

**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

**Updated and approved on 19 March 2015**

These terms of reference identify and formalise the roles, tasks and responsibilities of the Audit Committee (the “**Committee**”) of Bank of Georgia Holdings 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. Reference to “**Group**” shall mean the Company and its subsidiaries.

**1. MEMBERSHIP**

- 1.1 The Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Committee, and shall consist of a minimum of three members.
- 1.2 All members of the Committee shall be independent<sup>1</sup> non-executive directors, at least one of whom shall have recent and relevant financial experience. The chairman of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals, including without limitation, the chairman of the Board, other directors, CEOs, CFOs, head of internal audit, head of internal control, as well as other senior management representatives from the finance function may be invited to attend all or part of any meeting, as and when appropriate and necessary.
- 1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.
- 1.6 The Board shall appoint the chairman of the Committee who shall be an independent non-executive director. In the absence of the chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.
- 1.7 If a regular member is unable to act due to absence, illness or any other cause, the member or, failing him the chairman of the Committee may appoint another independent non-executive director of the Company to serve as an alternate member.
- 1.8 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

---

<sup>1</sup> For the test of “independence” please see paragraph B.1.1 of the UK Corporate Governance Code for further details.

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.

**3. QUORUM**

The quorum necessary for the transaction of business shall be two members. 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.

**4. FREQUENCY OF MEETINGS**

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 the Board or the chairman of the Committee shall require.

**5. NOTICE OF MEETINGS**

5.1 Meetings of the Committee shall be convened by the Company Secretary of the Committee at the request of any of its members or at the request of the Company CFO, Bank CFO or at the request of external or internal auditors if they consider it necessary.

5.2 Unless otherwise agreed, 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, and any other person required to attend not less than five working days prior to the date of the meeting. Supporting papers shall be sent to members of the Committee, and to other attendees as appropriate, at the same time.

**6. MINUTES OF MEETINGS**

6.1 The Company Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, the minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the chairman of the Committee.

6.3 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 on the Committee's activities.

## **8. DUTIES**

### **8.1 Financial reporting**

- (a) 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 announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall report to the Board on significant financial reporting issues and judgments 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; and
- (b) in particular, the Committee shall review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
  - (iv) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - (v) all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the Company's financial reporting arrangement, the internal and external audit and internal financial controls).

### **8.2 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.

### **8.3 Internal Controls and Risk Management Systems**

The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal controls and risk management systems relating to financial reporting;

- (b) consider the major findings of any internal investigations into control weaknesses, fraud or misconduct;
- (c) monitor IT, cyber security, compliance, corporate security and similar areas of operational risk; and
- (d) review and approve the statements to be included in the annual report concerning internal controls and risk management relating to financial reporting.

#### 8.4 Compliance, Whistleblowing and Fraud

The Committee shall:

- (a) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing 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;
- (b) review the Company's procedures for detecting fraud;
- (c) 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;
- (d) review regular reports from the Compliance Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (e) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

#### 8.5 Internal Audit

The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function;
- (b) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (c) review and assess the annual internal audit plan;
- (d) review reports addressed to the Committee from the internal auditors;
- (e) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;

- (f) approve the appointment and removal of the head of internal audit; and
- (g) meet the head of internal audit at least once a year, without management being present, to discuss his remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the Board and to the Committee.

## 8.6 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) ensure that at least once every ten years the audit services contract is put out to competitive tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the tender selection process and ensure that all audit firms participating in the tender process have access to such information and individuals of the Company as is necessary for the tender process for the duration of the tender process;
- (c) if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
  - (i) 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 an adequate audit to be conducted;
  - (ii) 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;
  - (iii) assessing annually the external auditor's independence and objectivity taking into account relevant UK and Georgian professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);

- (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the 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;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- (e) 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 being present, to discuss the auditor's remit and any issues arising from the audit;
- (f) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (g) review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) any accounting and audit judgements;
  - (iii) levels of errors identified during the audit; and
  - (iv) the effectiveness of the audit;
- (h) review any representation letter(s) requested by the external auditor before they are signed by management;
- (i) review the management letter and management's response to the auditor's findings and recommendations; and

- (j) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

#### 8.7 Conflicts of interest

The Committee shall:

- (a) in respect of each director, review any interests the director may have which conflict or may conflict with the interests of the Company;
- (b) 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
- (c) 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).

8.8 The responsibilities set out in sections 8(1) to 8(7) shall extend to JSC Bank of Georgia and any other major subsidiary undertaking, as determined by the Board of the Company.

#### 8.9 Terms of Reference

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

9.1 The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. This report shall include:

- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
- (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- (c) any other issues on which the Board has requested the Committee's opinion.

9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The Committee shall produce a report on its activities to be included in the Company's annual report. The report should include an explanation of how the

committee has addressed the effectiveness of the external audit process; 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 all other information requirements set out in the UK Corporate Governance Code.

## **10. OTHER MATTERS**

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 10.2 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;
- 10.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus, Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 10.4 be responsible for co-ordination of the internal and external auditors;
- 10.5 oversee any investigation of activities which are within its terms of reference; and
- 10.6 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:

- 11.1 to seek any information it requires from any employee of the group in order to perform its duties;
- 11.2 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;
- 11.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.4 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.