of the Board often fails to attend the meetings, the Chairman shall raise an issue of his/her responsibility.
- The meetings shall be led by the Chairman or in case of his/her absence, by one of the members elected by the Chairman.

### **8.7. Quorum and voting**

- The Board shall be authorized to make decisions if at least 51% of its members are present or represented. Each member of the Board shall have one vote.

- The Board shall not decide on the field of specialization of a certain member of the Board in case of absence of the latter. The Board shall try to adopt a unanimous decision.
- If some members of the Board are against the resolution of majority members, she/he shall provide members with a clear explanation. The provided explanation shall be recorded in the Minutes.
- When a decision is not unanimous, and the legislation does not provide for a larger majority, decisions of the Board are adopted by a simple majority of votes. If the number of the votes is equal, the Chairman's vote shall be deemed decisive.
- If the Board does not achieve quorum on the agenda item, the Corporate Secretary shall call the Supervisory Board meeting for final decision-making.
- The Board meeting can take a decision only when the majority of its members are present at the meeting. Refusal to take part in the voting shall not be allowed.
- In case the member of the Board is unable to attend the Board meeting physically, or either by means of video or telephone conference, the secretary of the Board shall propose him/her participation via e-mail communication, in which case a written opinion unambiguously representing the position of the Board member shall be sent to the Secretary. The absent member's vote shall be counted towards the quorum only if the latter submits a vote by indicating precisely whether he/she votes "for" or "against" approval of the agenda item.
- The latest when a written opinion of a member of the Board can be received by the secretary is prior to or at the beginning of the Board meeting.
- The decision can only be known to the other parties by the declaration of the Chairman of the Board or Corporate Secretary.

### **8.8. Minutes**

The secretary shall draft the minutes. The minutes shall include information on place and time of the meeting, whether the meeting is held by means of communication, names of members present, absent and other invitees, the agenda, summary of discussions, results of voting including explanations from member/s who is/are against the resolution/s worded clearly and unambiguously. The minutes shall rely on the audio records of the meeting.

The secretary shall draft the minutes within two working days after the meeting and send it to the Board members for review. The minutes shall be considered as approved if members of the Board do not express/submit disagreement concerning the content of the minutes within one working day after its dissemination. If the Chairman is unable to decide in regard to such disagreement, the decision shall be adopted at the following meeting.

The minutes shall be signed by the Chairman and the secretary.

The secretary shall inform the responsible person about the decision adopted by the Board by sending an appropriate extract from the minutes.

Control of performance of the orders of the Board shall be imposed on a person delegated by the Chairman, who may be a secretary of the meeting.

The minutes shall be available for the Internal Audit Department of the Bank and Independent External Auditor.

The minutes and supporting documents shall be kept by the secretary. The minutes, agenda, and supporting documents shall be made available to any member of the Board upon request to the secretary.

### **8.9. Committees of the Board of Directors**

The Board may establish standing and/or ad hoc committees, which shall have the obligation of fulfilling the duties determined by the Board. The Board shall approve the size and composition of committees of the Board, including appointments and removals of the committee members. Decisions that, by Georgian legislation, shall be taken by the Board shall not be delegated to the committees.

The Board of Directors shall be collectively responsible for decisions made and activities implemented by the Committees. The Committee shall only exercise such powers that are explicitly attributed or delegated to it and its actions as a whole shall not exceed powers of the Board of Directors.

Each member of the Board shall have unrestricted access to all committee meetings and records.

Each committee shall provide information to the Board explicitly and on time about the form of using the delegated authority and of any major development in the area of its responsibilities.

The Board shall periodically receive a report from each committee of its deliberations and findings.

The Board shall establish statutes for each committee, indicating the role and the responsibility of the committees, its composition, and the manner in which it performs its duties.

### **8.10. Other Positions**

Members of the Board are not allowed to be the administrators of any other commercial bank, credit union, or/and other enterprises.

Members of the Board are allowed to be members of the Supervisory Board in no more than six (6) Bank related companies.

