



საქართველოს ეროვნული ბანკი  
National Bank of Georgia

# SUPERVISORY STRATEGY

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2023-2025

2025 EDITION



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# CONTENTS

<b>Statement of the Governor</b>	<b>3</b>
<b>What is the Supervisory Strategy based on?</b>	<b>4</b>
<b>To whom does the Supervisory Strategy concern?</b>	<b>6</b>
<b>Supervisory Mandate, Mission and Vision</b>	<b>8</b>
<b>Culture and Values</b>	<b>9</b>
<b>Supervisory Regime and Vision for Innovations</b>	<b>10</b>
<b>Underlying Challenges of Operational Environment</b>	<b>13</b>
<b>Risks Associated with the Execution of the Supervisory Strategy</b>	<b>14</b>
<b>Periodicity and Format of Updating the Strategy</b>	<b>14</b>
<b>Supervisory Priorities for 2023-2025</b>	<b>15</b>
Improvement of financial sector risk management framework and proactive response to outcomes	16
Promotion of competition in the financial sector	19
Promotion of financial innovation and development of supervisory technologies	21
Approximation to International Standards	24
Strengthening the supervisory function of the National Bank and increasing transparency	27
<b>Action Plan</b>	<b>29</b>
<b>Milestones of 2024 and Strategy Implementation Report</b>	<b>32</b>
<b>Glossary</b>	<b>55</b>

# STATEMENT OF THE GOVERNOR



The National Bank of Georgia (NBG) continues its tradition by publishing the 2025 edition of the 2023–2025 Supervisory Strategy. Through this document, along with the report on the fulfillment of supervisory priorities and the corresponding tasks of the past year, the National Bank presents to the public its key objectives for the next 12 months, which fall within the directions outlined in its supervisory strategy.

Existing practice demonstrates that, beyond establishing high standards of transparency, the Supervisory Strategy document supports effective planning of the Bank's activities, the clear formulation of future vision for staff, improved predictability for the sector regarding planned activities, and accessibility of information on the Bank's supervisory priorities and plans for investors, international financial institutions, rating agencies, the public, and other interested parties. In light of this, the National Bank remains committed to its practice and publishes the 2025 edition of the 2023–2025 Supervisory Strategy<sup>1</sup>.

As stated in the 2023-2025 supervisory strategy, the National Bank's supervisory priorities will remain same over the three-year period. Therefore, the Bank will continue to focus on the following five priorities in its supervisory activities:

- ◆ Improvement of financial sector risk management framework and proactive response to outcomes;
- ◆ Promotion of competition in the financial sector;
- ◆ Promotion of financial innovation and development of supervisory technologies;
- ◆ Approximation to international standards;
- ◆ Strengthening the supervisory function of the National Bank and increasing transparency.

The 2025 edition of the Supervisory Strategy focuses on the action plan for achieving the supervisory priorities defined for the next 12-month period, including the relevant activities and their deadlines, as well as the 2024 report on the implementation of the supervisory strategy.

A brief report on the fulfillment of activities outlined in the supervisory strategy within 2024 is presented in this document. More extensive information regarding the National Bank's operations and performance indicators can be found in the National Bank's 2024 Annual Report<sup>2</sup>.

**Natia Turnava**  
Governor of the National Bank of Georgia

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1. The 2023-2025 supervisory strategy document of the National Bank of Georgia is available at the [link](#).

2. Detailed information about the activities performed by the National Bank of Georgia is reflected in the annual reports, which are available at the [link](#).

## WHAT IS THE SUPERVISORY STRATEGY BASED ON?

When developing the Supervisory Strategy for 2023-2025 and elaborating on the supervisory priorities, the National Bank of Georgia (NBG) considered the following factors:

- ✦ Main directions of supervision and regulation of financial sector;<sup>3</sup>
- ✦ Recommendations of international partners<sup>4</sup> and commitments assumed<sup>5</sup>;
- ✦ Analysis of international practice and trends;<sup>6</sup>
- ✦ Opinions and recommendations of the private sector, including opinions regarding the formation of the main priorities of the Supervisory Strategy gathered through the published questionnaire<sup>7</sup> and published draft document<sup>8</sup>;
- ✦ Needs identified within the supervisory mandate, underlying risks and challenges.

NBG strives to ensure that the financial system is secure today and prepared for tomorrow. Accordingly, the priorities and planned activities of the NBG are tailored to meet these goals.



### SECURE TODAY

Public confidence in the soundness and stability of the financial sector is a crucial prerequisite for economic activity. The NBG devotes considerable resources to achieving this goal and protecting the public's financial interests. To this end:

- ✦ Supervisory actions are guided by risk-based supervision principles<sup>9</sup>, which in case of customer rights protection shall be applied to activities in addition to existing framework;
- ✦ Decisions are made based on comprehensive data analysis;
- ✦ The prudential regulation framework is continuously improved to address ongoing challenges;
- ✦ A modern and flexible working environment enables a team of highly skilled professionals to respond effectively to new and unexpected challenges.

3. Decree No.23 of the Board of the National Bank of Georgia dated November 4, 2022 on "[Main directions of supervision and regulation of the financial sector](#)".

4. The recommendations provided by the International Monetary Fund and the World Bank for the National Bank of Georgia are available on the webpages of the respective institutions ([IMF](#); [Worldbank](#)).

5. Commitments taken under the [Georgia-EU Association Agreement](#) and [Letter of Intent](#).

6. The NBG continuously monitors the best international practice and trends, studies them and adapts the existing framework and practices as needed.

7. To ensure the involvement of the private sector and other stakeholders in the development of the 2023-2025 Supervisory Strategy, the National Bank published a questionnaire. This allowed all interested parties to participate in defining the main directions of the supervisory strategy and to present their opinions and recommendations. The questionnaire is available on the National Bank's website at the relevant [link](#).

8. To ensure stakeholder involvement in developing the 2023-2025 Supervisory Strategy, the National Bank published the initial draft of the supervisory strategy for public review. This information is available on the National Bank's website at the relevant [link](#).

9. The NBG supervises and regulates commercial banks in accordance with the principles of risk-based supervision. The explanation of the NBG's supervisory regime and each principle can be found both in this document and at the following [link](#).



## PREPARED FOR TOMORROW

As the financial sector develops rapidly, the NBG is working today to ensure that the financial system is ready for tomorrow. For this purpose:

- ◆ NBG continuously monitors the market to study innovations and risks, analyzes financial developments and participants to identify the need for further regulation;
- ◆ It collaborates with supervised entities to find solutions for significant challenges;
- ◆ The NBG ensures continuous improvement of the regulatory framework to align with international standards and best practices;
- ◆ It prioritizes the protection of consumer interests and rights, including enhanced practices for consumer rights protection in the financial sector.



## STRENGTHS AND ADVANTAGES

In pursuing its priorities and goals, the National Bank of Georgia relies on its strengths and advantages:

- ◆ **Staff and Values:** The NBG boasts highly qualified, experienced, and motivated employees who share the organization's clear goals and values;
- ◆ **In-depth Supervisory Vision and Awareness:** Through active involvement and regular communication with supervised entities, the NBG possesses unique and comprehensive knowledge of sectoral risks.
- ◆ **Evaluation of the sector from a systemic perspective:** Leveraging its thorough sectoral awareness, the NBG consistently maintains a systemic view of supervised sectors.
- ◆ **Strong Regulatory Powers:** Recent reforms and legislative changes have significantly bolstered the NBG's supervisory and regulatory authority. This enhancement enables timely and effective responses to sectoral risks and vulnerabilities.

## TO WHOM DOES THE SUPERVISORY STRATEGY CONCERN?

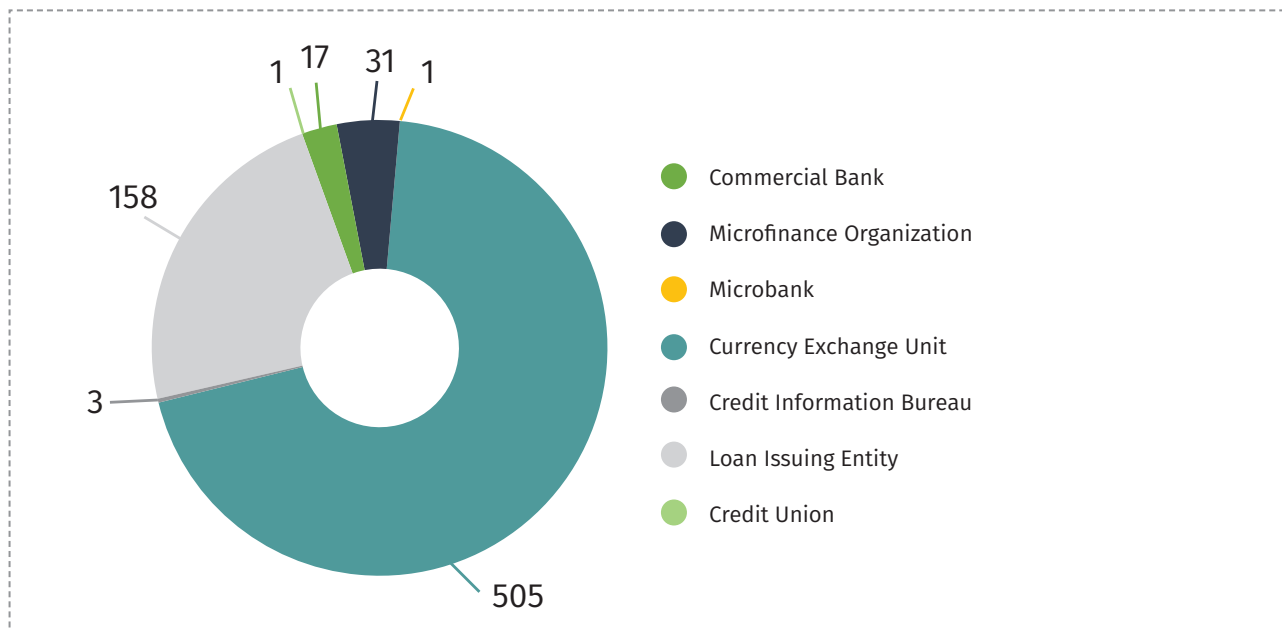
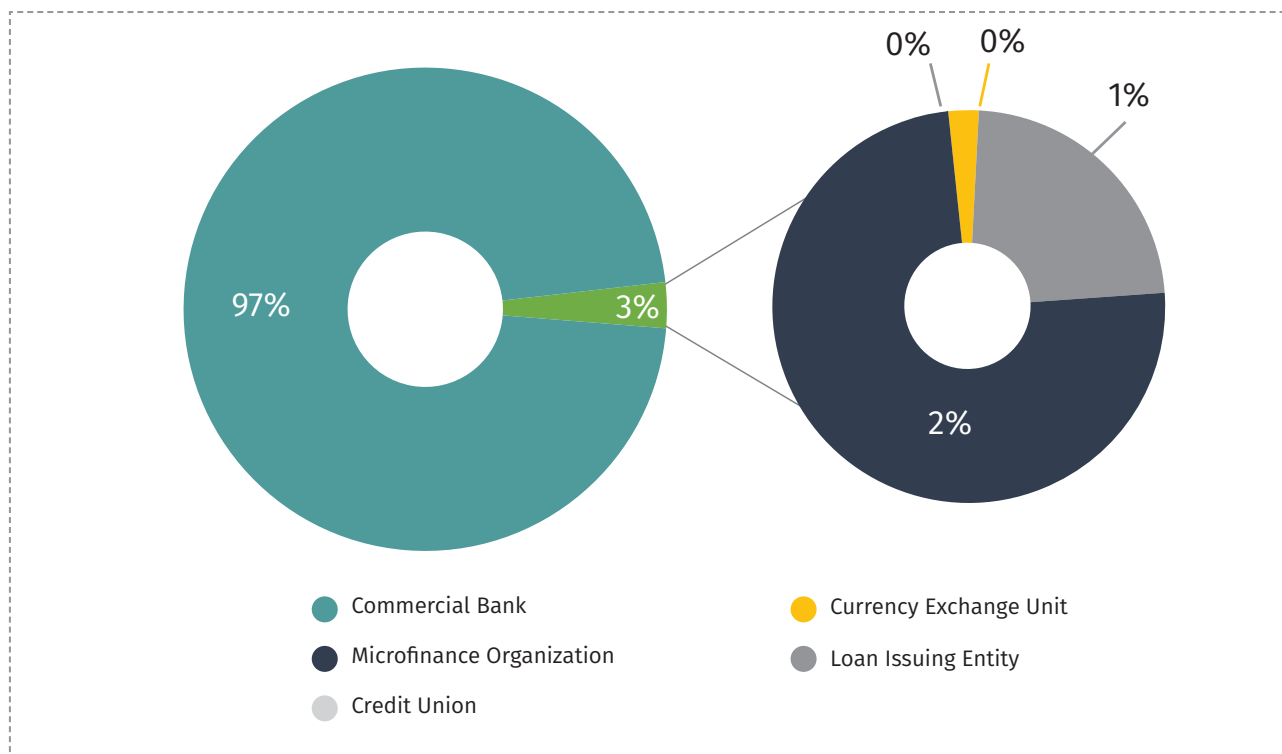
According to the Organic Law of Georgia "On the National Bank of Georgia", the NBG is granted full authority to supervise the activities of Commercial banks, Microbanks, Banking groups, Non-bank deposit-taking institutions, Microfinance organizations, Independent securities registrars, Brokerage companies (excluding insurance brokers), Stock exchanges, Central depositories, Specialized depositories, Asset management companies, Accountable enterprises, Pension funds, Currency exchange units, Investment funds, Authorized securitization special purpose entities, Payment system operators, Payment service providers, Credit information bureaus, Loan issuing entities Virtual asset service providers.

The NBG plays a critical role in ensuring the stable and efficient functioning of the financial system, fostering a competitive environment, controlling systemic risk, and mitigating various risks. The prudential supervision framework is designed to support the sustainable operation of the entire financial system.

Additionally, the NBG applies developed risk-based supervisory practices to protect consumer rights comprehensively. This approach allows the NBG to thoroughly assess sector-wide issues and ensure compliance with legal requirements, thereby enhancing consumer protection and fostering an improved regulatory environment.

This supervisory strategy applies only to certain supervised entities of the National Bank, specifically Commercial banks, Microbanks, Microfinance organizations, Credit unions, Currency exchange units, Loan issuing entities, Credit information bureaus. For the purposes of this document, these entities are collectively referred to as the financial sector or representatives of the financial sector. Separate strategies, tailored to specific entities or areas within the National Bank's individual supervisory directions, are also prepared and published independently on the National Bank's website.



