

LAW OF GEORGIA ON COMMERCIAL BANK ACTIVITIES

Chapter I General Provisions

Article 1 - Definition of terms

For the purposes of this Law, the terms have the following meanings:

- a) Administrator – a member of the supervisory board or directorate (board of directors) of a commercial bank and/or other persons who directly or indirectly have the authority and responsibility to plan, manage and/or control the activities of the Bank. The list of relevant positions shall be approved by the Supervisory Board of the Bank;
- b) Bank branch – a bank subdivision where all or part of banking activities are carried out;
- c) Persons connected to a bank – bank administrators, shareholders, and their relatives who represent first and second degree legal heirs under the Civil Code of Georgia, or persons related to them by business interests;
- d) Beneficial owner – a person receiving financial or other benefits under the law or an agreement, and who has no obligation to transfer these benefits to another person; and if a beneficial owner is an entity established to achieve best objectives, or if an owner is a legal person that has no person who owns a significant share, a beneficial owner is a member of the management body;
- e) Developed countries – countries on the list of developed countries compiled by the National Bank of Georgia;
- f) Group of jointly acting partners (shareholders) – a group of closely related partners, (shareholders) or partners (shareholders) connected to each other by commercial interests in addition to the bank interests;
- [f] Group of partners (shareholders) acting in concert – a group of closely related partners (shareholders), or partners (shareholders) connected to each other by commercial interests in addition to the bank interests, as well as partners (shareholders), between whom there is an explicit or implicit agreement, in any form, on the acquisition of a significant share of the bank; (*in force from 1 November 2022*)
- g) Commercial bank – a legal person licensed by the National Bank of Georgia ('the National Bank') that accepts deposits and uses them to conduct banking activities on its behalf under the legislation of Georgia;
- h) Credit – any commitment to disburse monetary funds in consideration of their repayment, value, security and definite terms;
- i) (Deleted- 20.12.2019, N5682);
- j) Banking license – a permit issued by the National Bank to carry out banking activities;

j¹) (Deleted);

j²) (Deleted - 10.03.2017, N439);

k) Banking activities – types of activities determined by Article 20 of this Law;

k¹) Operational day – a certain period of a banking day defined by a commercial bank, after which all orders received by the bank from its customers shall be considered to be received on the following banking day;

[k¹) (Deleted – 09.09.2022, N1802); (*in force from 1 November 2022*)]

k²) Banking day – a calendar day when transfer transactions are performed through the National Bank payment system;

[k²) Banking Day – Banking day determined by the Law of Georgia on Payment Systems and Payment Services; (*in force from 1 November 2022*)]

l) Blank credit – a credit granted without collateral;

m) Debt instrument – a negotiable instrument of any debt and any other instrument equivalent to it; also any negotiable document enabling one to acquire another debt instrument by subscription or exchange; a negotiable debt instrument may be in certificate or book entry form;

n) Trust – a fiduciary function;

o) Foreign trust bank – a bank of a developed country that is assigned a rating at a certain level or higher by a competent international rating organisation; the National Bank compiles a list of competent international rating organisations and defines the rating levels for each rating organisation;

p) Factoring – a trade commission transaction which is adjusted to crediting of a customer's working capital, that includes collection of a customer's accounts receivables, crediting and guarantees for credit and foreign exchange risks;

q) Fiduciary transaction – trust transactions performed by a bank or a trust company on its behalf but by order and for the account of a customer (usually to manage investments); the customer shall be liable for all risks, while the bank shall receive commission charges;

r) Financial institutions – entities defined under the Law of Georgia on Securities Market;

s) Forfeiting – crediting exports in foreign trade agreements by acquiring non-negotiable commercial bills of exchange or other debt liabilities by the supplier; a bank of an importing country shall be the guarantor bank during such transactions;

t) (Deleted – 20.12.2019, N5682);

u) Subsidiary (subsidiary organisation) – a legal person or an organisational establishment without the status of legal entity controlled by a parent company (head organisation);

u¹) Parent company (head organisation) – a legal person with one or more subsidiaries (subsidiary organisations);

v) Regulatory capital – a type of capital created for conducting banking activities, for reserving against expected or unexpected financial loss/damages and protecting from various risks;