### **8.11. Succession Planning**

The Supervisory Board adopts a succession plan that outlines how it will effectively deal with either the temporary or permanent loss of the CEO and other directors. To assist in this process, the CEO is to provide the Supervisory Board with a list of individuals best suited to replace the Bank's key positions, including the position of the CEO. The succession plan goes beyond simply naming a deputy and entails coaching, mentoring, and exposure to the executive directors.

## **9. THE INTERNAL AUDIT DEPARTMENT**

The Bank views internal audit as an independent appraisal activity established within an organization to examine and evaluate the adequacy and effectiveness of internal controls. The Internal Audit provides an objective appraisal service function to all levels of the Bank

management and the Audit Committee by providing independent, objective assurance on the effectiveness of internal controls in mitigating risks of significant processes, by consulting management on best practices to improve the effectiveness and efficiency of the Bank's operations, to protect the assets and integrity of the Bank and determine the compliance of the Bank's financial, economic, administrative and other activities with current legislative acts.

Internal Audit Department assists management with the evaluation of internal controls used to detect or mitigate fraud, evaluates the Bank's assessment of fraud risk and is involved in fraud investigations.

The Internal Audit Department has the right to determine the forms and methods of conducting the audit engagements, obtain any kind of information/documentation

necessary for conducting the audits, obtain necessary assistance of personnel in all departments, structural units and functions of the Bank where the Internal Audit Department performs audits, keep the necessary evidence for further investigation purposes in case of suspicions for the fraud, maintain relations with the regulators, the Audit Committee, the Supervisory Board, the Board of Directors, other departments of the Bank and external auditors, meet with any employee of any department and members of the Board of Directors in order to discuss relevant issues.

Internal audit should regularly evaluate reporting processes and satisfy itself that the reports prepared by the Bank's management are timely, accurate, reliable, and appropriate both for the Bank's management and shareholders.

The Internal Audit Department reviews the internal control system, carries out independent checks of internal controls in the Bank, or in a particular process or system in order to establish whether suitable controls exist and are applied properly and effectively. The Internal Audit Department conducts VFM audits of operation or activity to establish whether it is economical, efficient and effective, reviewing compliance by the Bank with particular laws or regulations, an investigation into the effectiveness of compliance controls. Internal Audit Department might be asked to investigate aspects of risk management and in particular the adequacy of the mechanisms for identifying, assessing, and controlling significant risks to the Bank, from both internal and external sources. Internal Audit Department might conduct special-purpose audits to provide their opinion on concrete and particular areas of interest, might be asked to investigate the timeliness of reporting and the accuracy of the information in various reports.

Internal auditors should address all requests and requirements of the regulators pertaining to them.

The internal audit function reports to the Audit Committee. The Audit Committee makes decisions on appointment, dismissal, evaluation, and compensation of the Head of Internal Audit Department, ensures that the Head of Internal Audit Department has direct access to the Chairman of the Supervisory Board and the Audit Committee, and is accountable to the Audit Committee and the Supervisory Board.

The Audit Committee reviews and approves the annual Internal Audit plan, receives audit engagement reports, reviews and monitors the responses of management to the audit recommendations, meets with the head of Internal Audit Department at least once a year without the presence of executive management, monitors and assesses the effectiveness of the internal audit function.

The Internal Audit Department shall have unlimited and full access to any information, data, and records of the Bank.

The Board of Directors or other executive structures of the Bank shall abstain from recommending the remuneration of the Internal Audit Department's employees.

The Bank shall notify NBG about the fact of dismissal of the Head of the Internal Audit Department and the reasons for dismissal within ten working days after the decision is being adopted.

The employees of the Internal Audit Department cannot participate in any governing body committees.

## **10. THE CORPORATE SECRETARY**

The Corporate Secretary contributes to the correct and effective working of the Bank's governing bodies. The Corporate Secretary reports to the Supervisory Board and provides informational and administrative support to the Bank's governing bodies. The Corporate Secretary has a range of different responsibilities, including the administration matters such as recording accurate and sufficient documentation to meet legal requirements (record management) and providing support for board meetings, however, his/her primary responsibilities are specifically related to corporate governance matters. The Corporate Secretary, along with the Chairman of the Supervisory Board, shall regularly review the Supervisory Board and the Bank's governance processes with a view to ensuring they are fit for purpose and recommend or develop initiatives to strengthen and promote high standards of governance within the Bank. The Corporate Secretary is responsible for advising the Supervisory Board through the Chairman on all governance matters. He/she shall have a full understanding of corporate governance requirements and should be able to identify governance issues that arise and advise the Supervisory Board accordingly.