**Table N1<sup>10</sup> - Representatives of the financial sector (by number)****Table N2<sup>11</sup> - The share of representatives of the financial sector in the market by assets (in GEL)**

10. The table reflects the number of supervisory entities as of December 31, 2024, to whom the following document shall concern. The number of entities is variable and depends on licensing/registration of new entities and revocation of license/registration. Updated information is available on the website of the National Bank of Georgia ([Commercial banks](#), [Microbanks](#), [Non-banking institutions](#), [Credit Bureau](#)). It is noteworthy that, as of the publication date of this document, in total 2 microbanks are licensed and 2 credit information bureaus are registered.

11. The table shows the share of supervisory entities in the market according to their assets in national currency as of December 31, 2024: banking sector - 95,830.4 Million GEL, of which 145.8 Million GEL comprised the assets of licensed microbank at that time; Microfinance Organizations - 2,266.7 Million GEL, Loan Issuing Entities - 590.1 Million GEL, Currency Exchange Units 89,3 Million GEL, Credit union 0.5 Million GEL.

# SUPERVISORY MANDATE, MISSION AND VISION



## MANDATE

The National Bank of Georgia's statutory mandate in supervising the financial sector is to ensure financial stability, enhance transparency, and protect the rights of consumers and investors.



## MISSION

Facilitating sustainable and sound development of the financial sector, open to qualified investors, ensuring a competitive environment, and protecting consumer interests.



## VISION

Aligned with high international standards, the National Bank of Georgia aspires to be a dynamic, innovative, flexible, independent, and competent central bank. Our vision is to safeguard financial stability and transparency, promote consumer rights and investor confidence, and enhance financial education within society. Through these efforts, we aim to earn the trust and respect of the public, colleagues, and supervised entities.

## CULTURE AND VALUES

Integral to fulfilling mandate, mission, and vision is cultivating a healthy organizational culture. This culture fosters shared goals and values among the NBG employees, promoting collaborative teamwork rooted in these principles.

### PROFESSIONALISM

- ◆ In-depth knowledge of the industry
- ◆ Constant attention to development, introduction of innovative approaches



### INTEGRITY

- ◆ Adherence to social, ethical and professional standards recognized in society



### ORIENTED ON DEVELOPMENT AND GROWTH

- ◆ Constant striving for improvement of activities, environment and own abilities



### TEAMWORK

- ◆ Recognizing the importance of teamwork to achieve goals
- ◆ Work effectively in a team



### TRUST AND MUTUAL RESPECT

- ◆ Conducting cooperation within and outside the organization with integrity and respect for diverse opinions and views
- ◆ Fostering reliability and trust in relationships



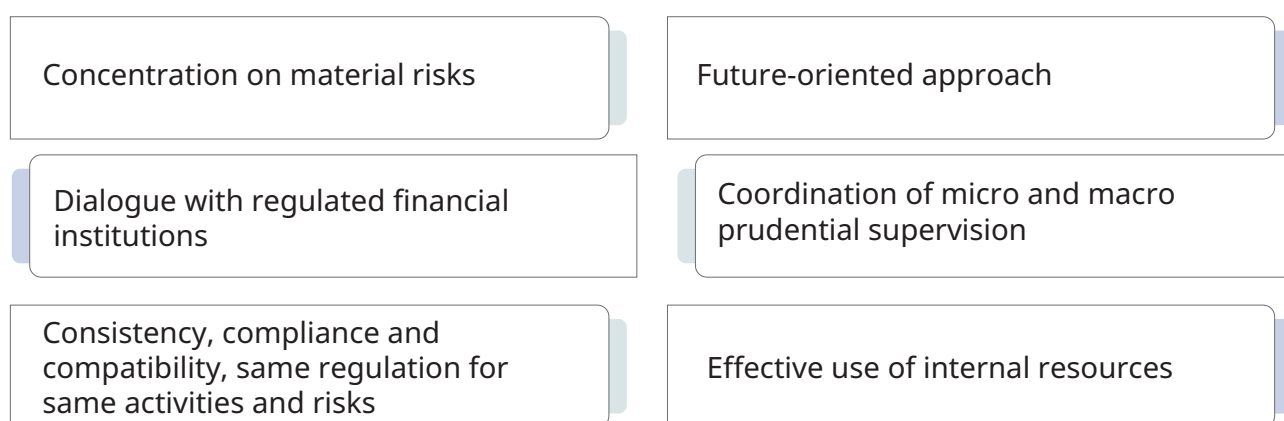
In addition to these values, great attention is paid to openness and transparency, while ensuring adherence to the principle of confidentiality and related regulatory norms.

## SUPERVISORY REGIME AND VISION FOR INNOVATIONS

The supervisory regime and principles of the NBG, as well as its vision for innovation, remain unchanged.

However, considering the ongoing changes in the environment, particularly regarding consumer rights protection, the National Bank continually refines and enhances its approaches to address market challenges effectively.

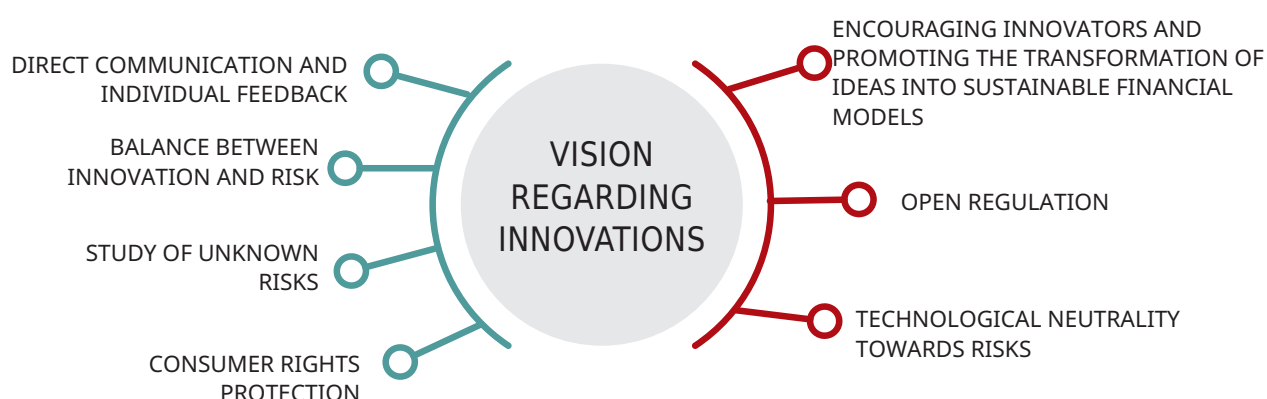
### SUPERVISORY PRINCIPLES



- ✦ **Concentration on Material Risks:** Focus proportionally on risks that pose the most substantial threat to the stability of the financial sector or the safeguarding of the financial resources of depositors, creditors, and investors (considering the relevant legal sequence);
- ✦ **Future-Oriented Approach:** Identify threats and problems in the financial sector at an early stage and take timely corrective measures to eliminate them;
- ✦ **Dialogue with Regulated Financial Institutions:** Engage in dialogue to understand the internal culture, strategy, and incentives of financial institutions. This supports the strengthening of internal control mechanisms by supervisory boards and directorates and enhances risk management sophistication.
- ✦ **Coordination of Micro and Macro-Prudential Supervision:** Integrate considerations of ongoing systemic risks in the financial sector, measures to mitigate these risks, business and credit cycles, and other macroprudential policy factors while conducting micro-prudential analysis;
- ✦ **Consistency, Compliance, and Compatibility:** Ensure uniform requirements and approaches in decision-making processes related to institutions with similar characteristics and regulation. Establish similar regulatory requirements for market segment representatives with the same activities and risks, ensuring a proportional response to risks;

- ◆ **Effective Use of Internal Resources:** Risk-based supervisory processes and principles-based regulation ensure the most efficient allocation of supervisory resources. This approach shifts the focus from passive regulatory compliance assessment to actively addressing risks and implementing practical mitigation techniques.

The vision of the NBG regarding innovation is closely aligned with its supervisory principles, particularly its risk-oriented approach.



**Encouraging Innovators and Promoting Sustainable Financial Models:** The National Bank of Georgia places significant emphasis on encouraging innovations and transforming them into sustainable financial models. To achieve this, it develops various supervisory approaches and participates in creating the foundational infrastructure for fintech activities. This infrastructure development comprises two vectors: financial infrastructure and supervisory framework development.

**Open Regulation:** The supervisory approach is open to new ideas and initiatives that promote financial market development without increasing risks to financial stability and the system. Innovators whose ideas may be impeded by the National Bank's supervisory techniques can submit justifications based on international practice and local facts to the National Bank of Georgia for regulatory development.<sup>12</sup>

**Technological Risk Neutrality:** The supervisory approach is technologically risk neutral. For the NBG, the stability of the financial system is paramount, regardless of the type of technological means used. The same risk is subject to the same supervisory requirements, irrespective of the technological processes underlying the financial institution's business model.

**Protection of Consumer Rights:** With innovative products, consumers may find it challenging to understand new features. Therefore, monitoring consumer rights, particularly in information disclosure, should be strengthened. Financial institutions should be encouraged to develop robust consumer protection policies as part of their product development activities. Additionally, given the complexity of innovative products for retail consumers, financial education plays a crucial role in raising awareness and understanding of such products.

12. Information on open regulation framework and its elements is available on the NBG [webpage](#).

**Exploring Unknown Risks:** The risk and potential impact of new financial technologies are often unknown, especially in their early stages. A risk-based approach is cautious with such technologies. The NBG can utilize a regulatory sandbox to determine these risks. This involves financial institutions conducting various tests in a controlled environment set by the National Bank of Georgia and discussing the results with the supervisor. The Regulatory Sandbox focuses primarily on detecting systemic risks.

**Balance between Innovation and Risk:** The rapid development of financial innovation and risk reduction can often conflict. The NBG's vision involves continuously striving to maintain an optimal balance between fostering financial market development and mitigating risks.

**Direct Communication and Individual Feedback:** To encourage innovation, the NBG is committed to direct communication and providing individual feedback to stakeholders. This entails timely and detailed responses to questions related to the supervisory approach to financial technologies, as well as offering tailored feedback to meet the specific needs of interested parties.

## UNDERLYING CHALLENGES OF OPERATIONAL ENVIRONMENT

Challenges in the operational environment can impact the supervisory activities of the National Bank, potentially leading to the failure to implement the supervisory strategy, or the postponement or modification of planned activities. Such challenges may even render the bank's predetermined supervisory priorities and planned activities irrelevant.

The trends, challenges, and certain risks characteristic of the dynamic operational environment of the National Bank may affect the priorities and action plan defined in this document, including the planned activities and their implementation deadlines. To properly respond to such challenges and effectively fulfill its supervisory mandate, the NBG reserves the right to change or adjust these priorities, activities, and their timelines.

The current challenges of the operational environment identified by the NBG are multifaceted and include:

- ◆ Non-financial and emerging risks
- ◆ Changes in the industry, including new business models
- ◆ Rapid growth of crypto assets and cryptocurrency relevance
- ◆ Technological innovations and cybercrimes
- ◆ Human resources management, including outflow and other relevant elements
- ◆ Political environment and external shocks
- ◆ Globalization and digitalization
- ◆ Collaborative culture
- ◆ Changes in the behavior and priorities of financial sector users and etc.

## RISKS ASSOCIATED WITH THE EXECUTION OF THE SUPERVISORY STRATEGY

In addition to challenges in the operational environment, other risks and external factors may also contribute to the failure of the supervisory strategy or certain parts thereof, including:

- ◆ Changes in priorities resulting from force majeure situations or other unexpected external factors that were not considered in the supervisory strategy.
- ◆ Risks associated with attracting and retaining necessary employees required for executing the strategy.
- ◆ Defects, damage, or absence of NBG infrastructure that hinder normal operations and processes.



Risks associated with attracting and retaining necessary employees



Defects, damage, or absence of infrastructure that hinder normal operations and processes



Force majeure situations or unexpected external factors

## PERIODICITY AND FORMAT OF UPDATING THE STRATEGY

The Supervisory Strategy is updated annually with the relevant year's edition. This update does not necessarily imply an annual change in supervisory priorities, but rather the potential adjustment of activities outlined in the action plan and their implementation deadlines. This adaptation aims to effectively fulfill the supervisory mandate and mission by addressing current challenges in the operational environment and mitigating risks associated with strategy execution. Some activities may be modified, added, or deemed irrelevant based on ongoing assessments.



## SUPERVISORY PRIORITIES FOR 2023-2025

As in 2024, in 2025, the activities of the National Bank of Georgia within the framework of the supervisory strategy document will continue to be based on the same priorities.



## Improvement of financial sector risk management framework and proactive response to outcomes

A priority for the National Bank will be to enhance the risk assessment of the financial sector and proactively respond to identified risks. The National Bank of Georgia plans to achieve this priority through the following activities:

- ◆ Refining risk assessment systems pertaining to non-financial risks in the financial sector, such as cybersecurity, climate change, information technology, and model usage, and developing corresponding supervisory policies, including:
  - Developing climate change risk scenarios and stress-test frameworks;
  - Implementing a guide for cloud computing models;<sup>13</sup>
  - Updating regulations on operational risk management for commercial banks;
  - Establishing requirements for operational and cyber risk stress-tests for commercial banks;
  - Defining the updated requirements for the cybersecurity management framework.
- ◆ Development and implementation of policies and procedures, guided by risk-based supervision principles, to monitor practices and compliance with legislative and regulatory frameworks in consumer rights protection within the financial sector;
- ◆ Promotion of gender diversity in the financial sector to enhance risk management quality;
- ◆ Evaluation of capital, liquidity, and organizational risk management frameworks within banks' Internal Capital Adequacy Assessment Program (ICAAP) and Internal Liquidity Adequacy Assessment Program (ILAAP). Defining the approach for integrating the ICAAP assessment into the capital adequacy requirements framework;
- ◆ Assessment of financial sector resilience to external shocks through stress-tests and integration of results into frameworks to enhance sector resilience;
- ◆ Conducting and the 2022 round of stress-tests for commercial banks and analyzing results.
- ◆ Organizing preparatory works for the 2025 round of stress-tests for commercial banks, conducting the round of stress-tests and analyzing the results;
- ◆ Updating the stress-tests manual to incorporate changes resulting from the transition to the IFRS Standard;
- ◆ Development of operational risk, cybersecurity, and corporate governance requirements for microfinance organizations based on risk assessment;
- ◆ Updating the format of financial reporting, submission deadlines, and accounting rules to be presented by microfinance organizations to the National Bank of Georgia;<sup>14</sup>
- ◆ Evaluation of information gaps and corporate governance across different areas of commercial banks (e.g. corporate banking, investment banking, insurance) and integration of identified risks into strategies and supervisory vision;

13. In this activity, the development and implementation of [guidelines for the use of cloud outsourcing services by financial organizations](#) should be considered.