- w) Share capital – a commercial bank's shareholder capital determined as the difference between total assets and total liabilities of the bank;
- x) Authorised capital – a capital agreed upon by the company shareholders and provided for by the charter;
- x¹) Subscribed capital – the amount of money determined by the company. The subscribed capital must be equal to the sum of nominal value of the placed shares of the company, and if the company has placed shares without nominal value, the subscribed capital must exceed the sum of nominal values of the placed shares. If a company (except for a joint-stock company) has placed only shares without nominal value, the subscribed capital can be determined in any amount;
- y) Paid-in capital – the actually paid-in portion of the subscribed capital;
- z) Insolvent Bank - a bank, the total assets of which (regardless their term) no longer cover the sum of its liabilities and contingent liabilities despite their maturity;
- z¹) Control - direct or indirect ownership of 50 or more of voting rights/shares of the enterprise and/or on the basis of the agreement concluded with it, its charter and/or agreement with other shareholders or partners, the authority to manage its activities, which grants the controlling person the ability to receive economic benefits and to influence its amount, including the power to appoint or dismiss the majority of administrators;
- z²) Controlling person – a person who exercises control;
- z³) Affiliate – a company under control of a legal person, as well as its controlling persons and companies under their control;
- z⁴) Person – a natural or a legal person, as well as an organisational establishment under the legislation of Georgia which is not a legal person;
- z⁵) Significant share – direct or indirect ownership of 10% or more of the bank's authorized or paid-in capital or/ and voting shares by a person or partners (shareholders) acting in concert or an opportunity to have significant influence and/or control, over commercial bank by a person or partners (shareholders) acting in concert regardless their share in capital or/ and voting stock;
- z⁵¹) Significant influence – a right to take part in decision – making process with respect to financial and operational policy, which does not represent control or joint control over such policies;
- z⁶) Indirect participation (ownership) – shares in the capital of a legal person held through a third person;
- z⁷) Recovery plan – a plan developed by a commercial bank, that together with other elements includes measures for the purposes of restoring financial conditions of a bank during financial difficulties;
- z⁸) Resolution plan – a plan developed by the National Bank for a commercial bank, which among other elements includes the issues related to the use of the resolution instruments

and implementation of the resolution powers against the commercial bank in the framework of the resolution;

- z⁹⁾ Recapitalization – increase of the amount of the regulatory capital of a commercial bank;
- z¹⁰⁾ Write down of shares and/or other regulatory capital instruments and liabilities of a commercial bank – cancellation or reduction of the value of shares and/or other regulatory capital instruments and liabilities of a commercial bank.

Law of Georgia No 1115 of 23 October 2001- LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 1938 of 28 December 2002 - LHG I, No 3, 17.1.2003, Art. 19

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 1924 of 3 November 2009 - LHG I, No 35, 19.11.2009, Art. 234

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 5682 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 880 of 2 August 2021 – website, 4.08.2021

Article 2 - Scope of the Law

1. A commercial bank may be established as a joint stock company. Commercial banking activities shall be regulated by this Law, the Organic Law of Georgia on the National Bank of Georgia, the Law of Georgia on Entrepreneurs, and other normative acts.
- 1¹. Requirements on convening the general meeting of shareholders, reorganization of a company, rights and obligations of shareholders, the redemption of shares by the company and the mandatory squeeze-out of shares set by this Law, including the Requirements determined by Paragraph 2 of Article 34, Chapter VIII, Paragraphs 10-12 of Article 152, Paragraphs 1, 2, 4 and 6 of Article 163, Paragraph 4 of Article 164, h, Paragraph 1 of Article 166, Paragraphs 3 and 8 of Article 169, Articles 170 and 189, Paragraphs 1 and 2 of Article 191, Paragraphs 1, 2, 5,6 of Article 192, Paragraphs 1,2,5-10 of Article 193, Articles 194 and 201, Paragraphs 1-3 of Article 202 and Article 225 of the Law of Georgia "On Entrepreneurs" do not apply to a commercial bank in resolution.
2. No one shall have the right to solicit deposits and use them for granting credit on its behalf without a licence issued by the National Bank.

3. No one shall have the right to use the term 'bank', or other word-combination with this term without a banking licence issued under this Law, unless used as determined or recognised by law or an international agreement, or when the context in which the term 'bank' is used shows that no banking activity is carried out under this Law and the Law on the National Bank of Georgia.
4. (Deleted – 1.7.2011, No 5002).
- 4¹. (Deleted – 1.7.2011, No 5002).
- 4². (Deleted – 1.7.2011, No 5002).
- 4³. (Deleted – 1.7.2011, No 5002).
5. Provisions of this Law shall apply in case of conflict between this Law and other laws with respect to relations with commercial banks.