As good corporate governance relies on communication and the exchange of information, the Corporate Secretary shall help ensure that this happens. By attending board meetings and committee meetings, she/he shall ensure that relevant information is passed from the Supervisory Board to committee or from one committee to the Supervisory Board or another committee. By acting as a point of communication and contact for NEDs, the Corporate Secretary shall also be able to contribute to the flows of information between NEDs and executive directors in the Bank. The Bank has thus developed a procedure for periodic reports (information briefs) from the CEO and the Board of Directors to the Supervisory Board. The Supervisory Board shall further have unrestricted access to the Bank's management and its employees. The Corporate Secretary plays a key, overall role in facilitating this process.

The Corporate Secretary is responsible for ensuring that accurate and sufficient documentation exists to meet legal requirements and to enable authorized persons to determine when, how, and by whom the Supervisory Board's business was conducted. In order to fulfill these responsibilities, the Corporate Secretary records minutes of meetings, ensures their accuracy, and availability (records should include information on the final decision as well as attitudes/arguments of members opposed with decisions. Given information should be provided immediately as soon as it is accessible, but no later than ten days to the NBG, which has the authority to require providing additional information), proposes policies and practices, submits

various reports to the Supervisory Board, maintains membership records, fulfills any other requirements of a Supervisory Board members, and performs other duties as the need arises.

The Corporate Secretary provides dedicated support for the Supervisory Board and is a point of reference and support for all directors. The Corporate Secretary shall consult regularly with directors to ensure that they receive any necessary information and shall work with the Chairman of the Supervisory Board, Chief Executive Officer, and management to ensure the presentation of high-quality supporting information to the Supervisory Board and its committees. The Supervisory Board may obtain information from external sources, such as consultants and other advisers, if there is a need for outside expertise, via the Corporate Secretary or directly. The Supervisory Board adopted the Corporate Secretary Statute, providing for a detailed description of her/his rights and responsibilities, the list of his or her functions, the required background, and qualifications.

The Chairman of the Supervisory Board and the Chairman of the Board of Directors are responsible for the performance appraisal of the Corporate Secretary.

### **10.1. Independence of the Corporate Secretary: appointment and removal**

The Corporate Secretary should not be a member of any governing body of the Bank, have a decision-making role within it, or be otherwise associated with it in a manner that may impede him/her from performing his/her duties in an unbiased way.

The authority to appoint and dismiss the Corporate Secretary is vested with the Supervisory Board.

In matters relating to his/her duties, the Corporate Secretary should, through the Chairman, be accountable to the Supervisory Board as a whole; As the Corporate Secretary has additional executive responsibilities to their core role, he/she reports to the CEO on such matters.

## **11. SHAREHOLDER RIGHTS**

The Bank treats every shareholder fairly and equally. The Bank ensures that the basic rights of the shareholders are observed: all shareholders have the right to participate at the General Meeting of Shareholders, receive dividends, equal voting rights on a pro-rata basis, a right to elect and be elected, a right to obtain information, a right to request redemption of shares, preemptive right in the purchase of newly issued shares, a right to request examination of the Bank's activity, a right to receive residual value at liquidation.

Information about the activities and the management of the Bank will be given to the shareholders, in compliance with the Charter of the Bank. The Bank will inform the shareholders on the economic activities and on the development of the Bank and its associated companies in a consolidated way.

## **12. SHAREHOLDER STRUCTURE**

JSC PASHA Bank Georgia is the subsidiary bank and its 100% shares are solely owned by OJSC PASHA Bank (the "Parent").

### **13. GENERAL MEETING OF SHAREHOLDERS**

The detailed shareholder structure of the Bank, including ultimate shareholders, is disclosed through the Bank's website.