14. This activity has been added to the Supervisory Strategy Action Plan to enhance sector foresight











































































- ◆ Enhancing direct and effective communication with commercial banks and their senior management and supervisory boards regarding risk-based supervision, identified risks, supervisory measures, and key issues;
- ◆ Implementing risk-based supervision principles proportionally across other supervised entities, similar to commercial banks;
- ◆ Conduct qualitative evaluations of risk management and internal control functions (including internal audit) at commercial banks and implement necessary measures to address identified gaps and weaknesses;
- ◆ Proactively evaluate recovery plans developed by commercial banks and ensure effective communication;
- ◆ Enhance guidelines on financing for real estate developer companies and principles for issuing mortgage loans for unfinished/under construction real estate;<sup>15</sup>
- ◆ Refine standards for managing conflicts of interest;
- ◆ Develop regulations for credit risk management and establish fundamental principles;
- ◆ Draft special insolvency or bankruptcy legislation tailored for microfinance organizations;
- ◆ Introduce a temporary administration regime for microfinance organizations through legislative amendments;
- ◆ Establishing data quality management requirements for commercial banks.

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15. The relevant document is available at the [link](#).

 Completed

 01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Improvement of financial sector risk management framework and proactive response to outcomes	Development of climate change risk scenarios and stress test framework						
	Introduction of the cloud computing model manual						
	Update of Regulation on Operational Risk Management by Commercial Banks						
	Establishing operational and cyber risk stress-test requirements for commercial banks						
	Determining the updated requirements of the cybersecurity management framework						
	Develop a risk-based supervisory strategy for consumer protection						
	ILAAP Assessments of Commercial Banks						
	ICAAP Assessments of Commercial Banks						
	Conducting the 2022 Stress Test Round of Commercial Banks and Analysis of Results						
	Preparation, Conduct and Analysis of Results for the 2025 Stress Test Round of Commercial Banks						
	Updating the stress-tests manual to incorporate changes resulting from the transition to the IFRS Standard						
	Development of operational risks, cybersecurity and corporate governance requirements for microfinance organizations						
	Updating the format of financial reporting, submission deadlines, and accounting rules to be presented by microfinance organizations to the National Bank of Georgia						
	Enhance guidelines on financing for real estate developer companies and principles for issuing mortgage loans for unfinished/under construction real estate						
	Enhancing Conflict of Interest Management Standards						
	Developing a Credit Risk Management Regulation and Defining Basic Principles						
	Development of special insolvency/bankruptcy legislation for microfinance organizations						
	Introduction of temporary administration regime through legislative changes for microfinance organizations						
	Establishing data quality management requirements for commercial banks						

## Promotion of competition in the financial sector

To promote competition in the financial sector, the priorities include work on relevant supervisory policies, market monitoring and improvement of enforcement mechanisms, as well as conducting studies and considering their results in supervisory decision-making processes. The National Bank of Georgia plans to accomplish this goal with the following activities:

- ◆ Development of the supervisory framework for Microbanks - a new type of financial institution;
- ◆ Bringing the entities implementing factoring operations and leasing companies<sup>16</sup> under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework for this purpose;
- ◆ Updating the principles of “digital bank” licensing and developing the relevant regulatory framework;
- ◆ Further upgrade and development of competition policy for the effective implementation of policies in practice;
- ◆ Improving the regulatory framework for currency exchange units:
  - Developing a regulatory framework for non-cash currency exchange units;
  - Additional upgrade of operational requirements for currency exchange units;
  - Analysis of the results of the latest changes and, based on the needs identified, amending the regulations on imposing fines on currency exchange units.
- ◆ Monitoring of the financial sector market(s), including the study of issues and practices related to combined financial products, and developing appropriate responses to promote competition, including compliance with the Code of Ethics of the financial sector;
- ◆ Improvement of the market analysis and concentration reporting framework, and working on enforcement mechanisms in practice;
- ◆ Initiation of simplified impact assessments for the introduction of new legal initiatives and/or acts for the financial sector to analyze the expected impact of the new initiatives/acts on competition in the concerned financial markets;
- ◆ Development of an independent institutional function to investigate abuse of dominant position and agreements that restrict competition in the sectors regulated by the National Bank as well as the development of concentration control. Aiming to minimize conflicts and overlaps in terms of competencies;
- ◆ Expand cooperation with institutions across the country (including the Georgian Competition and Consumer Agency, Regulatory Agencies, Personal Data Protection Service, Ministries, the Parliament, and others,) to effectively implement the competition policy;
- ◆ Review international practices of competition law enforcement in the financial sector and develop a guiding document;
- ◆ Facilitate access for small players to expensive infrastructure and rich data;
- ◆ Encourage the emergence of new players in the market;
- ◆ Facilitate monitoring and enforcement processes for consumer rights protection law, including by amending regulations on imposing fines and relevant acts on consumer rights protection;
- ◆ Implement risk-based supervision for consumer rights protection, which will contribute to the correct assessment of market behavior and proper analysis of information regarding competition.

16. In the future, the issue of bringing leasing companies under the regulatory scope of the National Bank and developing an appropriate supervisory framework requires detailed evaluation and discussion. It is important to note that the National Bank does not have the authority to initiate legislation, and therefore, determining the timeline for implementing this activity does not fall within the Bank's prerogative.



↑ 01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of competition in the financial sector	Development of a supervisory framework for microbanks						
	Bringing the entities implementing factoring operations under the regulation of the National Bank of Georgia and developing the relevant supervisory framework						
	Bringing leasing companies under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework						
	Updating the principles of digital bank licensing and developing the relevant regulatory framework						
	Refine regulatory framework for currency exchange unites						
	Refine Market Analysis and Concentration Reporting Framework						
	Initiation of simplified impact assessment for the introduction of new legal initiatives and/or acts						
	Develop institutional capacity to conduct merger analysis/antitrust investigations/competition advocacy within the NBG as a separate function						
	Review of International Practices for the Enforcement of Competition Law in the Financial Sector and Development of Guide Document						
	Amendment to the rule "on protection of consumer rights by financial organizations while providing services"						
	Amendments to the rules on the imposition of fines on commercial banks, microfinance organizations and loan issuing entities						

## Promotion of financial innovation and development of supervisory technologies

Promoting the development of financial technologies and innovations, advancing the digitization of supervisory processes and services, and developing relevant supervisory technologies are priorities. The National Bank of Georgia plans to achieve this priority through the following activities:

- ✦ To improve the effectiveness of supervision, the National Bank of Georgia will promote the digitization of supervisory processes and services and develop appropriate supervisory technologies;
- ✦ Development and promotion of Open Banking:
  - Promoting the use of open banking services for non-banking institutions, including fintech companies, to provide innovative services to financial sector users and improve the competitive environment;
  - Dynamic standardization of financial information and services in the electronic space;
  - Continuous development of the Open Banking framework, which involves sharing more financial information;
  - Identifying, prioritizing, and supporting practical, value-added products and services in the realm of Open Finance;
  - Developing an appropriate supervisory plan to facilitate the transition to Open Finance.
- ✦ Developing guidelines for the advancement of financial technologies and creating a national financial inclusion strategy;
- ✦ Developing open supervisory approaches:
  - Enhancing the principles of open regulation;
  - Expanding the role of the Office of Financial Innovations as the primary communication channel with the financial innovation community;
  - Lowering entry barriers for entities with innovative business models to enter the financial market.
- ✦ Promoting digital banking:
  - Leveraging technological capabilities to increase access to financial services and encouraging the growth of digital banking channels;
  - Supporting the development of a modular banking model;
  - Establishing cybersecurity requirements for digital banks and integrating them into the licensing process;
  - Sustainable development of cloud architecture data storage and processing.
- ✦ Refining and expanding the regulatory sandbox, which includes extending its scope to investigate unknown risks, including non-regulated entities; Enhancing the risk testing framework for various technologies; Establishing a targeted sandbox for priority services/licenses for the NBG as needed;
- ✦ Facilitating the development of data analysis and supervisory technologies (SupTech) within the National Bank of Georgia, which includes: developing the credit register and improving data quality; optimizing supervisory forms, utilizing Big Data modeling in the supervisory process, transitioning supervisory information to the XBRL (Extensible Business Reporting Language) data exchange standard, developing risk analytical dashboards;
- ✦ Developing models:

- Promoting data processing to improve access to finance, and developing machine learning and artificial intelligence models, especially for the retail sector;
- Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models, and developing relevant guidelines;
- Developing principles for the ethical use of models;
- Monitoring international practices to develop principles of model complexity and explainability, and refining/tightening these principles as needed;
- Analyzing and identifying issues needed to improve the qualitative indicators, comparability, and compatibility of models for IFRS 9 purposes;
- Determining supervisory segment indicators for IFRS models using credit register data.<sup>17</sup>
- ◆ Initiating the pilot phase of the central bank's digital currency CBDC:
  - Launching a pilot program in collaboration with a technology partner selected by the NBG, testing practical use cases identified by the NBG;
  - Implementing the digital currency in a real environment based on the insights gained from the pilot program;
  - Examining potential risks associated with digital currency after its implementation in pilot and real environments, and developing risk mitigation strategies;
  - Coordinating and effectively integrating all parties involved in the Digital GEL project.
- ◆ Promoting financial innovations and studying business models and international practices for supervisory technology development: Conducting research on Distributed Ledger Technology (DLT), crypto assets, stablecoins, smart contracts, and identifying technology/asset risks and establishing an appropriate supervisory framework; Fostering close partnerships with relevant parties and raising public awareness about financial technologies;
- ◆ Encouraging the adoption of "embedded finance" to increase competition in the country's financial market;<sup>18</sup>
- ◆ Investigating and identifying approaches for sustainable development of cloud architecture data storage and processing;
- ◆ Researching privacy-enhancing technologies and developing specific principles;
- ◆ Deepening research in artificial intelligence (AI) and generative AI, developing principles, and promoting the introduction and use of AI by the NBG;
- ◆ Establishing regional cooperation and developing a joint fintech action plan;
- ◆ Positioning Georgia as a regional/Black Sea fintech hub.

17. During the model development process, a particular activity was deemed irrelevant and subsequently removed from the action plan. As we initiated the monitoring of commercial banks' IFRS 9 models, there was a request for the banks to create statistical models for calculating Expected Credit Losses (ECL). These models, developed using internal logic and assumptions, would be utilized for internal purposes and aligned with the requirements set by the National Bank of Georgia. The objective of the aforementioned process was to assess and provide commercial banks with benchmark indicators for the sub-components of Expected Credit Losses (ECL) in IFRS 9 models, based on the available data. At present, commercial banks have developed and implemented their own internal IFRS 9 models. The current goal of the NBG is to monitor these internal bank models and offer recommendations or guidance as needed.

18. This is a continuous process, which the NBG implements by strengthening the directions of Open Banking and Open Finance, as well as active meetings with regulated and non-regulated entities and raising awareness.





Completed

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of financial innovation and development of supervisory technologies	Development of a supervisory plan for the purposes of transition to Open Finance						
	Develop a guide to developing a fintech development and national financial inclusion strategy						
	Identify cybersecurity requirements for digital banks and consider them in the licensing process						
	Development of a regulatory sandbox						
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models						
	Analysis/study and identification of issues needed to improve the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9						
	Starting a pilot program with the NBG's selected technology partner and testing practical examples of added value						
	Conducting surveys, analyzing practices and identifying the best approaches to determine the supervisory framework for DLT technology, stable coins and smart contracts						
	Encouraging the use of embedded - "built-in" finance						
	Research and identify approaches to sustainable development of cloud architecture for data storage and processing						
	Researching regulations on privacy enhancing technologies and developing some principles						
	Enhancing research in the field of artificial intelligence (AI) and research activities in the field of Generative AI, developing principles, facilitating NBG's implementation of the use of Artificial Intelligence						

## Approximation to International Standards

To ensure the stable and effective functioning of the financial system, the National Bank of Georgia has made it a priority to align with advanced international standards and meet its commitments or recommendations. The NBG aims to achieve this priority through the following activities:

- ◆ Enhancing the existing prudential regulation, including the development of risk-based approaches for protecting the rights of consumers in the financial sector. This will effectively address emerging challenges and promote innovations within the financial system;
- ◆ Monitoring the implementation of the transition to IFRS project, if necessary, updating/reflecting changes in supervisory policies, ensuring compliance with the European Financial Reporting Framework;
- ◆ Monitoring relevant standards to dynamically align with the directives and related standards set by the Association Agreement;
- ◆ Developing environmental, social, and governance (ESG) risk management guidelines;
- ◆ Preparing a new guide/action plan for sustainable finance;
- ◆ Enhancing transparency and reporting on environmental, social, and governance (ESG) issues and establishing best practices in the financial sector;
- ◆ Conducting relevant studies and determining the requirement for introducing the Minimum Requirement for Eligible Liabilities and Own Funds (MREL);
- ◆ Developing a framework for supervisory measures, early intervention, and a consistent process for revoking banking licenses for commercial banks;
- ◆ Continuously monitoring and improving regulatory capital standards:
  - Defining and assessing the methodology for foreseeable dividends and charges to be included in CET1 capital. Also, explaining the principle of including annual and interim profits in the CET1 capital;
  - Introducing the concept and calculation method of Maximum Distributable Amount (MDA), which includes limiting the implementation of specific payments with a volume higher than MDA in case of violation of the combined buffer;
- ◆ Aligning risk positions with Basel III standards and the requirements of Regulation 575/2013 of the European Parliament and Council of June 26, 2013:
  - Updating the standardized approach to credit risk weighting;
  - Introducing and implementing a new methodology for assets weighted according to market risk;
  - Introducing and implementing an additional methodology for credit risk related to the counterparty;
  - Updating the banking book interest rate risk management provision framework;
  - Update of the standardized approach for calculating risk-weighted assets based on operational risk.<sup>19</sup>
































19. This activity has been added to the Supervisory Strategy Action Plan to enhance sector foresight

- ◆ Establishing prudential requirements at the consolidated level;<sup>20</sup>
- ◆ Updating/refining instructions related to liquidity (LCR, NSFR);
- ◆ Establishing a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures;
- ◆ Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate;
- ◆ Development of a framework for supplementary supervision of financial conglomerates;
- ◆ Implementation of amendments in relevant legislative acts and development of relevant by-laws to create ex-ante resolution fund;
- ◆ Conducting research and implementing changes in relevant legislation and by-laws for full compliance with the BRRD Directive.<sup>21</sup>

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20. Given the complexity of the issue, the National Bank plans to conduct research and methodological work by the end of 2025 to define supervisory approaches in order to develop a regulatory framework. Accordingly, work on developing and implementing the framework will continue beyond 2025.

