

BANK OF GEORGIA GROUP PLC AUDIT COMMITTEE TERMS OF REFERENCE

These terms of reference identify and formalise the roles, tasks and responsibilities of the Audit Committee (the **Committee**) of Bank of Georgia Group PLC (the **Company**) and the authority delegated to the Committee by the Board of Directors of the Company (the **Board**) to monitor the Company's financial reporting, internal control and assurance frameworks. References to the **Group** shall mean the Company and its subsidiaries.

1. MEMBERSHIP

- (a) The Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Committee (the **Committee Chairman**), and shall consist of a minimum of three independent non-executive directors. A person who is not a member of the Board may be appointed to the Committee.
- (b) At least one member of the Committee shall have competence in accounting and/or auditing and the Committee as a whole shall have competence relevant to the sector in which the Company operates. At least one member will have recent and relevant financial experience. The chairman of the Board shall not be a member of the Committee.
- (c) Only members of the Committee have the right to attend Committee meetings. However, other individuals including without limitation, the chairman of the Board, other Board members, CEO, Deputy CEOs and CFOs of Group companies, Head of Internal Audit, Chief Risk Officer as well as other senior management representatives may be invited to attend all or part of any meeting, as and when appropriate and necessary with the agreement of the Committee Chairman.
- (d) The external auditor and the CFO will be invited to attend all meetings of the Committee, unless agreed otherwise with the Committee Chairman, provided that the external auditor shall be invited to attend not less than two meetings in each calendar year.
- (e) Appointments to the Committee shall be for a period of up to three years, which may be extended, provided the director still meets the criteria for membership of the Committee.
- (f) The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- (g) If a regular member is unable to act due to absence, illness or any other cause, the member or, failing him the Committee Chairman may appoint another independent non-executive director of the Company to serve as an alternate member.
- (h) Where the business of the Committee meeting includes the review of actual or potential conflicts of interest of, and authorisations given by the Board or Committee to, members of the Committee, the affected member shall not participate in the review or in discussions or decisions of the Committee which relate to that member (and

shall not be counted in the quorum of the meeting for the purpose of any such review, discussions or decisions).

2. SECRETARY

The Company Secretary or his or her nominee shall act as the secretary of the Committee (the **Secretary**).

3. QUORUM AND VOTING

(a) The quorum necessary for the transaction of business shall be two independent non-executive directors whenever possible including at least one member who has relevant financial experience. The required directors meeting either in person or by telephone will constitute a quorum. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

(b) In the event of an equality of votes, the Committee Chairman shall have a casting vote.

4. FREQUENCY OF MEETINGS

(a) The Committee shall meet not less than four times a year at appropriate times in the reporting and audit cycle and at such other times as required.

(b) Outside of the formal meeting programme, the Committee Chairman, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the CEO, the CFO, the external audit lead partner, head of internal audit, and the head of compliance and chief risk officer.

5. NOTICE OF MEETINGS

(a) Meetings of the Committee shall be convened by the Secretary at the request of any of its members, or at the request of the CEO, or CFO, or at the request of external or internal auditors if they consider it necessary.

(b) Unless otherwise agreed by the Committee, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, not less than two working days prior to the date of the meeting. Supporting papers shall be sent to members of the Committee, at the same time if practicable. Copies of the agendas, papers, and minutes may be circulated or made available to the other non-executive directors and to attendees as appropriate and as agreed.

(c) Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

6. MINUTES OF MEETINGS

(a) The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

(b) Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee unless it would be inappropriate to do so in the opinion of the Committee Chairman.

- (c) Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records.

7. ANNUAL GENERAL MEETING

The Committee Chairman should attend the annual general meeting to respond to questions from shareholders.

8. DUTIES

(a) FINANCIAL REPORTING

- (i) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the auditor. The Committee shall report to the Board on significant financial reporting issues and judgements within the Company's financial statements, having regard to matters communicated to it by the auditors. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- (ii) In particular, the Committee shall review and challenge where necessary, taking into account the views of the external auditor:
- the application of significant accounting policies used in the preparation of the financial statements, and any changes to them;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements;
 - the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
 - all material information presented with the financial statements, including the strategic report and the corporate governance statement (insofar as it relates to the Company's financial reporting arrangement, the internal and external audit, internal financial controls and risk management);
 - the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company looking forward over an appropriate and justified period) (in collaboration with the Risk Committee);

- where requested by the Board, the Committee will provide advice on how, taking into account the Company's position and principal risks, the prospects of the Company have been assessed, over what period and why the period is regarded as appropriate; and
 - any significant adjustments resulting from the audit.
- (iii) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

(b) **NARRATIVE REPORTING**

Where requested by the Board, the Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to assist the Board in preparing its statement in the annual report on these matters as is required under the UK Corporate Governance Code, as amended from time to time (the **Code**).