**Preparation.** The Supervisory Board shall determine the date and the venue of the General Shareholders Meeting, the record date of General Shareholders Meeting, and other rights related to the securities in accordance with the Georgian law and the Charter. The Supervisory Board shall ensure the protection of the rights of separate shareholders and procedures related to the General Shareholders Meeting as stipulated by the law, the Charter, and internal regulatory documents. Every shareholder holding voting shares is entitled to participate and vote during the GMS, and receive the advance notification, an agenda, as well as accurate, objective, and timely information sufficient for making an informed decision about the issues to be decided at the GMS. The Supervisory Board will be responsible for this process, which is to be implemented by the Corporate Secretary.

**Holding the GMS.** The Bank takes all the steps necessary to support shareholder activism and facilitate the participation of all shareholders at GMS. The GMS is held at a time and place that are the most convenient for shareholders. Registration procedures are convenient and allow for quick and easy admittance to the GMS. The Bank ensures that all members of the Supervisory Board and the external auditor if requested by the shareholders are present during the GMS to answer questions. Each shareholder has the right to take the floor on matters on the agenda and submit relevant proposals and questions before the general meeting. The Chairman of the Supervisory Board chairs the GMS, he/she conducts the meeting professionally, fairly, and expeditiously.

Shareholders are able to obtain necessary information from members of the Supervisory Board and Board of Directors, as well as call an extraordinary General Meeting of Shareholders.

Shareholders are able to cast votes directly or by proxy. Nothing impedes shareholders from voting from abroad or by means of the power of attorney issued to another person.

**Results.** The voting results and other relevant materials are distributed to the shareholders and to the ultimate shareholders, either at the end of the GMS or very soon after the general meeting is held, as well as to the general public by posting them on the Bank's internet site.

### **14. DIVIDEND POLICY**

The Bank has formally developed and follows a dividend policy.

The Bank's dividend policy:

- Establishes a transparent, understandable, and predictable mechanism for determining the payment procedure and the amount of the dividends;
- Ensures that the dividend payment procedure is easy and efficient; and
- Provides for the complete and timely payment of declared dividends.

According to the dividend policy of the Bank on the distribution of profit, dividends can be paid to the extent of the financial structure of the Bank, the investments that would be made, the

specific circumstances of the sector, the economic conjuncture, and the legislation on Banking allows it.

## **15. EXTERNAL AUDIT**

The external audit is appointed by the SB. The external audit of the Bank is a publicly recognized independent auditing firm, where independent means free from any conflicts of interest, independence from the Bank, the Bank's management, and major shareholders.

The external audit shall be and remain independent. The Bank shall use the service of the external audit to the extent that this does not prejudice the independence of the external auditor. This requirement is based on the following principles: (a) The external audit shall be independent of the auditable client; and (b) The external audit shall be someone who is able, in the light of all relevant facts and circumstances, to form an objective and impartial opinion on all matters that fall within the scope of its assignment.

In order to prevent the external audit and the Bank from becoming too close, the number of years a person may be part of the audit team of the external audit shall be capped.

If the decision is taken about using the service of another external audit, the tender approved by the Audit Committee shall be held.

The Audit Committee is the principal contact with the external audit. The contact between the Supervisory Board and the external audit is carried out mainly through the Chairperson of the Audit Committee. The Audit Committee is the primary contact for the external audit if any irregularities are revealed in financial reports.

The Audit Committee and the Supervisory Board shall pay attention so that the recommendations made by the external audit are carefully considered by the Board of Directors and the Supervisory Board and, to the extent accepted, they are actually implemented by the Board of Directors. The Supervisory Board shall ensure that the external audit attends the part of the meeting of the Supervisory Board at which the report of the external audit with respect to the audit of the Annual Reports is discussed, and at which a decision is taken on the approval of the Annual Reports. The external audit shall receive quarterly (if any) and/or semi-annual financial reports, and other interim financial reports, and shall be given the opportunity to respond to all information.

At least once in three years the Supervisory Board and the Audit Committee shall undertake a complete analysis of the activity of the external audit. The main report of this evaluation shall be submitted to the Supervisory Board so that the latter is able to evaluate the issue of appointing the candidature of the external audit.

## **16. INFORMATION DISCLOSURE AND TRANSPARENCY**

The Bank believes that public disclosure of information contributes to market discipline and sound corporate governance, therefore the Bank commits itself to disclose complete, accurate, and material information about their activities to stakeholders in a timely manner.