21. This activity has been modified within the Supervisory Strategy Action Plan to better reflect the essence of the planned activity.

 Completed		 01.01.2023					
Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Approximation to International Standards.	Development of ESG Risk Management Guidelines						
	Preparation of a new Sustainable Finance Guide/ Action Plan						
	Improve transparency reports related to ESG and establish advanced practices in finance						
	Conducting relevant studies on the introduction of MREL and determining the requirement						
	Development of a framework for using certain grounds for supervisory measures, application of early intervention measure and revocation of a banking license for a commercial bank						
	Adoption of capital elements and deductions						
	Adoption of concept of Maximum Distributable Amount						
	Renewal of a standardized approach to credit risk weighting						
	Introduction and implementation of a new methodology for assets weighted according to market risk						
	Introduction and implementation of additional methodology for counterparty-related credit risk						
	Updating the Banking Book Interest Risk Management Regulatory Framework						
	Update of the standardized approach to calculating risk-weighted assets based on operational risk						
	Working on drafting a regulation on a consolidated supervision framework						
	Update/refine liquidity (LCR, NSFR) related instructions						
	Establishment of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures						
	Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate						
	Developing a framework for supplementary supervision of financial conglomerates						
	Implementation of amendments to the relevant legislative acts to establish the Ex-ante Resolution Fund and elaboration of relevant bylaws						
	Conducting the study and making amendments to the relevant legislative acts and bylaws for full compliance with the BRRD Directive						

## Strengthening the supervisory function of the National Bank and increasing transparency

To achieve the highest efficiency and synergy of the supervisory function, the National Bank of Georgia has made it a priority to enhance its organizational and institutional standards and practices. The National Bank aims to accomplish this priority through the following activities:

- ◆ Strengthening the corporate culture in the NBG, offering a diverse, equal and inclusive environment for employees, providing a work environment based on professional and motivated employee teamwork, including work on improving a hybrid work mode;
- ◆ Strengthening governance in the supervisory decision-making process, increasing the roles of employees involved, improving the accountability framework, and optimizing the process;
- ◆ Maximum institutionalization of supervisory practices;
- ◆ Ensuring the maximum involvement of all responsible departments in creating and reviewing working groups to address challenges identified in the supervision process and encouraging joint decision-making;
- ◆ Improving the practice of publishing the supervisory strategy, presenting it to sector representatives and industry experts;
- ◆ Implementing a framework for receiving comments and publicizing received comments regarding supervisory policy documents and initiatives;
- ◆ Ensuring complete and effective implementation and enforcement of developed regulations and policies;
- ◆ Attracting professionals and developing a long-term development plan for them;
- ◆ Strengthening internal communications and increasing employee engagement;
- ◆ Encouraging a culture of cooperation, information exchange, internal trainings, and coaching;
- ◆ Promoting the onboarding and adaptation process for new employees within the organization;
- ◆ Improving the employee performance evaluation and feedback system, including piloting the 360-degree feedback system;
- ◆ Developing an HR strategy document.

Activities outlined within this priority demand ongoing efforts, and the National Bank of Georgia is committed to continually enhancing its supervisory function and increasing transparency in the years to come.



Completed

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Strengthening the supervisory function of the National Bank and increasing transparency	Simplify the supervisory decision-making process and develop appropriate policies and procedures						
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback						
	Improvement of the feedback system, run the 360-degree feedback system in pilot mode						
	Development of HR Strategy Document						

## ACTION PLAN

Like to previous strategy, the standards and regulations set by the action plan are largely incorporated into the National Bank's existing supervisory framework. However, as international best practices and standards evolve and global and local trends change, the National Bank of Georgia is continuously updating, refining, and enhancing its regulatory framework, supervisory resources, technologies, and approaches related to supervision.<sup>22</sup>

↑ 01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Improvement of financial sector risk management framework and proactive response to outcomes	Development of climate change risk scenarios and stress test framework						
	Introduction of the cloud computing model manual						
	Update of Regulation on Operational Risk Management by Commercial Banks						
	Establishing operational and cyber risk stress-test requirements for commercial banks						
	Determining the updated requirements of the cybersecurity management framework						
	Develop a risk-based supervisory strategy for consumer protection						
	ILAAP Assessments of Commercial Banks						
	ICAAP Assessments of Commercial Banks						
	Conducting the 2022 Stress Test Round of Commercial Banks and Analysis of Results						
	Preparation, Conduct and Analysis of Results for the 2025 Stress Test Round of Commercial Banks						
	Updating the stress-tests manual to incorporate changes resulting from the transition to the IFRS Standard						
	Development of operational risks, cybersecurity and corporate governance requirements for microfinance organizations						
	Updating the format of financial reporting, submission deadlines, and accounting rules to be presented by microfinance organizations to the National Bank of Georgia						
	Enhance guidelines on financing for real estate developer companies and principles for issuing mortgage loans for unfinished/under construction real estate						
	Enhancing Conflict of Interest Management Standards						
	Developing a Credit Risk Management Regulation and Defining Basic Principles						
	Development of special insolvency/bankruptcy legislation for microfinance organizations						
	Introduction of temporary administration regime through legislative changes for microfinance organizations						
	Establishing data quality management requirements for commercial banks						

22. It is not possible for the NBG to accurately determine the deadlines for the activities that involve or depend on legislative changes.



Promotion of competition in the financial sector	Development of a supervisory framework for microbanks						
	Bringing the entities implementing factoring operations under the regulation of the National Bank of Georgia and developing the relevant supervisory framework						
	Bringing leasing companies under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework						
	Updating the principles of digital bank licensing and developing the relevant regulatory framework						
	Refine regulatory framework for currency exchange units						
	Refine Market Analysis and Concentration Reporting Framework						
	Initiation of simplified impact assessment for the introduction of new legal initiatives and/or acts						
	Develop institutional capacity to conduct merger analysis/antitrust investigations/competition advocacy within the NBG as a separate function						
	Review of International Practices for the Enforcement of Competition Law in the Financial Sector and Development of Guide Document						
	Amendment to the rule "on protection of consumer rights by financial organizations while providing services"						
	Amendments to the rules on the imposition of fines on commercial banks, microfinance organizations and loan issuing entities						
Promotion of financial innovation and development of supervisory technologies	Development of a supervisory plan for the purposes of transition to Open Finance						
	Develop a guide to developing a fintech development and national financial inclusion strategy						
	Identify cybersecurity requirements for digital banks and consider them in the licensing process						
	Development of a regulatory sandbox						
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models						
	Analysis/study and identification of issues needed to improve the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9						
	Starting a pilot program with the NBG's selected technology partner and testing practical examples of added value						
	Conducting surveys, analyzing practices and identifying the best approaches to determine the supervisory framework for DLT technology, stable coins and smart contracts						
	Encouraging the use of embedded - "built-in" finance						
	Research and identify approaches to sustainable development of cloud architecture for data storage and processing						
	Researching regulations on privacy enhancing technologies and developing some principles						
	Enhancing research in the field of artificial intelligence (AI) and research activities in the field of Generative AI, developing principles, facilitating NBG's implementation of the use of Artificial Intelligence						



Approximation to International Standards	Development of ESG Risk Management Guidelines						
	Preparation of a new Sustainable Finance Guide/Action Plan						
	Improve transparency reports related to ESG and establish advanced practices in finance						
	Conducting relevant studies on the introduction of MREL and determining the requirement						
	Development of a framework for using certain grounds for supervisory measures, application of early intervention measure and revocation of a banking license for a commercial bank						
	Adoption of capital elements and deductions						
	Adoption of concept of Maximum Distributable Amount						
	Renewal of a standardized approach to credit risk weighting						
	Introduction and implementation of a new methodology for assets weighted according to market risk						
	Introduction and implementation of additional methodology for counterparty-related credit risk						
	Updating the Banking Book Interest Risk Management Regulatory Framework						
	Update of the standardized approach to calculating risk-weighted assets based on operational risk						
	Working on drafting a regulation on a consolidated supervision framework						
	Update/refine liquidity (LCR, NSFR) related instructions						
	Establishment of a committee to review disputes within the NBS on payment systems and payment services, and development of related regulatory acts, policies and procedures						
	Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate						
	Developing a framework for supplementary supervision of financial conglomerates						
	Implementation of amendments to the relevant legislative acts to establish the Ex-ante Resolution Fund and elaboration of relevant bylaws						
Strengthening the supervisory function of the National Bank and increasing transparency	Conducting the study and making amendments to the relevant legislative acts and bylaws for full compliance with the BRRD Directive						
	Simplify the supervisory decision-making process and develop appropriate policies and procedures						
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback						
	Improvement of the feedback system, run the 360-degree feedback system in pilot mode						
	Development of HR Strategy Document						



Completed

## MILESTONES OF 2024 AND STRATEGY IMPLEMENTATION REPORT

In 2024, the NBG, in accordance with the Action Plan defined by the Supervisory Strategy, focused on various important projects and reforms. A brief overview of these activities is provided below, and more detailed information about the NBG's work in 2024 can be found in its 2024 annual report.<sup>23</sup>

### Improvement of financial sector risk management framework and proactive response to outcomes

- ◆ In 2024, the National Bank of Georgia, with financial support from the European Investment Bank (EIB) and in collaboration with international experts from EconLab, developed [a climate stress-testing framework](#) and published the results of the first climate stress test for Georgia's financial sector. This framework represents an integrated approach that combines several analytical modules to facilitate a comprehensive assessment of climate-related risks. The climate stress-testing framework applies a "top-down" methodology, built on the National Bank's current stress-testing techniques, and incorporates various satellite models and tools. It includes both physical and transition risks, offering a holistic perspective on challenges associated with climate change. Additionally, the framework relies on climate scenarios developed by the Network for Greening the Financial System (NGFS) to ensure alignment with international stress-testing standards.

In assessing climate vulnerability, the framework evaluates risks at both household and corporate portfolio levels, and is composed of the following interconnected modules:

- Acute Physical Climate Risk Module
- Transition and Chronic Physical Risk Module
- Corporate Sector Stress-Test Module
- Household Sector Stress-Test Module

Together, these modules enable the evaluation of potential economic disruptions and threats to financial stability stemming from climate change. The stress test results revealed possible losses linked to the realization of climate risks, but also emphasized the banking sector's strong capitalization and resilience to such risks. The full results of the stress test are available on the official website of the National Bank of Georgia.

- ◆ In recent years, the financial sector, especially banking institutions, have actively started using cloud outsourcing services. From August 1, 2023, the NBG Governor's decree came into force, approving the ["Guidelines for the use of cloud outsourcing services by financial organizations"](#). The mentioned guideline represents the requirements of a preventive nature, the timely fulfillment of which will contribute to the management of challenges/risks related to the cloud environment by the supervisory entities. As of 2024, 42% of the critical functions of the banking sector have been migrated to the cloud environment.

23. The annual reports of the National Bank of Georgia can be viewed on the website of the National Bank, corresponding [link](#).

- ◆ In 2024, within the framework of operational and cyber risk management, the assessment of outsourcing processes was a key priority. This evaluation was carried out through on-site thematic inspections in several commercial banks. The National Bank places significant emphasis on the evaluation process conducted by commercial banks when initiating outsourcing relationships—specifically the assessment of relevant companies and products. Additionally, the Bank highlights the importance of monitoring outsourced processes and performing periodic reassessments, using both scheduled and risk-based approaches.
- ◆ The NBG continues to work actively with commercial banks to assess and improve their operational and cyber risk management processes. Inspections of commercial banks for compliance with the operational risk management framework are ongoing. Particular attention is given to the thorough execution of business continuity planning by commercial banks under various scenarios, which also encompass outsourced processes.
- ◆ In 2024, expanding operational risk forecasting tools remained a priority. In this context, operational risk stress-tests were studied and researched to determine the expected impact of negative scenarios on an organization's capital and financial condition and to mitigate it. Greater emphasis was placed on recording and refining historical data of losses from potential or actual operational risks, conducting cause-effect analyses of operational risk events, and assessing systemic impact. The National Bank, by way of recommendations, emphasizes minimizing losses caused by human error, improving manual processes and controls, and automating the detection and recording of such losses. Additionally, research is underway to define the requirements for cyber risk stress testing, while the development of the regulatory framework itself is planned for 2026, in cooperation with the International Monetary Fund.
- ◆ As is already known, in 2019 the banking sector introduced supervisory requirements for cybersecurity, under which the National Bank of Georgia oversees the implementation, maintenance, and continuous improvement of a cybersecurity management framework across commercial banks. During 2024, the Bank's cyber-risk supervision team carried out cyclical on-site evaluations of commercial banks to verify compliance with this framework. Identified gaps were addressed through both mandatory corrective measures and a set of recommendations. In light of evolving challenges, key areas for enhancement were: formalizing and strengthening cyber and information-security processes; improving risk-management practices, particularly for third-party relationships; boosting the effectiveness of information-protection technologies and procedures; sustaining ongoing awareness-raising initiatives; and reinforcing the competencies of staff engaged in information and cyber security. Special attention was also paid to the existence and robustness of business-continuity and incident-response plans for potentially large-scale cyber-events. By the end of 2025, the National Bank intends to revise its cybersecurity management framework and establish updated supervisory requirements.
- ◆ Based on recommendations received under World Bank technical assistance and to align with best international practices, the National Bank of Georgia actively operates a Market Conduct Supervision function, whose primary objective is to reinforce risk-based supervisory principles for protecting financial-sector consumers. In 2024, the Bank developed a range of indicators that, through continuous monitoring, will allow it to proactively identify potential risks and challenges to consumer protection and to plan appropriate countermeasures. The National

Bank also drafted a Market Conduct Supervision Strategy, which will be published for public consultation in 2025. Additionally, under the Market Conduct Supervision framework, several thematic inspections were conducted in 2024.