(c) **ONGOING VIABILITY**

In collaboration with the Risk Committee, the Committee shall also advise on whether, taking into account the Company's position and principal risks, there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the relevant period (such period for the purposes of the Company's viability statement to be determined by the Board), drawing attention to any qualifications or assumptions as necessary.

(d) **INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS**

The Committee shall:

- (i) keep under review the Company's internal financial controls (being the systems established to identify, assess, manage and monitor financial risks) and other internal control and risk management systems relating to financial reporting;
- (ii) consider the major findings of any internal investigations into control weaknesses, fraud or misconduct;
- (iii) review and monitor management's responsiveness to addressing control weaknesses and non-compliance with laws, regulation and internal policies and other weaknesses identified by the internal audit function and the external auditor;
- (iv) conduct a robust assessment, in conjunction with the Risk Committee, of the principal risks facing the Company;
- (v) monitor IT, information security (including cyber security), compliance, corporate security and similar areas of operational risk;

- (vi) review and approve the statements to be included in the annual report concerning internal controls, and risk management relating to financial reporting; and
 - (vii) review and approve the Group's activities with respect to the Group's treasury and tax planning policies and any material changes thereto, and such other policies as may be requested by the Board
- (e) **COMPLIANCE, WHISTLEBLOWING AND FRAUD**

The Committee shall:

- (i) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (ii) review the Company's procedures for detecting fraud;
- (iii) review the Company's systems and controls for the prevention of bribery (in accordance with the Ministry of Justice or other relevant guidance), and receive reports on non-compliance, following up with the required actions when necessary;
- (iv) review regular reports from the Compliance Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (v) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

(f) **INTERNAL AUDIT**

The Committee shall:

- (i) review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- (ii) approve the Group's annual internal audit budget;
- (iii) ensure internal audit has unrestricted scope, the necessary resources and access to information and persons in relevant functions to enable it to fulfil its mandate;
- (iv) review and approve the annual internal audit plan to ensure it is aligned with the key risks of the business and receive regular reports on work carried out;
- (v) ensure the internal auditor has direct access to the Board chairman and to the Committee Chairman, providing independence from the executive and accountability to the Committee;
- (vi) monitor and assess the role and effectiveness of the Company's internal audit function in the overall context of the Company's risk management system and

the work of compliance, finance and the external auditor, including carrying out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:

- (A) meet with the head of internal audit at least once a year without the presence of management to discuss the effectiveness of the function, and any issues arising from the internal audits carried out;
 - (B) review and assess the annual internal audit work plan;
 - (C) receive a report on the results of the internal auditor's work on a periodic basis;
 - (D) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
 - (E) review and monitor the actions taken by management, and their responsiveness, to implement the findings and recommendations of internal audit and to support the effective working of the internal audit function;
 - (F) review and monitor management's responsiveness to findings and recommendations of the CFO, including the progress in addressing internal audit actions;
- (vii) review reports addressed to the Committee from the internal auditor;
 - (viii) approve the appointment and removal of the head of internal audit; and
 - (ix) the Committee may also wish to consider whether an independent, third party review of internal audit effectiveness and processes is appropriate.

(g) **EXTERNAL AUDIT**

The Committee shall:

- (i) ensure that the Company complies with the requirements of the Competition and Markets Authority and the UK implementation of EU Regulation 537/2014 and Directive 2014/56/EU in respect of audit firm tendering and rotation. The Committee shall ensure that at least once every ten years the audit services contract is put out to competitive tender, with a change of firm at least every twenty years, to comply with the regulatory requirements and to enable the Committee to compare the quality and effectiveness of the services provided by the statutory auditor with those of other audit firms;
- (ii) develop and oversee the selection process for the appointment of the audit firm, ensuring that it complies with all applicable regulatory and legal requirements (including the UK implementation of Article 16 of the EU Regulation 537/2014) and that that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (iii) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-

appointment and removal of the Company's external auditor and to approve the remuneration and terms of engagement of the external auditor;