The Bank introduced Information Disclosure Policy for the purpose of balancing transparency with its commercial interests. The policy establishes principles, procedures, and basic elements of information transparency and determines which officials or units are entitled to disclose information to investors, depositors, clients, shareholders, creditors, and other stakeholders.



## INFORMATION DISCLOSURE POLICY

**Purpose.** The purpose of the Information Disclosure Policy is to ensure the provision of the information which does not fall within the scope of the business secret to the stakeholders of the Bank under equal terms and conditions, correctly and clearly.

**Powers and Responsibilities.** The Information Disclosure Policy is developed and approved by the Supervisory Board. The powers and responsibilities for approval, monitoring, supervision, and development of the Informational Disclosure Policy belong to the Supervisory Board.

**Methods and Tools for Public Disclosure.** Information is provided by ways of information provision tools like financial statements and reports, annual and interim activity reports, websites, presentations, investors' meetings, information letters, and press bulletins.

The basic methods and tools that the Bank will use to enlighten the public are as follows:

- financial statements and their footnotes, independent audit reports, statements and interim activity reports, annual reports, the rating assigned to the Bank by an independent rating agency;
- The announcements published in the Georgian Legislation Journal "Legislative Herald of Georgia";
- Press statements via printed and visual media;
- The corporate website [www.pashabank.ge](http://www.pashabank.ge);
- Statements via communication methods and tools like telephone, electronic post, etc.

**Public Disclosure of Financial Statements.** The Bank's audited IFRS financial statements with accompanying notes are posted on the Bank's website at least on the annual basis. The Bank's original annual audited IFRS financial statements must be submitted to the NBG with accompanying official translation into the Georgian language. It is also NBG's requirement that Georgian commercial banks publish their annual financial statements in mass media.

**Public Disclosure of Information Regarding the Future.** In the event of public disclosure of information and the expectations for the future, the assumptions will be disclosed at the same time. Care will be taken to ensure that the disclosed information does not include exaggerated predictions, that it is not misleading, and is coherent with the financial situation and the operating results of the Bank.

## 17. WEBSITE

The Bank provides information disclosure for stakeholders on their activities as well as corporate governance issues, including by publishing relevant information on their website. In addition, the information on compliance with corporate governance standards and requirements should be disclosed through the Regulation on Disclosure Requirements for Commercial Banks within Pillar 3.

Information that would be disclosed to the public will be submitted to the public on the NBG's and the Bank's website, promptly, correctly, fully, clearly, and interpretably.

The information that is briefly stated below and which would be included in the website will be prepared in accordance with the provisions of the pertinent legislation and will be kept updated.

- Shareholding Structure;
- Information about the members of the Supervisory Board, Board of Directors and Supervisory Board Committees, Senior Management and the organizational structure;
- Statutes of the Committees of the Supervisory Board;
- Charter of the Bank, and the amendments to it;
- Financial reports;
- Independent Auditors' Report;
- Annual Reports;
- General Assembly meetings, the agenda, minutes;
- Announcements that have to be made according to the legislation;
- Corporate Governance Policy;
- Information Disclosure Policy;
- Code of Ethics.

## **18. INTERNAL NOTIFICATION SYSTEM AND COMMUNICATION LINE**

The communication line is a line that enables the Bank's stakeholders to contact when they encounter a risk that might be associated with risk management or compliance.

Notification must be communicated through the e-mail address [customercare@pashabank.ge](mailto:customercare@pashabank.ge) about all matters regarding the below mentioned and the violation of the ethical principles:

- Fraud;
- Corruption;
- Forgery;
- Unethical behavior;
- Incidents that give rise to a conflict of interests;
- In compliance with the legislation.

Stakeholders can freely communicate their concerns about any unlawful and unethical practices in the Bank, through the communication channel designated for this.

Compliance with the ethical principles and respective whistleblowing procedures are regulated by the Code of Ethics and the Whistleblowing Procedures of the Bank.

## **19. CONFLICT OF INTEREST**

A conflict of interest is a situation in which a person or a company occupies a position by means of which it is possible to gain personal or corporate benefit beyond normal contractual resulting from engagement with the Bank. Transactions with related parties should be considered as conflicts of interest.