- ◆ To improve gender diversity in the Supervisory Boards and Directorates of commercial banks, a change was introduced to the "Corporate Governance Code for Commercial Banks" on August 24, 2022. [This amendment](#) further increased the requirement for gender diversity. Specifically, by June 1, 2023, banks were obliged to ensure that the share of members of a different gender in their Supervisory Boards was at least 33 percent. Furthermore, by June 1, 2025, this share must be at least 40 percent. As of December 2024, the overall share of female representatives on the Supervisory Boards of commercial banks stands at 37 percent, which exceeds the established requirement.
- ◆ Within the framework of the liquidity adequacy assessment programs (ILAAP), the National Bank reviewed and evaluated the information and materials submitted by commercial banks. The assessment results and corresponding comments were communicated to the banks, and the National Bank expects them to submit revised documentation based on these remarks.
- ◆ Under the Internal Capital Adequacy Assessment Process (ICAAP), the National Bank has begun the review and analysis of data provided by commercial banks. Upon completion of the evaluation and analysis of outcomes, the integration of this assessment into the capital adequacy requirements framework will be considered.
- ◆ In light of changes to reporting standards and the approval of [“the rule for defining Risk Categories of Financial Instruments and Expected Credit Losses”](#), methodological revisions to the supervisory stress-testing framework have been placed on the agenda. As part of an IMF mission in November 2024, the National Bank initiated work to update its credit-risk stress-testing model and align it with Basel-compliant standards; the second phase of this mission is scheduled for 2025. The previous three-step stress-test approach has been replaced by a two-step system that directly maps borrowers’ credit-risk levels to stress-induced outcomes, yielding the final stress impact. A key enhancement is that, unlike the prior methodology, the updated framework calculates the stress effect on sector turnover by weighting three distinct scenarios—mild, baseline, and severe—instead of relying on a single scenario, enabling a more realistic assessment of borrowers’ resilience. Overall, the sectoral stress test has become more complex, allowing for deeper analysis. Additional technical improvements were made based on past experience, and refinement of the stress-testing methodology remains an ongoing process. The next sectoral stress test will be conducted in 2025 using banks’ financial statements as of the end of 2024.
- ◆ In Georgia’s financial sector, a significant concern in 2024, much like in 2023, remains the adequate management of third-party risks. The National Bank’s cyber risk supervision team issued extraordinary supervisory instructions and warnings. These measures aimed to prompt commercial banks to implement additional safeguards and gain assurance regarding the cyber and information security of their third-party providers.
- ◆ In 2023, the National Bank began a formal assessment of risks within microfinance organizations. Building on that work, it will develop tailored requirements on operational risk, cybersecurity, and corporate governance—measures intended to strengthen risk management, raise

transparency standards, boost accountability, and foster sustainable development. Those requirements will be proportionate to each institution's size and complexity. Draft regulatory changes on operational risk and corporate governance have been prepared and are slated for adoption in the first half of 2025, subject to public consultation. The process of defining cybersecurity requirements will continue in parallel.

- ◆ To refine and further strengthen corporate governance standards in the banking sector, throughout 2024 the National Bank actively monitored the corporate governance mechanisms implemented in commercial banks' practices. This monitoring included, among other aspects, the oversight of the activities of governing bodies, focusing both on the proper fulfillment of their assigned duties and on verifying the composition of the commercial banks' directorates and supervisory boards for compliance with the Corporate Governance Code. In the process of assessing the activities of supervisory boards of commercial banks, the National Bank analyzed the supervisory boards' self-assessment documents. The conclusions drawn from these self-assessments were also incorporated within the framework of the General Risk Assessment Program (GRAPE). In addition to monitoring governing bodies, the National Bank conducted thorough inspections of lists of individuals identified as material risk takers, according to the National Bank's instructions, in order to minimize incentives for excessive risk-taking in commercial banks. This is critically important for verifying compliance with the remuneration policy requirements set forth by the Corporate Governance Code. Furthermore, over the past year, the National Bank closely observed the practical implementation of remuneration requirements established by the Code and best international practices within commercial banks, including the roles and functions of supervisory boards and their remuneration committees in this process. Special attention was also paid to monitoring the remuneration methodologies applied to control functions within commercial banks.
- ◆ In 2024, each participant in the banking sector prepared a recovery plan outlining the measures to be implemented by the commercial bank to improve its financial condition and restore and maintain critical functions in the event of significant financial difficulties and/or disruption of critical functions. The National Bank reviewed these documents individually for each bank and provided appropriate feedback, taking into account regulatory requirements and international best practices. The requirements for these plans are regulated by the relevant rule that forms part of the recovery framework. The document focuses on setting indicators for recovery purposes and calibrating their thresholds, defining recovery measures, testing the extent of financial damage and the effectiveness of recovery measures using relevant severe stress scenarios for the bank, and conducting preparatory work. Additionally, attention is given to improving governance arrangements aimed at the early detection of financial deterioration by the bank and its subsequent organized management.
- ◆ Work on further improving the guideline on the principles of financing real estate developer companies and the principles of issuing mortgage loans for the purchase of unfinished/under-construction real estate has started, and the essential part of the methodology has already been prepared. The NBG continues to work on this issue.
- ◆ Co-authored by the National Bank, a package of legislative amendments was developed between 2020 and 2023 and has been submitted to Parliament for approval. The proposed



amendments concern the Organic Law of Georgia “On the National Bank of Georgia”, the Laws of Georgia “On Microfinance Organizations”, “On Payment Systems and Payment Services”, as well as several other regulatory acts. The main objective of these amendments is to expand the authority of the National Bank by legally defining the procedures for the liquidation, insolvency/bankruptcy, and the introduction and operation of a temporary administration regime for microfinance organizations and payment service providers. These changes grant the National Bank the sole authority to declare a microfinance organization or payment service provider insolvent and/or bankrupt, which will facilitate a timely and efficient process for satisfying creditor claims. The National Bank will also appoint the liquidators of these supervised entities and the temporary administrators of microfinance organizations, who will be accountable to the National Bank. The adoption of this draft law will strengthen the National Bank’s supervisory framework in regulating and overseeing microfinance organizations and payment service providers.

- ✦ The NBG attaches great importance to the direction of data quality and accuracy risk protection in the banking sector. In this regard, the operational risk loss accounting and reporting guidelines were published and entered into force. Additionally, the principles of effective risk data aggregation and risk reporting are under development. The NBG continuously assesses the accuracy, integrity, and quality of financial data in the banking sector. Within the framework of data quality management, attention is paid to the smoothness of business processes related to financial reporting, improvement of analytical tools, increasing the level of automation of reporting processes, and reducing the complexity of related information systems.
- ✦ In 2024, the Operational Risk team of the National Bank of Georgia actively worked on digital banks and the new supervisory entity - microbanks. Through active engagement, the Operational Risk direction supports the safe and sustainable development of digital banking in Georgia. It continues to oversee the implementation of the operational risk management framework for both digital and microbanks.
- ✦ Throughout the past year, operational risk supervision was actively involved in studying and assessing operational and cyber risks related to open banking, digital banking, remote identification of individuals, and electronic signature processes within the banking sector. Open banking is rapidly developing in Georgia, fostering new opportunities for innovation in the financial sector. The Operational Risk Department plays an active role in this process, ensuring the identification and management of related risks.
- ✦ The NBG places great emphasis on raising awareness of operational risks in the Georgian banking sector, expanding operational risk management, and developing supervisory principles. In this regard, recommendations for the implementation and assessment of operational risk management practices are also shared to support the digitalization of non-bank financial institutions, startups, and fintech providers.
- ✦ The NBG monitors ongoing developments in the banking sector to ensure that, in the event of cyberattacks, information is promptly shared with the entire banking sector. Quarterly reports on cyber incidents enable the tracking of trends and dynamics in cyber incidents. In 2024, phishing attacks and system disruptions continued to be significant incidents. Additionally, distributed denial-of-service (DDoS) attacks causing service interruptions were also recorded in the banking sector during 2024, as was the case in 2023.

## Promotion of Competition in the Financial Sector

- ◆ In 2023, the Parliament of Georgia adopted the Law of Georgia ["On the Activities of Microbanks"](#) and related draft laws. The purpose of this legislative package is to create a medium-sized, stable business model and a new financial institution with a high reputation in the financial sector. This aims to promote lending to entrepreneurial and agricultural activities, foster competition, and reduce interest margins on credit products. As a result of the adoption of the mentioned legislative package, microbanks were added to the list of supervisory entities of the National Bank of Georgia. In 2023, the National Bank received licensing applications from entities seeking to obtain a microbank license. In 2024, the National Bank actively reviewed and analyzed the information and documentation submitted by these applicants to assess their compliance with licensing requirements. Based on this process, on December 5, 2024, the National Bank granted the first microbank license to JSC Micro Business Capital (MBC). Prior to obtaining the microbank license, JSC Micro Business Capital operated as a microfinance organization, with its core business focused on financing small entrepreneurs. Subsequently, at the beginning of 2025, a microbank license was also granted to JSC Crystal.
- ◆ In 2023, the Ministry of Economy and Sustainable Development of Georgia, with the involvement of the National Bank, the National Agency of Public Registry, the Revenue Service, and other public and private stakeholders, developed a draft law "On Factoring". This project aims to make an alternative and even more flexible source of financing accessible. The project is supported by the EBRD and the International Finance Corporation (IFC). The draft law regulates both factoring and reverse factoring, defines the principles for transaction registration, and establishes the operation of a factoring platform. The legislative package was initiated in the legislative body in 2024, and its adoption is expected in 2025.
- ◆ Bringing leasing companies under the regulation of the National Bank of Georgia and to develop an appropriate supervisory framework is being considered. However, it is important to note that the National Bank does not have the right of legislative initiative.
- ◆ The National Bank of Georgia has also started working on updating the "digital bank" licensing principles and developing the regulatory framework. The number of parties interested in obtaining a digital banking license is quite high, and intensive consultations are ongoing with the relevant entities, along with the review of several license applications.
- ◆ To ensure the effective implementation of policies in practice, the refinement and development of competition implementation and promotion policies remains an ongoing process within the National Bank of Georgia. This work is carried out in parallel with several reform directions. With regard to competition-specific regulatory acts, in order to enhance the legal norms applied during the enforcement of competition legislation, [amendments](#) were made to the Decree of the Governor of the National Bank of Georgia No. 67/04, dated May 28, 2021 "on approval of the rule for investigation, submission and review of complaints/statements related to possible competition violations". The amended Decree defines the grounds for regulating and avoiding conflicts of interest between an authorized representative of the National Bank and an economic agent. It also clarifies procedural details regarding the admissibility review of complaints/applications, on-site inspections, complaint requirements, and the determination

of the composition and competencies of the investigation group. The composition of the case investigation group now mandatorily includes representatives from the Competition Division of the Legal Department of the National Bank of Georgia, with one of these representatives designated as the head of the group. Additionally, the rules for conducting investigation group meetings and adopting decisions were revised. The Decree also refines the acceptable reasons for non-attendance of summoned individuals at hearings held for explanatory purposes. It introduces changes to the rules for conducting summary hearings and decision-making by the National Bank's Competition Committee, as well as the timeframes for submitting the draft final decision to the parties and receiving their written comments. The amount of the financial penalty for obstructing an on-site inspection by an authorized representative of the National Bank has been revised, and procedures for drawing up an inspection report following the completion of on-site inspections have been formalized. Furthermore, the Decree outlines confidentiality guarantees for data and documents submitted by individuals/entities participating in the cooperation program and clarifies the framework for cooperation with the LEPL – Georgian Competition and Consumer Agency. Taking these changes into account, the Governor of the National Bank issued [Decree No.311/04 on December 20, 2024](#), amending Decree No.68/04 of May 28, 2021 "Rule for Submission and Review of Notifications on Market Analysis and Concentration". The amendment specifies that in cases where the review period for a concentration notification is extended, the final decision—as well as any decision regarding structural or behavioral remedies, financial penalties, or supervisory measures—is to be made by the Competition Committee of the National Bank of Georgia.

- ✦ According to the Organic Law of Georgia "On the National Bank of Georgia", the NBG is authorized to promote the creation of a competitive environment in the financial sector. Within this mandate, the Governor of the National Bank issued Decree No. 68/04 on May 28, 2021 "Rule for Submission and Review of Notifications on Market Analysis and Concentration". This regulation aligns with the principles set out in the Law of Georgia "On Competition" and governs the process of submitting and reviewing concentration-related notifications. Moreover, both internationally and in Georgia, it is an established regulatory practice for supervisory authorities to receive and assess notifications related to transactions involving the transfer of operational assets, as such transactions may have effects equivalent to market concentration. Accordingly, last year, [amendment](#) was made to the above-mentioned order to define additional types of transactions subject to notification requirements, as well as procedural aspects related to their assessment. Under the revised regulation, the National Bank will review not only concentration cases, but also transactions through which one economic agent acquires the assets of another, if the acquiring party is a commercial bank or a microbank, and certain conditions related to the balance sheet value of the acquired assets are met. In this context, the term "assets" refers to financial assets (such as credit portfolios — excluding written-off portfolios — and other receivables with similar characteristics) that are core to the target economic agent's ongoing business operations and revenue generation. The amendment also specifies the grounds for submitting a notification to the National Bank, the applicable timeframes, the required documentation and information, the procedures for reviewing the notification, and the consequences of circumventing the requirements of the regulation — including the poten-



tial imposition of monetary penalties. The development of these amendments was carried out through a public consultation process, ensuring the involvement of relevant stakeholders.

