JSC PASHA BANK GEORGIA

CORPORATE GOVERNANCE POLICY

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DEFINITIONS AND ABBREVIATIONS

Non-Executive Director /NED/	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
Executive Director	Member of the Board of Directors who has executive responsibilities in the management structure
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 directors of executives led by the CEO.
Stakeholders	the persons, institutions and interest groups like employees, creditors, customers, suppliers, regulatory bodies, who are involved in the activities for achieving the targets of the Bank
The Bank	Joint Stock Company PASHA Bank Georgia
The Policy	Corporate Governance Policy
GMS	General Meeting of Shareholders

INTRODUCTION

The purpose of this Corporate Governance Policy (the "policy") is to raise standards of corporate governance in JSC PASHA Bank Georgia (the "Bank").

By adopting and complying with this policy the Bank confirms its desire to demonstrably lead and promote good corporate governance. In order to foster the confidence of its stakeholders, this policy goes beyond established legal and regulatory framework and embraces both national 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, Supervisory Board and Board of Directors with the purpose of creating long-term shareholder value. It views corporate governance as 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 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.

This policy is classified as public and published on the Bank's web-site.

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.

JSC PASHA Bank Georgia represents a regional bank, providing a full range of corporate and investment banking services to large and medium-sized enterprises.

PRINCIPLES OF CORPORATE GOVERNANCE

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

- **Fairness**: The Bank is committed to act 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 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 provide accurate and understandable information to shareholders and other stakeholders on all material matters regarding the Bank, including its financial condition, performance, and ownership and governance structure in a manner easily accessible to interested parties without giving away commercially sensitive information.

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

INTERNAL CORPORATE DOCUMENTATION

This policy is principle based. More specific information on all key issues of corporate governance - the Supervisory Board composition, functions and responsibilities, directors remuneration and reward, financial reporting and auditing, risk management and internal control, right and responsibilities of the shareholders, business ethics and corporate social responsibility are described and regulated by the Bank's Charter, Code of Ethics, Statutes of the Supervisory Board and the Board of Directors, Statute of the Corporate Secretary, By-Laws of the General Meeting of Shareholders and other statutes, internal policies and procedures of the Bank.

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

GENERAL GOVERNANCE STRUCTURE

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

The Supervisory Board is responsible for general oversight of the Bank and of the Board of Directors. Its members are elected 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 by the Supervisory Board.

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

- Representatives of shareholders;
- Executive directors from other banking strategic assets of the holding company;
- Independent non-executive director/s/; and
- Any other person (s) matching the legal requirements for membership.

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

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

a) General Meeting of Shareholders;
b) Supervisory Board;
c) Supervisory Board Committees - Audit Committee, HR and Remuneration Committee, Risk Management Committee, Strategy and Budget Committee;
d) Board of Directors;
e) Internal Audit Department;
f) Corporate Secretary.

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

THE SUPERVISORY BOARD

a) **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 through providing entrepreneurial leadership

and direction to the Bank. It determines the strategic objectives and policies of the Bank, provides overall strategic direction within a framework of rewards, incentives and controls, demonstrates ethical leadership and promotes collective vision of the Bank's purpose, values, culture and behaviors. Members of the Supervisory Board act in a way they consider, in good faith, will promote the success of the Bank for the benefit of the shareholders as a whole and, in doing so, have regard of 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 forecast; 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; 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 has a duty to act in accordance with its powers, the Bank's Charter and the Statute of the Supervisory Board, and only exercise powers for the purposes for which they are conferred.

b) **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 diversity of a candidate's perspectives, background and other demographics.

As defined by the Georgian legislation, the Supervisory Board members shall have the university degree in one of the following fields: *economics, finance, banking, business administration, audit, accounting or law*.

c) **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 non-executive members should be in the supervisory board.

The Bank's Supervisory Board is composed of at least three Supervisory Board members, 'non-executive directors', out of which at least one member has a status of an 'independent non-executive director'. The composition of the Supervisory Board is determined in such a manner that combines the representatives of all shareholders.