No member of the Bank's governing bodies shall put himself/herself in a position where his/her interests conflict or may be perceived to conflict with those of the Bank.

The Supervisory Board members involved in any actual or potential conflict of interest or related party transaction should inform about it the Chairman of the Supervisory Board and refrain from voting on resolutions to approve them or from influencing the decision of other members.

Similarly, members of the Board of Directors involved in any actual or potential conflict of interest or related party transaction should inform about it the Chairman of the Board of Directors and refrain from voting on resolutions to approve them or from influencing the decision of other members.

The member of the governing body shall not take part in any discussion or decision-making (unless it is necessary for providing the essential information for decision-making) that involves the subject or the transaction in relation to which a conflict of interest with the Bank exists.

All transactions with conflicts of interest shall be agreed on terms that are customary for the commercial transactions of the banks in this area. The decisions to enter into such transactions with conflicts of interest with the members of the governing body shall be adopted in compliance with the Bank's Related Party Standard.

If members of the boards have doubts about whether a conflict or potential conflict may arise, they should consult the Chairman of the respective board or the Corporate Secretary, before doing anything that might compromise the Bank.

The Bank has developed Related Party Standard and respective procedures regulating transactions that may lead to a conflict of interests, as well as decision making on and disclosure of such transactions.

All transactions with conflicts of interest shall be agreed on terms that are customary for the commercial transactions of the banks in this area. The decisions to enter into such transactions with conflicts of interest with the Supervisory Board members require the approval of the Supervisory Board.

## **20. CONFIDENTIALITY**

Members of the Bank's governing bodies shall preserve the secrecy of confidential information, they are required to keep confidential the information, data, reports, and background information they come to know in the course of performance of their duties, and such information shall not be communicated to the third parties or be subject to disclosure. The member of the governing body shall not use confidential information for receiving personal benefit.

At the end of each member's term of office, s/he shall return all confidential documents in his/her possession to the Bank or guarantee their disposal in a manner that ensures protection of confidentiality.

The Bank shall take necessary measures to ensure that the appropriate agreements for the protection of confidential and inside information are signed with any third parties who participate in the Board meetings.

The confidentiality obligation survives departure from office or termination of the confidentiality agreement.

The member of the governing body may reveal such information to those employees, who shall be informed about the given information due to their activity in the Bank.

## 21. NORMATIVE REFERENCES

This Policy complements other internal normative documents of the Bank including, but not limited to:

- Charter;
- Code of Ethics;
- Schedule of Matter Reserved for the Board of Directors Decision;
- Decision Making and Signatory Authority Matrix;
- Audit Committee Statute;
- Strategy and Budget Committee Statute;
- Risk Management Committee Statute;
- HR and Remuneration Committee Statute;
- Standard on Appointment of Bank Administrators;
- Bank Related Party Regulation;
- Information Disclosure Policy;
- Remuneration Policy for Directors.

The Bank's set of internal regulatory documents follows legal and regulatory requirements and incorporates internationally recognized corporate governance practices.

### Final Provisions

The Policy is effective upon its approval by the GMS.

The responsibility to review the document for updates at least once in 2 years is vested upon the Corporate Secretary.

The Supervisory Board may amend this Policy, from time to time, upon recommendations from the Corporate Secretary, the Board of Directors, and/or any member of the Supervisory Board.

## Annex #1 to the Corporate Governance Policy [Definition of Independent Member](#)

All members of the Bank's Supervisory Board and the Supervisory Board committees should act independently when making decisions. It should not be permitted to take into consideration the private interests of a shareholder, customer, contractor, investor, or other related party when making business decisions. Members act independently if they effectively exercise their best judgment for the exclusive benefit of the Bank, judgment that is not clouded by real or perceived conflict of interest.

Independence of a person recommended by the Bank on the position of the Supervisory Board member shall be verified by the Bank before appointment in accordance with the National Bank of Georgia's Questionnaire on Independence (Annex to Standard of Appointment of Administrators) and the compliance analysis as stipulated by the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks.