- ◆ In cases defined under the Law of Georgia “on Competition”, the concentration control procedure allows the parties involved in the concentration to propose modifications to the planned transaction in the form of structural and/or behavioral remedies. The purpose of such remedies is to prevent violations of the law, avoid or eliminate anticompetitive effects resulting from the concentration, and preserve effective market competition. Accordingly, the NBG developed the guideline [“Structural and Behavioral Remedies in Concentration Control”](#). This document fulfills one of the recommendations provided under the Financial Sector Assessment Program (FSAP) conducted jointly by the International Monetary Fund (IMF) and the World Bank, which called for the development of guidance on structural and behavioral remedies during concentration control. The guideline is intended to complement existing provisions in competition legislation by outlining general principles, specific types of structural and behavioral remedies, and the implementation requirements for such measures, reflecting the best practices of the European Union and other leading competition authorities worldwide.
- ◆ In 2024, the National Bank of Georgia prepared a [“Review of International Practices in the Enforcement of Competition Law in the Financial Sector”](#). The document presents an overview of key decisions adopted by the executive and judicial bodies of the European Union concerning the financial sector. It covers major cases relating to various segments of the financial sector, including banking, payment systems, securities markets, foreign exchange markets, and credit information services.
- ◆ During the Second International Week of Consumer Rights Protection, a renewed [Memorandum of Cooperation](#) was signed between the National Bank of Georgia and the Georgian Competition and Consumer Protection Agency. This memorandum provides for more flexible and effective mechanisms of cooperation between the two agencies, covering both competition policy and consumer rights protection.
- ◆ In terms of monitoring relevant markets in the financial sector — including the assessment of issues and practices related to bundled financial products — the NBG is actively engaged in collaboration with the World Bank within a technical assistance mission. The NBG continues close cooperation with the World Bank team on these and other topics aimed at strengthening competition in the financial sector, and it expects to receive a set of formal recommendations by the end of 2025.
- ◆ Regarding the regulatory framework for currency exchange units, in 2025, the NBG plans to develop an updated regulatory approach. This new framework will also address the regulation of non-cash currency conversion and related supervisory matters.
- ◆ Work is underway on the National Bank's methodology for Regulatory Impact Assessment (RIA). Developing this methodology and implementing the corresponding practice, specifically concerning the assessment of impact on competition, is one of the recommendations received within the FSAP program. However, it's worth noting that, at the initiative of the National Bank, the scope of this methodology is envisioned to be broader than just assessing the impact on competition.
- ◆ To foster a consumer-friendly environment, the NBG continued to examine best international

practices and analyze existing sectoral challenges throughout 2024. In pursuit of harmonization with Directive 2008/48/EC of the European Parliament and Council on credit agreements for consumers, and in response to local market challenges, the NBG amended its "Rule on the Protection of Consumer Rights in the Provision of Services by Financial Organizations", as reflected in [Decree of the Governor of the National bank of Georgia No131/04 dated 29 May 2024](#):

- The Decree establishes consumers' right to withdraw from contracts concluded remotely and specifies the exceptions where this right does not apply. It also regulates the right to withdraw from certain credit agreements regardless of the distribution channel used. The Order requires that contracts clearly state both the existence of the withdrawal right—with its conditions—and, where the right does not apply, the reason for its exclusion.
- The Decree further mandates that the contract's title page must indicate whether the consumer has a right to withdraw. If a loan is extended unconditionally under the "Rule on the Granting of Loans to Individuals" (Decree of the Governor of the National Bank of Georgia No 44/04 of March 13, 2020), the title page must also inform the borrower of that unconditional extension right.
- The Decree clarifies the obligation of financial organizations to make accessible, via internet banking or mobile banking services (if such services are available), information for customers regarding the costs paid or payable by the customer related to the financial products they use. Additionally, it requires disclosure of the nominal interest rate and the effective interest rate of the specific financial product. In the case of deposits, the minimum balance on which interest is accrued must be provided, along with information on whether interest is calculated on the daily closing balance or on the minimum balance held in the account during the month. Furthermore, the regulation defines the method for calculating the effective interest rate of the specific financial product and imposes an obligation to update the values of both the nominal and effective interest rates if these rates change during the term of the contract.
- To eliminate ambiguity, the Order refines the definitions of "credit intermediary" and "total loan amount". Accordingly, NBG Governor's [decree No 132/04](#) of May 29, 2024 amends Order No 194/04 of August 27, 2018 ("On the Definition of Effective Interest Rate, the Calculation of the Outstanding Principal, and the Treatment of Commissions, Financial Charges, Penalties and Other Sanctions for the Purposes of Article 625 of the Civil Code of Georgia"), clarifying those key terms;
- ◆ In order to foster a more competitive environment in the sector and promote consumer rights protection, the National Bank of Georgia has initiated work on another amendment to the regulation. The change envisions a reduction of the early repayment fee in cases where a loan/credit is refinanced from one financial institution to another. These [amendments](#) will enter into force in 2025.
- ◆ The National Bank of Georgia continued its active remote inspections of supervised entities in 2024 to monitor consumer rights protection in the financial sector and observe market challenges. As mentioned previously, in addition to standard inspections, the National Bank conducted thematic inspections in 2024 as part of its market conduct supervision. For instance, in

2024, on-site thematic inspections of financial organizations began. These inspections aimed to monitor the loan recovery process, including adherence to the requirements of the "Code of Ethics Related to Credit Recovery by Financial Organizations" (the "Code of Ethics"), approved by Order No. 14/04 on February 17, 2022. Due to the number of financial organizations, these thematic inspections will continue into 2025. Overall, the National Bank of Georgia inspected a total of 15 financial organizations in 2024 as part of various thematic inspections. It's also worth noting that the National Bank plans to publicize consolidated information about practices identified during thematic inspections starting in 2025.

- ✦ In 2024, with the financial support of the "Sparkassenstiftung Georgia" and the involvement of the research company ACT Research, the NBG conducted a mystery shopping study in the financial sector. The study aimed to assess whether the selected commercial banks' service delivery processes complied with the requirements of the "Rule on the Protection of Consumer Rights in the Provision of Services by Financial Organizations". Specifically, the study observed the process of delivering information to consumers through direct communication channels when offering and signing loan/credit contracts. The research revealed certain deficiencies, which were communicated to the relevant financial institutions. Work is ongoing with these institutions to eliminate the identified shortcomings, and this process will continue into 2025.
- ✦ Pursuant to the Law of Georgia "On the Protection of Consumer Rights", in order to enhance the protection of consumers' legally established rights and interests in the financial sector, prevent violations, ensure effective enforcement of established requirements, and appropriately respond to violations — including through the imposition of monetary fines — the NBG adopted the following amendments aimed at clarifying its supervisory powers:
  - [Order No. 6/04 of the President of the National Bank of Georgia, dated January 18, 2024, on Amending Order No. 242/01 of the President of the National Bank of Georgia, dated December 25, 2009, "On Approving the Rules for Defining and Imposing Monetary Penalties on Commercial Banks and their Administrators"](#);
  - [Order No. 7/04 of the President of the National Bank of Georgia, dated January 18, 2024, on Amending Order No. 16/04 of the President of the National Bank of Georgia, dated February 5, 2020, "On Approving the Rules for Determining, Imposing, and Enforcing Monetary Penalties on Microfinance Organizations and their Administrators"](#);
  - [Order No. 8/04 of the President of the National Bank of Georgia, dated January 18, 2024, on Amending Order No. 218/04 of the President of the National Bank of Georgia, dated September 27, 2018, "On Approving the Rules for Determining, Imposing, and Enforcing Monetary Penalties on Loan-Issuing Entities"](#);
  - [Order No. 9/04 of the President of the National Bank of Georgia, dated January 18, 2024, on Amending Order No. 123/04 of the President of the National Bank of Georgia, dated June 21, 2023, "On Approving the Rules for Defining and Imposing Monetary Penalties on Microbanks and their Administrators"](#).

Following decrees define the monetary fines applicable for violations of the requirements of the Law of Georgia "on the Protection of Consumer Rights". Furthermore, the specific amount of each fine was determined based on the existing supervisory practices in the area of consumer protection and the significance/severity of the respective violation.

## Encouraging Financial Innovation and Developing Supervisory Technologies

- ✦ The share of innovations and innovative organizations in the financial sector is increasing, bringing both new opportunities and new risks. The financial sector remains the most regulated sector of the economy worldwide, with an increasing trend in regulation. Consequently, the current supervisory framework is quite broad, technical, and complex, especially for new financial startups. Against this background, encouraging innovators with fintech ideas and facilitating the transformation of these ideas into sustainable financial models is a significant challenge for financial sector regulators. In response to this challenge, the National Bank of Georgia is developing various supervisory approaches and promoting the creation of basic infrastructure for fintech activities.
- ✦ Open banking is one of the most important processes in modern digital finance, offering consumers flexible and secure access to banking services through the integration of open APIs (Application Programming Interfaces). This integration enables the exchange of data between banks, financial institutions and fintech companies. The open banking model fosters innovation and enhances the efficiency of the financial sector. Work on the open banking project at the NBG began in 2019. In early 2020, an Open Banking Committee was established within the framework of the Banking Association, with the objective of developing a common standard required for the implementation of open banking in the country and facilitating the further development of the project. Since 31 March 2021, open banking services have been available in Georgia. By 2024, the following API services had been introduced: Exchange of information on payment accounts, Exchange of information on standard banking products, Payment initiation service, Remote identification service using open banking, Bulk payments service. In addition to these existing services, new types of API services became available in 2024:
  - Recurring payment initiation service,
  - Future-dated payment initiation service,
  - Variable recurring payments,
  - Information-sharing service for deposit accounts,
  - Information-sharing service for loans.

The new API services are being implemented based on international best practices and are expected to make a significant contribution to the modernization of Georgia's financial ecosystem, including by enhancing competitiveness and transparency. In addition, the introduction of these new API services will support the development of diverse business models. Consultations are ongoing with both banking and non-banking sector representatives, and additional API services will be defined in line with market demand.

- ✦ In 2024, significant efforts were made to expand open banking services in Georgia and to promote the inclusion of fintech companies in the open banking ecosystem. As in the previous year, numerous individual meetings were held throughout 2024 to share information about the capabilities of open banking and its future development. These meetings involved both entities supervised by the National Bank of Georgia and fintech companies, contributing to the formation of a robust open banking ecosystem and helping stakeholders better understand the benefits of open banking.

Interest in open banking has grown substantially among non-bank entities. In 2024, two non-bank institutions joined the open banking framework, and an additional two organizations became part of it in early 2025. This trend clearly indicates that open banking services are becoming increasingly in demand among a wide range of financial service providers.

The next phase in the development of open banking is the transition to open finance, which envisions expanding the concept of open banking to encompass a broader exchange of financial data. Open finance will enable consumers to access, manage, and utilize not only their banking data but also data related to insurance, investments, pension funds, and other financial services—within a unified, secure, and regulated infrastructure.

The National Bank of Georgia continues to strengthen the open banking ecosystem by ensuring high standards of data security and regulatory compliance. These efforts will support the digital transformation of the country's financial sector and the development of innovative financial services.

- ✦ The NBG is currently developing a national strategy for fintech development. The aim of the strategy is to strengthen collaboration among relevant stakeholders both domestically and internationally in order to take consistent and coordinated steps toward building an inclusive and innovative fintech ecosystem. The strategy is being developed in cooperation with the World Bank. At the domestic level, the fintech development strategy will help reduce market entry barriers for new players and foster the development of modern financial infrastructure through initiatives such as: the advancement of open banking and open finance, the establishment of a regulatory sandbox, the implementation of a central bank digital currency (CBDC) as an ecosystem, the rollout of an instant payments system, and others. At the international level, the strategy seeks to position Georgia as a regional fintech hub for Middle Corridor countries. To this end, the National Bank actively collaborates with countries in the region and seeks to motivate their participation. Additionally, work is underway on the concept of an international regulatory sandbox, which will promote regulatory harmonization among countries, support the development of modern financial infrastructure, and help attract foreign fintech companies and talent to Georgia.

Based on the above, Georgia's strategic vision for fintech development rests on three main pillars:

- Pursuing a proactive regulatory policy that fosters the adoption of regulatory-driven innovations within the financial sector;
- Testing and adopting emerging technologies at early stages of development to build a modern financial infrastructure. A key priority in this area is identifying the benefits of blockchain-based financial infrastructure and using it to enhance the efficiency and effectiveness of existing financial systems, thereby supporting the implementation of technology-driven innovations;
- Supporting a "Beyond-Georgia" fintech ecosystem. As a small and open economy, Georgia faces limitations in scaling its domestic market. Therefore, the focus is placed on initiatives that strengthen international cooperation to support the growth of Georgia's fintech market globally.

To ensure that the fintech strategy reflects the interests of all relevant stakeholders, in November 2024, the National Bank of Georgia published a preliminary version of the strategy and in-

vited both private and public sector institutions to engage in active communication and share their views and recommendations.

Numerous private and public entities submitted extensive feedback on the draft strategy, which the National Bank reviewed and incorporated into the strategy document through active dialogue with each stakeholder.

The next steps in the development of the fintech strategy will focus on finalizing the strategy document and preparing a concrete action plan, based on robust public–private cooperation.

- ◆ The Financial Innovation Office serves as a communication channel between the National Bank of Georgia and the financial technology innovation community. Its mission is to promote responsible innovation in the financial sector and to assist fintech organizations and startups in understanding the National Bank of Georgia’s regulatory and supervisory approach. Throughout 2024, the Financial Innovation Office provided support and consultations to approximately one hundred individuals and held important meetings with persons presenting innovative ideas. Over the course of the year, the Office maintained close contact with international financial institutions to stay informed about emerging developments and supervisory approaches related to innovation in the financial sector.
- ◆ The Regulatory Sandbox is an important tool for supporting and fostering financial innovation. It enables the testing of innovative products or services in a real-world environment, which plays a critical role in the effective implementation of new technologies and business models, as well as in the development of appropriate regulatory frameworks. This controlled setting allows for practical analysis and ensures that regulatory requirements are aligned with the realities of implementing innovation in the market. In 2024, three new entities entered the real-world testing phase of the Regulatory Sandbox. Each of them had submitted innovative projects with distinct scopes. These projects cover areas such as: crypto-backed lending, a credit information platform, and an online currency exchange service. At this stage, the monitoring of these initiatives is underway, including an assessment of their practical outcomes and an analysis of their potential impact on the market. In addition, five other projects—covering a variety of financial and technological innovation areas—are currently under review.
- ◆ In 2024, special attention was given to the initiation of targeted sandboxes in the areas of tokenized deposits and crowdfunding. In this regard, extensive research was conducted, including the study of existing practices and analysis of the relevant legal and technological frameworks. These efforts aim to support the development of a regulated and innovation-friendly environment for emerging financial solutions.
- ◆ In late 2024, significant steps were taken to deepen international cooperation. With the involvement of the International Monetary Fund (IMF), active work commenced on establishing an international (cross-border) regulatory sandbox, in collaboration with the Central Bank of Azerbaijan. This initiative aims to foster the development of the fintech ecosystem at the regional level by enabling the testing of innovative financial products and services across borders in a safe and regulated environment.
- ◆ Plans for the development of the Regulatory Sandbox, including the expansion of its scope and its application to unregulated entities, are outlined in the national fintech development strategy and largely depend on legislative changes.