The number of members of the Supervisory Board is capped at (21) twenty one 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 with a maximum term of four years. Any member whose term of office ends can be reelected.

d) **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 a membership shall be transparent, so that the shareholders be able to 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 HR and Remuneration Committee of the supervisory board. The Chairman of the Supervisory Board and members of the HR 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 HR and Remuneration Committee is responsible for considering succession planning for the Chairman of the supervisory board, chief executive officer and other senior executives and conduct an annual review of succession planning and propose changes to the process as necessary.

e) Factors considered by the HR 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.

f) **Independence.** The Supervisory Board ascertains which member is to be deemed independent. The definition of independent director is in the annex #1 of this policy, the definition is in compliance with Georgian law and complemented by internationally recognized definitions.

g) 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 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.

h) **Restrictions and External directorships.**

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

a. Is a member of the Supervisory Board or Board of Directors in more than 7 other companies registered in Georgia;
b. 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;
c. Has been deprived by law of the right to be a member of a supervisory board;
d. Has taken part in any operation or transaction that has resulted in substantial loss for a commercial bank or a non-bank depositary 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;
e. Has engaged in abusive practice when acting as an administrator of a bank or a non-bank depositary institution - credit union;
f. Has previously served as an administrator of a commercial bank or a non-bank depositary institution – credit union, and as the result of his or her activities, the commercial bank or non-bank depositary institution – credit union has become insolvent;
g. Failed to fulfill any financial obligation to a bank or a non-bank depositary institution – credit union;
h. Has been declared bankrupt;
i. Has been convicted of a serious crime, terrorism financing and/or legalization of illicit income or other economic crimes;
j. Has been recognized inactive (unable to discharge his/her duties) by the court;
k. 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

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

Requirements towards independent board members are described in annex #1 of the Policy.

Independent Members of the Supervisory Board shall notify the Supervisory Board about any external appointments in any other company registered in Georgia 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.

i) **Board Meetings and Attendance.** The Supervisory Board has regular board meetings to discharge its duties effectively, and there is a Formal Schedule of Matters reserved for the board decision. All members of the Supervisory Board are expected to attend each meeting, unless there are exceptional circumstances that prevent them from doing so. 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.

Papers relevant to the agenda of each board and board committee meetings are sent to the Supervisory Board and committee members in advance of the meeting in compliance to requirements set within the Supervisory Board statute.

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. The Chairman will from time to time, and at least once semi-annually, meet with all members without 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.

j) **Induction, Training and Access to Advisers.** The Bank offers an orientation program for new members of the supervisory board, its business and on other subjects that will assist them in discharging their duties. All members receive induction on joining the Supervisory Board to get knowledge of the company and get access to its operations and

staff. The Chairman is 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 senior management and staff;
- Meetings with external advisers of the company, such as the auditors; and
- Meetings with shareholders.

The Supervisory 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 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 needs for each individual member is assessed by the Chairman, but each member is able to make suggestions about the type of training or development that might be suitable for him personally.

k) **Independent advice.** The Supervisory Board and its committees have the ability to 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 Holding company or facilitate externally.

l) **Remuneration.** The General Meeting of Shareholders ("GMS") of the Bank approves the Policy on Remuneration, 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. The Remuneration Policy and any changes thereof. GMS shall be informed on all those cases when deviations from the policy took place, indicating the reasons for the deviations.

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 HR and Remuneration Committee is responsible ensuring that the policy is followed.

m) **Board Effectiveness Review: Evaluation of the Supervisory Board members.** The Supervisory Board conducts annual effectiveness review in order to evaluate the performance of the Supervisory Board as whole, board committees and of its individual members. Annual evaluations may be independently facilitated and an external facilitator may be used. 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 committees. The Chairman may hold private meetings with each member of the Supervisory Board to discuss the evaluation results and individual performance. Chairmen of board committees are responsible for the evaluation of their committees.
The Supervisory Board will report on the Supervisory Board performance to the Shareholders General Meeting.

n) **Annual Strategy Meeting.** Two meetings devoted to strategy are held each year. The Supervisory Board reviews the Bank's long-term strategic plans and agrees the Bank's strategic priorities, including capital management, liquidity and risk strategy.