- (iv) if an external auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- (v) oversee the relationship with the external auditor including (but not limited to):
 - negotiating and agreeing for and on behalf of the Board the external auditor's remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable a high quality audit to be conducted so that the external auditor's independence and objectivity are safeguarded, noting that such fees for non-audit services will be subject to a cap of 70% of the annual audit fees in the last three consecutive financial years;
 - negotiating and agreeing for and on behalf of the Board the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - assess annually the external auditor's independence and objectivity taking into account relevant UK and Georgian law, regulation, the FRC's Ethical Standards for Auditors and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;
 - satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) that could adversely affect the external auditor's independence or objectivity;
 - agree with the Board a policy on the employment of former employees of the Company's auditor, then monitor the implementation of this policy;
 - monitor the auditor's processes for maintaining independence, its compliance with relevant UK and Georgian law, regulation, other ethical and professional requirements and the FRC's Ethical Standards for Auditors, including the guidance on the rotation of audit partner and staff;
 - monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements;
 - assess annually the qualifications, expertise and resources and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures and review by the

Committee of any reviews of the auditor published by the Financial Reporting Council's Audit Quality Review;

- seek to ensure co-ordination of the external audit with the activities of the internal audit function; and
 - evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- (vi) develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
- (A) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (B) the nature of the non-audit services and fees for such services relative to the audit fee; and
 - (C) whether the external audit firm is the most suitable supplier of the non-audit service.
- (vii) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management present, to discuss the auditor's remit and any issues arising from the audit;
- (viii) review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (ix) review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- a discussion of any major issues which arose during the audit;
 - the auditor's explanation of how the risks to audit quality were addressed;
 - any accounting and audit judgements;
 - the auditor's view of their interactions with senior management;
 - levels of errors identified during the audit;
 - the effectiveness of the audit; and
 - views on the general control environment.
- (x) review any representation letter(s) requested by the external auditor before they are signed by management;

- (xi) review the management letter and management's response to the auditor's findings and recommendations; and
- (xii) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

(h) **CONFLICTS OF INTEREST**

The Committee shall:

- (i) in respect of each director, review any interests the director may have which conflict or may conflict with the interests of the Company;
 - (ii) make recommendations to the Board as to whether any such conflict should be authorised and, if so, as to the terms and conditions on which any such authorisation should be given by the Board; and
 - (iii) review on a bi-annual basis any authorisation given by the Board in order to determine whether the authorisation given should stand on the terms and conditions on which it has been given or whether additional terms and conditions should be imposed or whether the authorisation should be revoked (subject to giving the relevant director notice of the proposed revocation).
- (i) The responsibilities set out in this section 8 shall, where applicable, extend to any other major subsidiary undertaking, as determined by the Board of the Company.
 - (j) The Committee shall make available its terms of reference explaining clearly its role and the authority delegated to it by the Board.

9. REPORTING RESPONSIBILITIES

- (a) The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. This report shall include:
 - (i) the significant issues that it considered in relation to the financial statements and how these were addressed;
 - (ii) where relevant, its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - (iii) any other issues on which the Board has requested the Committee's opinion.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall produce a report on its activities to be included in the Company's annual report. The report should include:
 - (i) details of the membership of the Committee, number of meetings held and attendance over the course of the year;

- (ii) an explanation of how the Committee has addressed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
 - (iii) where a competitive tender process has not been completed in a five-year period for the appointment of an external auditor, ensure that the annual report disclosure contains an explanation of why such tender process was not deemed necessary and a confirmation of when the next tender will be;
 - (iv) if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded;
 - (v) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed having regard to matters communicated to it by the auditor and in exercising such judgement it should at least consider those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement; and
 - (vi) all other information requirements set out in the Code.
- (d) The Committee shall include a description of the following information in the annual report for the year ended 2017 onwards with regards to approval of non-audit services:
- (i) For each significant engagement of category of engagements, an explanation of the services provided and why the Committee concluded that it was in the best interests of the Company to purchase them from the external auditor; and
 - (ii) The fees paid to the auditor and its network firms for non-audit services, including the ratio of audit to non-audit work.

10. OTHER MATTERS

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Group Company Secretary for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules, directors duties as listed in Chapter 2 of Part 10 of the Companies Act 2006 and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) work and liaise with all other Board committee where necessary or required, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- (f) oversee any investigation of activities which are within its terms of reference; and

- (g) arrange for periodic reviews of its own performance. and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. AUTHORITY

The Committee is authorised by the Board:

- (a) to seek any information it requires from any employee of the group in order to perform its duties;
- (b) to consult, at the Company's expense, such persons as it deems appropriate in the performance of its obligations, including to obtain outside legal or other professional advice on any matter it believes necessary to do so;
- (c) to call any employee to be questioned at a meeting of the Committee as and when required;
- (d) to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board; and
- (e) to sub-delegate any or all of its powers and authority and may establish sub-committees which are to report back to the Committee.

Adopted on 24 February 2018