- ◆ Ensuring adequate cyber and information security requirements for digital banking licenses remains an actual issue. Throughout 2024, the National Bank's cyber risk supervision team has been actively involved both in the oversight of digital banks and in the licensing process of new digital banking entities.
- ◆ In 2024, the National Bank of Georgia actively continued using the XBRL standard to facilitate the efficient exchange of supervisory reports. In this process, the Bank relied on the services of the leading British information systems provider, Corefiling, which ensures technological support and the proper functioning of the relevant systems. Within the XBRL framework, the supervisory reporting process is standardized and automated, allowing commercial banks and other supervised entities to submit data in both traditional and XBRL formats. Data accuracy is verified according to the taxonomy, and banks have the ability to pre-validate their reports, which significantly reduces the risk of submitting incorrect data and improves overall data quality.
- ◆ The receipt of reports prepared according to IFRS standards remained a priority. All mandatory supervisory reports from commercial banks were submitted in both traditional and XBRL formats. In 2024, work continued on developing an XBRL taxonomy for local reporting, which facilitates data standardization and transparent regulatory compliance. At the same time, the EBA-CRD IV taxonomy was actively used for FINREP reporting, supporting alignment with European Union banking regulations.
- ◆ To enhance the efficiency of supervisory processes, the National Bank uses an internally developed application that is continuously updated and optimized. This platform supports data processing, analysis, and a more structured execution of supervisory activities. In 2024, the Bank transitioned to Power BI to improve data analysis and visualization processes, replacing the previously used Business Intelligence system. The implementation of Power BI enabled more flexible data analysis and the creation of dynamic, interactive dashboards, becoming a valuable tool for various stakeholders involved in the supervisory process.
- ◆ In 2024, the National Bank continued to actively advance data standardization, transparency, and the enhancement of technological infrastructure, which collectively contribute to significant improvements in the country's regulatory and supervisory processes.
- ◆ The use of various statistical models in decision-making processes within the financial sector is becoming increasingly widespread. Such models are extensively applied in lending, financial accounting, and risk management. Particularly, the use of mathematical-statistical models is growing in the crediting of retail, micro, and small business sectors. Recently, there has been a surge in the adoption of models based on machine learning and artificial intelligence algorithms. While these approaches improve model efficiency, they also complicate the interpretation, analysis, and risk assessment of the results. The development of a regulatory framework for these models is an ongoing process, which can be considered to have progressed through activities outlined in the supervisory strategy. Work continues to further improve this framework.
  - Considering current trends in the sector, there was a recognized need to develop an ethical framework for the use of models. In response, principles of ethics to be observed during the development, implementation, and use of models, as well as measures to reduce po-

tential unethical applications of models, have been established. Without ethical principles, a model may unfairly classify certain groups of customers and restrict their rights.

- Expansion of a risk-based approach — within the amendments to the regulation, a methodology for ranking and grouping models according to their risk level was developed.
- Ensuring transparency and interpretability of models by entities deploying them through statistical methods — this amendment restricts model developers from using “black box” approaches and shifts accountability for model outcomes onto the creators of the models.
- ◆ The NBG is implementing models for accounting expected credit losses in financial institutions in connection with the adoption of the IFRS 9 standard. Due to the complexity of these models and their potential impact on a bank’s financial position, they are considered high-risk. The review and evaluation of these models and methodologies began in 2023, and feedback has already been provided to several banks. The analysis of these models will continue in 2025, with a focus on identifying any deficiencies that could give rise to risks associated with the models.
- ◆ Since the end of 2023, the NBG, together with its technological and technical partners, launched the first phase of the pilot project related to the digital Lari. This phase aimed at structuring and understanding the requirements, as well as prioritizing the baseline testing scenarios. Within the development plan of the project, backlog planning was carried out, relevant technical documentation was prepared, timelines were determined, and additional third parties were onboarded. Based on the descriptions of the defined baseline testing scenarios, the technological and technical partners, with the support of third-party participants, began developing and configuring the necessary platforms and technical tools from July 2024. As a result, in January 2024, the NBG was able to initiate a six-week testing phase of the baseline scenarios within the pilot project. All five baseline scenarios were tested during the pilot. As for the NBG's involvement, it is noteworthy that more than 200 employees registered as part of the pilot, and over half a million transactions were processed. Following the completion of the project, a summary report was prepared jointly with the technological and technical partners. In the following phase, the National Bank will issue a new report focused on interpreting the results obtained during the pilot, which will support the planning of next steps for the digital Lari project.
- ◆ In 2023, the NBG selected the technology provider Ripple for a limited-access, real-world pilot project. Ripple will work with the National Bank over the next one and a half years to implement four testing use cases. These use cases include: salary disbursements, tokenization of a collectible coin, purchasing real estate using smart contracts, and tokenization of capital market financial instruments. A two-phase implementation plan was defined with the technological partner. The first phase currently underway includes the design of the project implementation plan, identification of the technological and design components required for each use case, and mapping/engaging relevant potential stakeholders. In addition, clear KPIs and interim evaluation criteria are being prepared, which will be used to assess the outcomes of the project.



- ◆ In 2024, research initiated by the NBG in 2023 in cooperation with USAID continued in the area of smart contracts. The main goal of this research was to identify legal challenges and limitations related to smart contracts within the Civil Code and other legislative acts, and to explore global best practices. Legal and technical reports were prepared, resulting in a comprehensive understanding of the challenges surrounding smart contracts in the banking and other sectors. Moreover, the concept of smart contracts is a cornerstone of the digital Lari ecosystem initiated by the NBG. The ability to utilize such contracts is particularly relevant for fintech companies to offer innovative products to customers. Based on the identified issues, further work will continue. Additionally, within the joint project of the NBG and Mastercard, relevant DLT (Distributed Ledger Technology) and smart contract-related business models on the Georgian market were studied. The Bank's team is also actively researching international practices related to stablecoins. It can be said that the research phase of these activities has been completed, and the next steps of the NBG involve identifying the best approaches and working towards their implementation.
- ◆ In order to support „embedded finance“, in 2024 the National Bank continued active communication with the sector to explore available opportunities. In case of new developments, the Bank is also prepared to use the regulatory sandbox.
- ◆ In 2024, [amendments](#) were again made to the supervisory rules applicable to credit information bureaus. Among other significant changes, a new permitted activity was introduced, which relates to the provision of identity verification services. The new provision allows a credit bureau, acting under contract with a lending organization and an information recipient/provider, to provide identity verification services through digital channels for the purpose of obtaining the data subject's consent and verifying their credit data. Furthermore, it was determined that submitting a technical audit report is not mandatory at the credit bureau/platform registration stage. A new ground for revoking the registration was also introduced — failure to commence operations within 12 months of registration or suspension of operations for more than six months by an existing credit bureau/platform. The amended rule also clarified that the credit bureau's obligation to insure its professional liability includes cyber risk coverage. Interest in registering a credit bureau platform — as allowed under the 2022 amendment — continues to grow.
- ◆ In 2024, work continued to address data accuracy issues in the Credit Registry, most of which have now been resolved. Various reports submitted to the National Bank by commercial banks were used to analyze data accuracy. By the end of 2024, the Credit Registry format was aligned with IFRS reports. The Credit Registry, developed with input from the World Bank's working group, is a database that enables the collection of comprehensive credit risk information. Data is submitted to the National Bank on a monthly basis. In 2025, plans include analyzing sectoral research based on the Credit Registry data, generating various reports from it (as currently submitted by commercial banks), and creating automated supervisory mechanisms using Credit Registry data.

## Approximation to International Standards

- ◆ In line with World Bank recommendations and to align with best international practices, the NBG has actively developed its market conduct supervision function. The primary goal of this function is to strengthen risk-based supervision principles in protecting the rights of financial sector consumers. To this end, various indicators were developed in 2024. Ongoing monitoring of these indicators will enable the NBG to proactively identify potential risks and challenges related to consumer rights protection and plan appropriate response measures. Additionally, the NBG developed a draft Market Conduct Supervision Strategy, which will be published for public consultations in 2025. Several thematic inspections were also conducted within the scope of market conduct supervision in 2024.
- ◆ Throughout 2024, the NBG continuously worked on developing its reporting framework in accordance with International Financial Reporting Standards (IFRS), the European reporting framework, and local supervisory needs. This included initiating work on transitioning to the latest FINREP financial reporting taxonomy.
- ◆ To align with best international practices and EU regulations, by [Order No. 99/04 of April, 2024 of the President of the National Bank of Georgia, the "rule for Publishing Information on Certain Measures Applied by the National Bank of Georgia on the Official Website of the National Bank of Georgia"](#) was approved. The rule aims to promote transparency in the financial sector and prevent violations of Georgian legislation within this sector. This rule regulates the publication of information on the NBG's official website regarding certain measures applied by the NBG, specifically imposed sanctions, in cases of violations of requirements defined by Georgian legislation and written instructions from the NBG. This includes requirements for publishing sanctions imposed on commercial banks and microbanks in the context of anti-money laundering, consumer rights protection, financial and supervisory technology development, and securities regulatory legislation, and in some cases, information on monetary penalties for commercial banks and microbanks. The requirements stipulated by the rule are based on relevant sectoral EU directives, including the European Parliament and Council Directive 2013/36/EU of 26 June 2013 on "Access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (CRD Directive). The rule is set to come into force on January 1, 2025. It is noteworthy that the drafting process was highly transparent, with the draft act being published for public consultations, and certain feedback received from interested parties being incorporated into the final version.
- ◆ In 2024, amendments were made to the Regulations on Concentration of Risk Positions and Large Exposures for [Commercial Banks](#) and [Microbanks](#). These changes were implemented with the aim of further aligning with the principles defined by the Basel Committee on Banking Supervision and international best practices in banking sector regulation, as well as to mitigate specific risks identified in practice. As part of the recent amendments, the list of prohibited risk positions for commercial banks and microbanks has been expanded. It is now established that a commercial bank or microbank is prohibited from creating risk positions when such actions directly or indirectly aim to finance certain transactions. Specifically, this includes the acquisition of equity or debt instruments of the same commercial bank or microbank. Furthermore, it

also prohibits the acquisition of equity or debt instruments of: A significant shareholder of the same commercial bank or microbank, whether as a direct shareholder, an intermediary owner, a beneficial owner, or a controlling entity; The head enterprise(s) of the same bank; A subsidiary of the same bank; A subsidiary of the head enterprise(s) of the same bank.

It's worth noting that, similar to established practice, this amendment was published on the National Bank of Georgia's website for public consultations, allowing any interested party to share their opinions and comments with the National Bank.

- ◆ In 2024, the National Bank of Georgia actively continued to implement the measures outlined in its Sustainable Finance Roadmap. This roadmap encompasses all potential measures planned by the NBG for implementation by the end of 2024. Notably, all measures defined in the first Sustainable Finance Roadmap and action plan were set for completion by the end of 2024. In early 2025, the NBG published its [second Sustainable Finance Roadmap](#), which integrates the action plan and measures to be implemented over the next few years. The main objective of the roadmap is to create a reliable, predictable, and stable regulatory framework that will prepare the market for a transition to sustainable finance.
- ◆ A significant milestone was achieved in April 2024, when the NBG moved from the "Advancing" stage to the "Strengthening" stage in the SBFN's 6-stage assessment system, which reflects the progress made by SBFN member countries in sustainable finance. Georgia is one of only three member countries to achieve such significant progress. This advancement is a result of the NBG's steps towards developing its sustainable finance framework.
- ◆ In accordance with the Corporate Governance Code, commercial banks disclosed ESG information for the fourth time in 2024 using the NBG's template. The templates filled by financial institutions from 2021-2024 are published on the NBG's website. Banks provide this reporting annually, which in turn facilitates the provision of information on ESG issues to investors and other interested parties.
- ◆ In October 2024, the NBG published its [fourth Sustainable Finance Status Report](#). The report provides an overview of existing trends, implemented policies, and future plans for sustainable finance in Georgia. Specifically, it analyzes the steps taken by the NBG, describes ongoing and short-term planned projects, and summarizes the information presented by commercial banks in their ESG forms. The report also presents trends in green and sustainable bond issuance and, more broadly, capital market trends in sustainable finance in Georgia.
- ◆ Within the sustainable finance framework, in 2022, the NBG approved the Sustainable Finance Taxonomy and the Rules for Classification and Reporting of Loans according to the Taxonomy (Taxonomy Regulation). From January 1, 2023, banks are obliged to submit monthly reports on green loans to the NBG using the monthly green loan reporting form defined by the Taxonomy Regulation. Furthermore, information related to green/social/sustainable loans must be disclosed in the ESG reporting and disclosure form of the Pillar 3 annual report in accordance with the Taxonomy Regulation. To ensure the accuracy of these reports and prevent "greenwashing" (classifying a non-green project/product as green), the NBG conducted its first assessment of the loan portfolio submitted in December 2023. The results showed no significant violations or instances of "greenwashing".
- ◆ To improve coordination and information sharing on sustainable finance issues, the NBG es-

tablished the Inter-agency Coordination Council for Sustainable Finance. The council members will be representatives from the National Bank of Georgia, the Ministry of Finance, the Ministry of Economy and Sustainable Development, the Ministry of Environmental Protection and Agriculture, and the Service for Accounting, Reporting and Audit Supervision. The main objective of the council is to coordinate and share information among its members on existing and planned regulatory policies and activities in sustainable finance in Georgia. To achieve these goals, the council is authorized to create thematic working groups, which will ensure effective inter-agency coordination in analyzing sustainable finance issues and developing technical documents. The first meeting of the council is scheduled for the first half of 2025.

- ✦ Within the framework of sustainable finance in 2024, the National Bank of Georgia, in cooperation with DSIK, developed an ESG [Risk Radar](#). This report is based on and significantly improves the methodology of the 2022 Climate Risk Radar, and includes a more detailed and transparent assessment of ESG risks. The report uses an ESG Scorecard specially designed for Georgian economic sectors, which assesses the vulnerability of the financial sector to these economic sectors, both at the individual financial institution level and at the financial system level. In addition to assessing climate-related risks, the updated methodology also considers other ESG risks, such as biodiversity loss and potential human rights violations. Furthermore, within the framework of the [ESG Guideline](#), the NBG, with the support of DSIK, developed an ESG Due Diligence (ESG DD Instrument). The ESG DD Instrument is based on the principle of double materiality and differs in scope and depth based on the initial categorization of the loan. Such a multi-level approach ensures a detailed assessment that corresponds to the specific characteristics and risk exposure of different transaction categories. ESG risk ratings and corresponding assignments to risk categories are subsequently used in the ESG risk management process.
- ✦ To promote stability, the NBG implemented the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemically important banks starting in 2024, in accordance with the decision made by the Financial Stability Committee in May 2023.