BOARD COMMITTEES

The Supervisory Board can, with the purpose of carrying out its activities more effectively and efficiently, set up committees in addition to those that must be set up according to the laws and legislation on banks. The name, the field of activities, and the powers of the committee as

well as the number and the competencies of its members, and as needed, the operational procedures, will be determined according to this Policy. Unless the Supervisory Board specially empowers them to take decisions or such power is granted by a certain law of legislation, the committees of the Supervisory Board will not have the power to take decisions.

These committees operate under the directives of the Supervisory Board. The minutes of the meetings and the resolutions of these committees will be written and kept by the Corporate Secretary. The Supervisory Board committees of the Bank are the Audit Committee, the HR and Remuneration Committee, the Risk Management Committee and Strategy and Budget Committee.

THE AUDIT COMMITTEE

The Supervisory Board established the Audit Committee to help the Supervisory Board to apply the corporate reporting and internal control principles and maintain an appropriate relationship with the Bank's auditors.

a) **Role and Responsibilities of the Committee.** The Audit Committee focuses on two key areas: financial reporting, internal and external audit. The main role and responsibilities of the Audit Committee is to monitor the integrity of the financial statements of the Bank, review the Bank's internal financial controls and systems, monitor and review the effectiveness of the Bank's internal audit function, make recommendations to the supervisory board, for it to put to the shareholders for their approval at the general meeting, in relation to the appointment, remuneration and terms of engagement, reappointment and removal of the external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and report to the supervisory board, identifying any matters in respect of which it considers that action or improvement is needed.

   Where requested by the supervisory board, the Audit Committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the

Bank's performance business model and strategy. The Audit Committee has a particular role, acting independently from the executive directors, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

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

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 reports to the Supervisory Board on how it has discharged its responsibilities at least once in every quarter.

b) **Composition of the Committee.** The Audit 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 on the recommendation of the HR and Remuneration committee, in consultation with the Audit Committee Chairman. Appointments are made for a period of up to three years, extendable by no more than two additional three-year periods.

c) **Committee Meetings.** There should be at least quarterly committee meetings each year, timed to coincide with key dates in 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 Audit Committee Chairman and members are entitled to attend meetings of the committee. It is for the committee to decide whether other individuals should be invited to attend for 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 will also attend particular meeting or a particular agenda item. The committee also meets once a year specifically to review

and approve the audit plans for the following year for the internal and external auditors and annually appraises the effectiveness of the external auditors.

d) **Relationship between the committee and the supervisory board.** The Audit Committee and Internal Audit Department of the Bank report to the Supervisory Board on a quarterly bases on how they have discharged their responsibilities including: the significant issues that it considers in relation to the financial statements, and how these were addressed, its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor and other issues where the Supervisory Board has asked for the audit committee's opinion.

THE HR AND REMUNERATION COMMITTEE

The Supervisory Board establishes HR 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 remuneration policy for the members of the Supervisory Board, board committees, for executive directors of the Bank as well as other responsibilities as defined by the Statute of the Committee.

a) **Role and Responsibilities of the Committee.** Appointing new member of the Supervisory Board is a matter for the general meeting of shareholder, 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, (each year) 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 board committees.

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

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.

The committee has no decision-making authority.

b) **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, the appointment of new members of 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.

c) **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 for a particular meeting or a particular agenda item.

d) **Relationship between the committee and the supervisory board.** The committee reports to the Supervisory Board on a quarterly bases on how it has discharged its responsibilities.

THE RISK MANAGEMENT COMMITTEE

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

a) **Role 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, making recommendations to the Supervisory Board, 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, monitor the 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 committee has no decision-making authority.

b) **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.

c) **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 for a particular meeting or a particular agenda item.

d) **Relationship between the committee and the Supervisory Board.** The committee report to the Supervisory Board on a quarterly bases on how it has discharged its responsibilities.

STRATEGY AND BUDGET COMMITTEE

The Supervisory Board established Strategy and Budget Committee to provide assurance to the Supervisory Board that the strategy plan is prepared in accordance with the vision of the

shareholders of the Bank and the annual budget is prepared in accordance with the approved strategy plan.

a) **Role 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 strategy plan to the full Board.