"Independent member" means a member, when he/she or his/her relatives, who are first and second legal heirs under the Civil Code of Georgia<sup>[1]</sup>:

1. Is not a relative of administrators of the Bank or of the Bank's related companies;
2. Is not a relative of the person(s), who directly or indirectly hold significant shares of the Bank or of the Bank's related companies;
3. During last two years, did not have any personal relations (kinship, living together etc.) with the administrators of the Bank or those of the companies incorporated in the group, also with the person(s) holding significant share of the Bank or of the companies incorporated in the group;
4. Does not receive additional remuneration from the Bank other than fixed fee for membership of the Supervisory Board and the Supervisory Board committees;
5. Does not receive dividend for owning of the Bank's shares (owning less than 2% of the Bank's shares directly or indirectly);
6. During last two years, did not conduct business or did not have any other types of material business/commercial relationships<sup>2</sup> with the administrators of the Bank or the Bank's related companies;
7. During last two years, did not conduct business or did not have any other types of material business/commercial relationships<sup>2</sup> with the person who directly or indirectly holds significant shares in the Bank or in the Bank's related companies;
8. Does not have any kind of material liability (including financial one) towards the Bank, the Bank's administrators, the Bank's significant/shareholders or any other type of material / financial interest (including property, investment) in the Bank or in the Bank's related companies (exception is the case when a person directly or indirectly holds 2% or less shares of the Bank or of the Bank's related companies);
9. During the past five years did not have professional or other kind of working relationship (including business services, etc.) with the Bank and with the Bank's related companies, with the administrators and significant shareholders (exception is the case when a person performs non-executive functions or occupies non-executive position);
10. Has not been employed by the Bank within the last five years other than as member of the Supervisory Board or Supervisory Board committees;

11. Is not related to a non-profit organization that receives significant funding from the Bank or from the Bank's related companies;
12. Is not, nor in the past five years has been, related to a present or former auditor of the Bank or of a related party;
13. Has not served on the Supervisory Board for more than nine years since the date of his first election;
14. The Audit Committee members shall not be considered independent if they and/or their relatives, who are first and second legal heirs under the Civil Code of Georgia, have financial liability to the Bank<sup>4</sup>.
15. Did not have any other kind of relationship that may affect the independence of the person.

The independent members of the Supervisory Board of a parent company and/or subsidiary banks of the group may also be considered to be independent on the Supervisory Board of the subsidiary bank if these members satisfy the independence criteria set by the best international practices and Corporate Governance Code for Commercial Banks approved by Decree №215/04 of the Governor of the National Bank of Georgia.

**[1]** "I rank heir" - children (including adopted children), spouse and parents (including adoptive parents); "II rank heir" - siblings.

2 "Significant commercial relationships" shall be considered as relationships, which can have a noticeable financial impact on the Bank.

3 "Related party" - any person connected to the Bank such as administrators, shareholders, and their relatives who represent I and II rank relatives under the Civil Code of Georgia, or persons related to them by business interests and/or any entity that controls, is controlled or is under common control with the Bank (e.g. Bank's subsidiary, parent or sister organizations).

4 Per Article 16, paragraph 1 of the Law of Georgia on Commercial Bank Activities.

Annex #2 to the Corporate Governance Policy [Schedule of Matters Reserved for the Board Decision](#)