Law of Georgia No 1636 of 13 October 1998 - LHG I, No 2, 26.10.1998, Art. 27

Law of Georgia No 1742 of 24 December 1998 - LHG I, No 7, 31.12.1998, Art. 60

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 880 of 2 August 2021 – website, 4.08.2021

Chapter II

Licensing

Article 3 - Licensing requirements

1. The license for banking activity is issued by the National Bank to a legal entity registered in accordance with the legislation of Georgia, which meets the following requirements:
 - a) The amount of paid-in capital corresponds to the requirements established by the National Bank;
 - b) Administrators meet the requirements defined by this law and the legal act of the National Bank on the suitability criteria for administrators of commercial banks;
 - c) Shareholders owning a significant share meet the requirements defined by this law and the legal act of the National Bank on the acquisition of a significant share of a commercial bank;
 - d) Group structure, ownership structure, governance structure and operational activities/environment are transparent, comply with proper corporate governance standards, provide the possibility of effective individual or consolidated supervision and do not threaten the stability and healthy functioning of the bank and/or financial sector. If one or

more natural persons and/or legal entities defined in subsections "b" and "c" of this paragraph are subject to the jurisdiction of another country, when assessing the criteria provided for in this subparagraph, the National Bank also takes into account the impact of the relevant country's legislation and administrative procedures on the implementation of effective supervision;

- e) Taking into account the adequacy and feasibility of the business plan and its potential position in the banking sector, the applicant will be able to function sustainably;
 - f) Its head office (the place where the majority of decisions related to the management of the bank are made) is in the territory of Georgia, and the area occupied for the banking activities meets the requirements established by the National Bank.
2. In order to promote a stability of financial sector, the development of the financial sector, as well as the interests of the banking sector, including the use of essentially new and innovative financial technologies in the local market and to increase the access of consumers to financial services, the National Bank is authorized to issue a conditional license to a legal entity with temporary simplification of the minimum capital requirements established by law for licensing a commercial bank. When issuing a conditional license, the National Bank is authorized to determine relevant restrictions and/or individual/additional requirements for the purpose of reducing the risks and the stages and deadlines for their full satisfaction.
3. The National Bank shall determine the terms and conditions of commercial bank licensing by a legal act, including the additional information to be submitted, as well as the terms and conditions of issuing a conditional license.

Article 3¹ – Written applications for obtaining a banking license

1. The written application for obtaining a banking license shall be submitted to the National Bank by a person authorized by the Supervisory Board or shareholders of license applicant.
2. Written application shall be attached with the following documents and information:
 - a) Original constituent documents of license applicant;
 - b) A statement of a commercial bank on the authorized capital of the license applicant and its paid-in portion; also information about the ownership and origin of the authorized and regulatory capital of the license applicant. A branch and subsidiary of a foreign bank shall submit information regarding the amount of resources allocated to it by its parent bank;
 - c) Bank statement on filling the capital in accordance with the Decree of the President of the National Bank of Georgia on Minimum Capital Requirements for Commercial Banks;
 - d) Information on compliance of applicant's administrators and management bodies (supervisory board, directorate) with the individual and collective suitability criteria defined by this Law and normative acts;
 - e) Document proving payment of a license fee defined under the Law of Georgia on

License and Permit Fees;