The committee has no decision-making authority.

b) **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.

c) **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 for a particular meeting or a particular agenda item.

d) **Relationship between the committee and the Supervisory Board.** The committee report to the Supervisory Board on a quarterly bases 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.

THE BOARD OF DIRECTORS

The Bank understands that day-to-day management of the Bank requires strong leadership from the Chief Executive Officer (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 individual approach. The Bank has thus established the Board of Directors, chaired by the CEO.

a) **Composition.** 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.

   All members of 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;

b) **Working Procedures.** The Board of Directors meets regularly, and agenda issues are communicated in advance. The working procedures of the Board of Directors are specified in its statutes.

c) **Succession Planning.** The Supervisory Board is to adopt 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.

d) **Remuneration and Evaluation.** The amount of remuneration of the CEO and members of the Board of Directors is set by the supervisory board based on recommendation of the HR and Remuneration committee. The remuneration has a fixed and variable component, and the latter is tied to key performance indicators as set by the supervisory board, in-line with the input into the Bank's long-term development and creation of shareholder value.

e) **Duties and Responsibilities.** The CEO (Chairman of the Board of Directors) and other members of the Board of Directors act in good faith and with due care in the best interests of the Bank and all its shareholders – and not the interests of a particular shareholder - on the basis of all relevant information.

The CEO and members of the Board of Directors shall abstain from actions that will or may lead to a conflict between their and the Bank's interests. When such a conflict exists, members of the Board of Directors shall disclose information about the conflict of interest to the Supervisory Board, and shall abstain from deliberating and voting on such issues.

f) **Appointment and Removal**. Members of the Board and Directors are appointed by the Supervisory Board for terms not exceeding four years. Their re-appointment is not limited.

THE INTERNAL AUDIT DEPARTMENT

The Bank views internal audit as an independent appraisal activity established within an organization as a service to it. It is a control which functions to examine and evaluate the adequacy and effectiveness of other controls. 'The objective of internal auditing is to provide an objective appraisal service function to all levels of management of the Bank and Audit Committee by providing an independent, objective assurance on effectiveness of internal controls in mitigating risks of significant processes, consulting to management on best practices designed 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 organization's assessment of fraud risk, and is involved in fraud investigations.

The rights of Internal Audit Department are to determine the forms and methods of conducting the audits, 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 at which 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, Audit Committee, Supervisory Board, Board of Directors, other departments of the Bank and external auditors, meet with any employee of any department and Board of Directors representatives in order to discuss important issues.

The responsibilities of Internal Audit Department are reviewing the internal control system, carry out independent checks of internal controls in an organization, or in a particular process or system in order to establish whether suitable controls exist, and if so, whether they are applied properly and are effective, conduct VFM audits - an investigation into an 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 auditors 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 organization, from both internal and external sources. Internal auditors might conduct special-purpose audits to provide their opinion on concrete and particular areas of interest. Internal auditors might be asked to investigate the timeliness of reporting and the accuracy of the information in reports.

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

An internal audit function reports to the Audit Committee. In relation to the internal audit, the Audit Committee has to appoint, reassign and appraise the Head of Internal Audit Department, make sure 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, review and approve the annual internal audit work plan, receive reports on the results of work done by the internal auditors, review and monitor the responses of management to the recommendations made to them by the internal

auditors, meet with the head of internal audit at least once a year without executive management being present and monitor and assess the effectiveness of the internal audit function.

Internal Auditors cannot sit in any governing body committees.

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 ensures 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 is also 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 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, 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 and/or as defined in the bylaws.

The Corporate Secretary provides dedicated support for the Supervisory Board and is a point of reference and support for all directors. The Corporate Secretary will consult regularly with directors to ensure that they receive any necessary information and will work with the Chairman, 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 By-Law, 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.

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 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.

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 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 consolidated way.

The Bank will protect the minority interest shareholders from the direct or indirect infringing actions of the holders of the controlling shares.