In 2021, within the framework of the Financial Sector Assessment Program conducted by the International Monetary Fund and the World Bank in Georgia, recommendations were issued for the NBG to establish MREL for systemically important commercial banks, as provided by the existing resolution framework. MREL represents a percentage obtained by dividing eligible liabilities and capital instruments by supervisory capital and total liabilities. Furthermore, from December 2023, commercial banks became obliged to include a contractual clause regarding the write-down or conversion of bank liabilities for recapitalization purposes in capital instrument contracts that are fully or partially regulated by foreign law. A similar requirement for contracts containing liabilities that are subject to the rule "[on Recapitalization of a Commercial Bank in Resolution by Means of Write-down or Conversion of Bank's Liabilities](#)" approved by Decree No. 241/04 of the Governor of the National Bank of Georgia on December 29, 2020, entered into force for commercial banks from April 1, 2024. The inclusion of the condition specified by this requirement in the contract does not affect the creditor's hierarchy established by law. It is worth noting that this regulation is based on the common practice provided by the European Bank Recovery and Resolution Directive (BRRD) framework. The purpose of the requirement is to enable systemic banks to proactively structure their balance sheets in a

way that allows the NBG, within its mandate, to effectively recapitalize a bank in resolution by writing down or converting liabilities in crisis situations.

The MREL ratio for systemically important commercial banks is set as follows:

- From January 1, 2024: 10%
- From December 31, 2025: 15%
- From December 31, 2027: 20%

To promote financial stability, the NBG activated this requirement for systemic banks starting in 2024. From 2024, in accordance with the requirement, systemic banks will submit monthly MREL reports to the NBG in the appropriate format. As of the end of 2024, the MREL adequacy indicators of commercial banks and MREL instruments in the system are as follows:

GEL	31/12/2024	31/12/2024	31/12/2024
	<i>TBC</i>	<i>BOG</i>	<i>Liberty</i>
<b>MREL Resource</b>	7,461,723,910	7,167,681,654	611,926,287
<b>Supervisory Capital and Total Liabilities (TLOF)</b>	36,596,101,538	37,340,205,565	4,811,671,210
<b>%</b>	<b>20.39%</b>	<b>19.20%</b>	<b>12.72%</b>

- ◆ The National Bank of Georgia (NBG) actively continued its work in 2024 on the ongoing monitoring and refinement of supervisory capital standards.
  - Work is actively underway on a draft amendment to the legal act regarding the principles of including annual and interim profits in Common Equity Tier 1 capital.
  - The NBG is working on a draft amendment to a legal act to introduce the concept and calculation method of Maximum Distributable Amount (MDA).
- ◆ To develop an appropriate framework for the consolidated supervision of banking groups, the NBG will analyze relevant eurostandards and practices of relevant countries. A technical assistance mission is planned for 2025 in partnership with the IMF.
- ◆ To further align risk exposures with international standards, the NBG is conducting research in several areas for the further development of the regulatory framework:
  - Updating the standardized approach for credit risk weighting is a complex issue. The NBG is gradually updating specific issues based on practical needs. Research has begun and is ongoing to review the framework, but given the complexity and importance of the issue, its development will require more time. The NBG will continue to work on this issue in 2025, and an update to the approach is expected in 2026.
  - Work on the "[Rule on Counterparty Credit Risk](#)" was completed in 2024 and entered into force in January 2025. This regulation is based on the counterparty risk management framework established by the "Basel Committee on Banking Supervision" and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The purpose of the new regulation is to more accurately reflect and appropriately manage the risks formed by the



increased volume of derivatives in the Georgian banking sector. Specifically, with the introduction of this regulation, the principle-based approach to derivative management has been replaced by a risk-based approach. Under the new regulation, banks can reduce the required capital for well-secured transactions and counterparties with high credit ratings, and vice versa. For calculating risk-weighted assets for counterparty risk, banks will be able to use three approaches, depending on the proportion of derivatives relative to assets: standardized, simplified standardized, and simple risk exposure approach. The updated approach more accurately reflects both the inherent risks of derivatives and the counterparty credit risk. Specifically, the presented draft order for calculating risk exposure takes into account the maturity and type of derivative, the counterparty's credit rating, market risk, as well as other inherent risks and mitigants. Additionally, the draft order includes 3 methodologies for determining counterparty credit risk based on the volume of derivatives, and in cases of small volumes of derivatives relative to assets, a commercial bank or microbank will have the opportunity to use a relatively simplified approach. It is worth noting that work on the new regulation was carried out in consultation with the sector and the Banking Association, and banks had more than a year to implement the developed model.

- Work is underway on updating the framework for interest rate risk management in the banking book, with sector involvement.
- Research is underway to update the standardized approach for calculating operational risk-weighted assets.
- ◆ In light of Georgia's obligations under the Association Agreement between Georgia, on the one hand, and the European Union and the European Atomic Energy Community and their Member States, on the other hand, and to align with EU law, specifically Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002, the Parliament of Georgia adopted the ["Law of Georgia on Additional Supervision of Regulated Entities within a Financial Conglomerate"](#) in 2023. The aforementioned law stipulates that, independently of sectoral supervisory rules, additional supervision of regulated entities within a financial conglomerate in terms of capital adequacy/solvency margin may be carried out using specific methods for calculating additional capital adequacy/solvency margin requirements. Furthermore, the law provides for the authority to issue legal acts regarding these methods. Therefore, within the deadlines and authorities provided by the law, the NBG, in cooperation with the legal entity of public law - the Insurance State Supervision Service of Georgia, developed and approved the ["Rule for Calculating Additional Capital Adequacy/Solvency Margin Requirements for Regulated Entities within a Financial Conglomerate"](#) by a joint order of the Governor of the National Bank of Georgia and the Head of the Insurance State Supervision Service of Georgia. Within the framework of the rule, the methods and their components for calculating additional capital adequacy/solvency margin requirements provided for by the ["Law of Georgia on Additional Supervision of Regulated Entities within a Financial Conglomerate"](#) are specified and made even clearer. It is noteworthy that the draft rule was shared for consultation with the Banking Association and, in turn, with commercial banks. In 2024, no group operating in Georgia fell within the scope of additional supervision of financial conglomerates.
- ◆ In light of legislative changes related to the Resolution Fund, the NBG developed relevant sub-

ordinate legal acts in 2024, including, with public consultation, the ["Rule for the Establishment, Administration, and Investment of the Resolution Fund, Criteria for Imposing Ex-ante Contributions to the Resolution Fund, and the Procedure for Making Ex-ante Contributions"](#) approved by Decree No. 228/04 of the Governor of the National Bank of Georgia on September 2, 2024. The total ex-ante contribution of the banking sector for 2025 was set by the Governor of the National Bank of Georgia's order at GEL 37,798,407, which, in accordance with the methodology provided in Annex No. 1 of the "Rule for the Establishment, Administration, and Investment of the Resolution Fund, Criteria for Imposing Ex-ante Contributions to the Resolution Fund, and the Procedure for Making Ex-ante Contributions" approved by Decree No. 228/04 of the Governor of the National Bank of Georgia on September 2, 2024, represents one-eighth of 3% of the average volume of insured deposits for the four quarters of 2024. Commercial banks began making individual ex-ante contributions to the Resolution Fund in accordance with this rule from 2025.

The ex-ante fund is administered by the National Bank of Georgia, which, according to the law, has the right to transfer the fund for administration to the Deposit Insurance Agency. In early 2025, an agreement was signed between the NBG and the Deposit Insurance Agency for this purpose. Based on the agreement, advance contributions accumulated in the Resolution Fund are transferred monthly to an account opened for the Deposit Insurance Agency at the National Bank, and the Deposit Insurance Agency ensures the investment of these funds in accordance with its investment policy.

In addition to ex-ante contributions by commercial banks, the Resolution Fund also accumulates funds allocated within the framework of temporary state financing (in case of using temporary state financing). After the completion of the resolution regime and in case of financial support from the Ministry of Finance, state funds utilized through the Resolution Fund are reimbursed by operating commercial banks under established conditions and proportionality, which is determined by the National Bank of Georgia (the so-called ex-post fund).

- ◆ In 2024, the ["Rule for the Definition of Systemically Important Commercial Banks and the Determination of the Systemic Buffer Rate"](#) was approved. The purpose of changing the existing regulation was to bring the approaches to defining systemic importance closer to EBA's approaches and, at the same time, to better reflect the challenges existing in the Georgian banking space. Specifically, to better reflect the existing challenges in the updated regulation, the indicator for derivatives traded on unorganized markets was added to the complexity criterion, and the weights of the indicators were equally distributed across the criteria. Additionally, considering the high concentration in the Georgian market, to promote competition in the banking system, 2% incremental steps were added to the 40% threshold for the share of deposits, which further ensures the mitigation of market concentration. Also, a maximum systemic buffer limit of 5% was introduced.
- ◆ Throughout 2024, an analysis was conducted on the compliance of the Georgian resolution framework with the BRRD Directive. A compliance table was developed, and summary conclusions were prepared on key topics, highlighting significant differences and issues to be changed/improved in the future, such as: group resolution, further refinement of MREL requirements and improvement of methodology, use of the resolution fund (prerequisites and

objectives), the role of temporary state financing in the resolution regime, etc. In the future, the NBG plans to continue working on these issues with expert assistance, based on whose conclusions draft amendments to the legislation will be developed.

### **Strengthening the supervisory function of the National Bank and increasing transparency**

- ✦ The NBG continuously supports the professional development of employees in the banking sector. For this purpose, experts from the Luxembourg-based research agency for financial technology transfer conducted two in-person and two remote trainings in Tbilisi in 2024. Participants included employees of both the National Bank and commercial banks. In total, 66 individuals attended the seminars.
- ✦ One of the main goals of the Human Resources Management and Development Department was to raise team spirit and strengthen internal communications. Accordingly, numerous remote and traditional events were planned and implemented in this direction.
- ✦ The NBG actively works on simplifying the supervisory decision-making process and developing the relevant policy and procedures. This initiative was also part of the recommendations received from international partners within the FSAP, specifically regarding the benefits of regulating the delegation of supervisory authority. In 2023, the development of a regulation governing decision-making on key supervisory matters related to banking and non-banking institutions was initiated. The regulation was officially adopted in 2024. The rule aims to define different levels of decision-making on key issues, list the matters to be discussed at each respective level, and outline the rights and responsibilities of the individuals involved in the process. The goal of establishing these various decision-making levels is to ensure a proper distribution of responsibility and a balanced decision-making system within the supervisory process, taking into account the complexity and significance of each issue.
- ✦ In response to challenges identified during the supervisory process, full involvement of all responsible departments in discussions and the application of the “four-eyes” principle remain an essential component of the NBG’s operations. Joint decision-making is encouraged in supervisory processes.
- ✦ In line with previous years, and to promote transparency and public engagement, throughout 2024 the NBG published numerous draft amendments and regulations related to supervision on its website for public consultation. This gave the wider public the opportunity to submit comments and recommendations. All major initiatives were discussed within public or sector-specific consultations, in accordance with the [“Guidelines for holding public consultations with the sector and interested parties”](#).



## GLOSSARY

**ESG (Environmental, Social, Governance)** – environmental, social and governance issues within the framework of sustainable finance.

**XBRL (Extensible Business Reporting Language)** – extensible business reporting language, an international standard for the exchange of supervisory reports.

**Recovery plan** – a plan developed by a commercial bank, which includes, among other elements, the measures to be implemented by the commercial bank to improve its financial situation in the event of significant financial difficulties.

**Minimum Requirements for own funds and Eligible Liabilities (MREL)** – the percentage of regulatory capital and total liabilities, imposed on commercial banks to effectively recapitalize the bank in the event of the resolution regime.

**Macroprudential policy** – policies and measures designed to prevent the accumulation of systemic risks, to reduce the probability of a crisis and facilitate the stable functioning of the entire financial system.

**Modular banking model** – a model of banking activity, according to which the banking infrastructure is presented by individual activities as modules independent of each other, the replacement of which is relatively less difficult.

**Regulatory sandbox** – a set of conditions and procedures designed for testing an innovative financial service and/or product in a testing environment.

**Resolution** – an alternative to liquidation, for whenever there are grounds for revoking a license of a commercial bank, which implies restructuring of the commercial bank by the regulator in a way not to jeopardize financial stability.

**Risk-based supervision/principles** – supervision regime/principles that involve directing greater supervisory resources towards more complex and/or risky institutions or transactions.

**Risk analytics dashboards** – a graphic representation of key business indicators, which simplifies the perception of complex data and allows its users to obtain information about business activities or specific processes with ease.

**Risk position** – balance sheet or off-balance sheet items on which a financial institution has a claim.

**Regulatory capital** – capital that is set for financial institutions at the request of the supervisor and serves to neutralize potential losses.

**Suptech instruments** – supervisory technologies, which imply the use of innovative technology by supervisory authorities in the process of supervision.

**IFRS** – international financial reporting standards.

**IFRS 9** – an international financial reporting standard that defines issues related to the recognition, derecognition, evaluation and impairment of financial assets and liabilities.

**Financial Innovations Office** – a means of communication between the National Bank of Georgia and fintech startups and technology companies interested in the financial sector, tasked to receive and give direct feedback on supervisory issues, promote responsible innovations in the financial sector, and help fintech organizations/startups to understand the regulations and supervisory approach of the National Bank of Georgia.

**Financial Sector Assessment Program (FSAP)** – a joint program of the International Monetary Fund (IMF) and the World Bank (WB), whose goal is to assess the stability of the country's financial sector, the quality of the regulatory and supervisory framework, and the ability to manage financial crisis.

**Open banking** – electronic instant exchange of information and services between different financial institutions using electronic technologies.

**Principles of open regulation** – consideration of changes in regulatory requirements, openness to dialogue with the industry, compatible with the stated risk appetite and supervisory principles of the National Bank of Georgia.

**Digital banking** – a business model of a bank that provides banking services through basic electronic channels and uses materially new and innovative financial technologies in the local market.

**NGFS (Network for Greening the Financial System)** – a network dedicated to "greening" the financial system.

**IFC** – International Finance Corporation.

**EBA** – European Banking Authority.

**EBRD** – European Bank for Reconstruction and Development



In case of questions regarding licensing, interested persons can contact the National Bank of Georgia at the following email address:

- For those interested in obtaining a banking activity license: [BankingLicense@nbg.gov.ge](mailto:BankingLicense@nbg.gov.ge)
- For those interested in receiving a digital bank license, contact the Bank's Financial Innovation Office: [InnovationOffice@nbg.gov.ge](mailto:InnovationOffice@nbg.gov.ge)

 +995 322 406 406

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