<b>Duties and Responsibilities</b>		<b>Decision Making Limit</b>	<b>Quorum Required</b>
1.	Strategic supervision and control of the Bank;	N/A	N/A
2.	Approval of the corporate strategy and strategic objectives, review of delivery of the strategy and performance against strategic objectives and operational plans;	N/A	simple majority
3.	Approval of the business plan, review of delivery of the performance against the business plan;	N/A	simple majority
4.	Approval of the annual budget, review of delivery of performance against the annual budget;	N/A	simple majority
5.	Initiation of new banking/commercial activities and termination or suspension of existing activities;	N/A	simple majority
6.	Establishment and liquidation of new enterprises, branches;	N/A	simple majority
7.	Acquisition and disposal of shares in other companies;	N/A	simple majority
8.	Approval of the organizational structure (high-level organizational structure including governing bodies, directors, and the departments);	N/A	simple majority
9.	Approval of the Code of Ethics and whistleblowing procedures;	N/A	simple majority
10.	Rendering resolutions for implementation of the decision of the General Meeting of Shareholders on admission of the Bank's shares and other securities to the stock market;	N/A	simple majority
11.	Declaring an interim dividend and recommending a final dividend;	N/A	simple majority
12.	Redemption of shares by the Bank as provided under the Georgian legislation;	N/A	simple majority
13.	Perform strategic supervision of risk management activities;	N/A	N/A
14.	Approval of the risk appetite statement, conducting annual reviews;	N/A	simple majority
15.	Approval of the business continuity plan;	N/A	simple majority
16.	Authorization for conflicts or possible conflicts of interest and related party transactions;	Per – <a href="#">Bank Related Party Regulation</a>	simple majority
17.	Approval of policies, standards and procedures in respect to conflicts of interest and related party transactions;	N/A	simple majority
18.	Approval of structure, size and composition of the Board of Directors,	N/A	simple

	including appointments and dismissal of its members;		majority
19.	Determining rights and obligations of members of the Board of Directors, monitoring and supervising their activities, requesting reports from the Board of Directors;	N/A	simple majority
20.	Approval of succession policy and succession planning for members of the Board of Directors;	N/A	simple majority
21.	Conclude the labor agreements and determine remuneration packages for members of the Board of Directors;	N/A	simple majority
22.	Approval of the regulatory framework for determining bonuses and/or additional benefits for employees, including for members of the Board of Directors of the Bank;	N/A	simple majority
23.	Approval of structure, size and composition of the Supervisory Board committees, including appointments and removals of the Supervisory Board committee members; reviewing reports of the Supervisory Board committees;	N/A	simple majority
24.	Election of the external auditors;	N/A	simple majority
25.	Appointment and dismissal of trade representatives (procurators);	N/A	simple majority
26.	Appointment and dismissal of the Corporate Secretary;	N/A	simple majority
27.	Attraction of borrowings by the Bank;	Per the <a href="#">Decision Making and Signatory Authority Matrix</a>	simple majority
28.	Securing borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;	N/A	simple majority
29.	Granting lending and trade finance products (by amount; by maturity);	Per the <a href="#">Decision Making and Signatory Authority Matrix</a>	simple majority
30.	Approval of loan restructuring;	Per the <a href="#">Decision Making and Signatory Authority Matrix</a>	simple majority
31.	Approval of loan write-off;	Per the	simple



		Decision Making and Signatory Authority Matrix	majority
32.	Approval of acquisition and disposal of fixed assets and intangible assets;	Per the Decision Making and Signatory Authority Matrix	simple majority
33.	Approval of issuance of bonds;	Per the Decision Making and Signatory Authority Matrix	simple majority
34.	Approval of administrative expenses;	Per the Decision Making and Signatory Authority Matrix	simple majority
35.	Approval of cash limits;	Per the Decision Making and Signatory Authority Matrix	simple majority
36.	Implementation of equity investments in public companies;	Per the Decision Making and Signatory Authority Matrix	simple majority
37.	Implementation of any equity investments in private companies;	Per the Decision Making and Signatory Authority Matrix	simple majority
38.	Approval and amendment of the Bank's statute, framework and policy type of documents;	N/A	simple majority
39.	Determining and approving amount of minimum and maximum interest	N/A	simple

	rates to be used with regard to credit recourses and deposits;		majority
40.	Determining and approving the terms and conditions to be used with regard to credit recourses and deposits to the Bank's employees;	N/A	simple majority
41.	Convening General Meetings, if deemed necessary for the interests of the Bank;	N/A	simple majority
42.	Supervision and representation of the Bank in case of conflict between the members of the Board of Directors;	N/A	simple majority
43.	Based on the decision of the General Meeting, proceession of legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;	N/A	simple majority
44.	Supervising implementation of measures in accordance with results of examinations carried out by the External and Internal Audits, as well as the National Bank of Georgia;	N/A	simple majority
45.	Making a decision on such issues that are beyond the scope of the Board of Directors' powers;	N/A	simple majority
46.	Perform any other duties as required by the General Meeting.	N/A	simple majority