SHAREHOLDER STRUCTURE

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

GENERAL MEETING OF SHAREHOLDERS

The Bank introduced GMS By-laws that provides a detailed description of all the procedures for the preparation, holding and decision-making at the general meeting.
Detailed shareholder structure of the Bank, including ultimate shareholders, is disclosed through the Bank's web-site.

a) **Preparation.** Every shareholder holding voting shares is entitled to participate and vote during the GMS, and receive 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.

b) **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 power of attorney issued to another person.

c) **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.

DIVIDEND POLICY

The Bank has formally developed and follows a written 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 Dividend Policy of the Bank on distribution of profit, dividends can be paid to the extent 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.

EXTERNAL AUDIT

The external audit is appointed by the GMS. 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 Bank introduced policy on tendering, selection, appointment and rotation of the external audit company and policy related to the external auditor's rendering of non-audit services.

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 Informational 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.

INFORMATIONAL DISCLOSURE POLICY

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

b) **Powers and Responsibilities.** The Informational Disclosure Policy will be 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.

c) **Methods and Tools for Public Disclosure**. Information is provided by way 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, rating assigned to the Bank by an independent rating agencies;
- 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);
- Statements via communication methods and tools like telephone, electronic post etc.

d) **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 Georgian language. It is also NBG's requirement that Georgian commercial banks publish their annual financial statements in mass media.

e) **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 that it is coherent with the financial situation and the operating results of the Bank.

WEBSITE

Information that would be disclosed to the public will be submitted to the public on NBG and the Bank's website, promptly, correctly, fully, clearly and interpretably.
The information that is briefly stated at 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 (Report shall be published on the Bank's web-site within one month after its issuance)
- Annual Reports
- General Assembly meetings, the agenda, minutes
- GMS By-Laws
- Announcements that have to be made according to the legislation

- Corporate Governance Policy
- Dividend Distribution Policy
- Information Disclosure Policy
- Code of Ethics

INTERNAL NOTIFICATION SYSTEM AND COMMUNICATION LINE

Communication line is a line that enables all stakeholders to contact, when they encounter a risk that might be associated with risk management or compliance.
A notification must be communicated through the e-mail address ethics@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 conflict of interests;
- Incompliance 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 Code of Ethics of the Bank.

CONFLICT OF INTEREST

A conflict of interest is a situation in which a person or 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.

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

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

Final Provisions

This framework is effective upon its approval by the Supervisory Board.

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

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

Annex 1 to Corporate Governance Policy

Definition of Independent Member

The purpose of identifying and appointing independent member of the Supervisory Board and of its committees is to ensure that the Supervisory Board includes members in the Board or Board committees who can effectively exercise their best judgment for the exclusive benefit of the Bank, judgment that is not clouded by real or perceived conflict of interest.

"Independent member" means a member, when he/she or his/her I and II rank relatives[1]:

1. Has not been employed by the Bank or by the Bank's Related Parties[2] in the past five years other than as an independent non-executive director;
2. Does not receive compensation in any form from the Bank or from the Bank's Related Parties other than defined salary for the membership of the supervisory boards and supervisory board committees of the Bank and of the Bank's Related Parties (members of PASHA Group companies);
3. Is not related to a company that is an advisor or consultant to the Bank or to the Bank's related Parties;
4. Is not related to a significant customer or supplier of the Bank or of the Bank's Related Parties;
5. Has no personal service contracts with the Bank and the Bank's Related Parties;
6. Is not related to a non-profit organization that receives significant funding from the Bank or from the Bank's Related Parties;
7. Is not shareholder of the company, which has significant commercial relationships[3] with the Bank;
8. Is not a director of the company, where a member of the Supervisory Board is a director;
9. Does not have 5 percent or more of the Bank's shareholder capital;
10. Is not a director, board member, or a representative of the company, which owns 5 percent or more of the Bank's shareholder capital;

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[1] *"I rank relative" children (including adopted children), spouse and parents (including adoptive parents); "II rank relative" siblings;*
[2] *"Related party" any person connected to the bank such as bank 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);*
[3] *"Significant commercial relationships" shall be considered as relationships, which can have noticeable financial impact of the Bank.*

11. 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; and
12. Members of the Audit Committee and his/her I and II rank relatives shall not have financial liability to the Bank.