- f) Information about the owners of a significant share determined by the legal act of the National Bank on the acquisition of a significant share, and in the absence of such shareholders - identification information about the 20 largest shareholders;
 - g) Information on ownership/ group structure of license applicant in accordance with Paragraph 3 of this Article;
 - h) Information on supervisory board, including audit committee and directorate of commercial bank license applicant in accordance with Paragraph 4 of this Article;
 - i) Documents approved by the Supervisory Board in accordance with Paragraph 5 of this Article;
 - j) Business plan of commercial bank's license applicant in accordance with Paragraph 6 of this Article;
 - k) information about the past activities of the license applicant, in accordance with legal act of the National Bank on the licensing of commercial banks;
 - l) Additional information in case of branch and subsidiary of a foreign bank applicant in accordance with Paragraph 7 of this Article;
 - m) Documentation evidencing the right of use or ownership of the real property where a license applicant or its branch shall be located in the future;
 - n) Any other information reasonably required by the National Bank in each individual case;
3. . Information on ownership/group structure of license applicant/commercial bank shall include details on all ownership levels including direct shareholders, interim owners and beneficial owners holding significant share. Specifically, such information shall include:
- a) In case of an individual:
 - a.a) ID document;
 - a.b) Information on citizenship and residence;
 - a.c) Detailed Curriculum Vitae;
 - a.d) Information on the amount of a share in a commercial bank currently or in the past and the other business interests on the territory of Georgia;
 - a.e) Information on criminal records. in the case of non-resident persons - from the administrative bodies of all the countries where the person was a resident during the last 10 years;
 - a.f) Information on financial position, source of income and origin of such income;
 - a.g) income tax declaration;;
 - b) In case of a legal entity:
 - b.a) Registration documents;
 - b.b) Audited financial statements for the recent period (quarter);

- b.c) Notice of criminal liability/conviction of the legal entity and its administrators.
In the case of non-resident persons - from the administrative body of all the countries where the person was a resident during the last 10 years.
4. Information on supervisory board of the applicant, including the audit committee, and directorate shall include the information defined by the legal act of the National Bank on the suitability criteria of administrators.
5. Documents approved by the supervisory board of license applicant shall include:
- a) By-law on corporate governance;
 - b) Description of organizational structure and management activities;
 - c) Management framework for credit, market, operational, AML and the other relevant risks;
 - d) Internal Model for capital adequacy evaluation;
 - e) Capital adequacy calculations in accordance with the National Bank's requirements based on the budget presented in the business plan;
 - f) Accounting policy.
6. Business plan shall correspond to the planned activities of a license applicant and at least include the following information:
- a) Business strategy;
 - b) Information on the potential impact of the country's macroeconomic position on commercial bank's business strategy;
 - c) Description of the target market and evaluation of one's own competitiveness;
 - d) Budget plan and financial forecast, including, taking into account stressful scenarios for the next three years;
 - e) business and regulatory risk factors;
 - f) Minimum initial IT plan and IT implementation for future periods.
7. Additional information in case of licensing a branch or a subsidiary of a foreign bank shall include:
- a) Balance sheet and income statement of parent bank for the last three years;
 - b) Decision of the supervisory board of the parent bank on applying to the National Bank for a banking license;
 - c) Approval of the supervisory authority of a parent bank on opening a branch/ subsidiary in Georgia.
8. The documents stipulated in this Article shall be submitted in the form of originals or their notarized copies. Documents issued in a foreign country must also be apostilled and/or legalized. In addition, a duly certified translation of the documentation in Georgian shall be submitted.

9. In the case of a non-resident legal entity, if the legislation of the relevant country does not provide for the issuance of a notice of criminal liability, an official document issued by an authorized agency confirming the aforementioned must be submitted to the National Bank.
10. A licensed commercial bank, its shareholders, intermediate owners and beneficial owners holding a significant share are obliged, upon request by the National Bank, to submit to it the relevant updated information specified in this Article.

Article 4 - Decision on licensing

1. Decision on issuing the banking license shall be made only by the National Bank of Georgia.
2. Banking license shall be issued for an indefinite term and it shall not be transferred to another person.
3. The National Bank shall review compliance of submitted documents and information with the requirements defined by the legislation. The National Bank is authorized to hold appropriate consultations with the license applicant before receiving a written application.
4. Within 5 working days after submitting a written application for a banking license, the National Bank checks the formal compliance of the submitted information/documentation with Articles 3 and 3¹ of this law and the requirements defined by the National Bank. If the complete information/documentation defined by the law is not submitted by the license applicant, the National Bank will identify the deficiency to the license seeker and set a term of not more than 15 working days to eliminate it. In case of missing the deadline set for eliminating the deficiency, the National Bank refuses to issue the license to the license applicant. In case of submission of a complete written application by the license applicant, the National Bank confirms its receipt in writing, indicating the term for final decision-making.
5. The National Bank will review the documents and information submitted for obtaining the banking license within 6 months from the issuance of the confirmation on the receipt of a complete written application. During the assessment period, the National Bank has the right, within the scope of its authority, to request any other, additional information/documentation necessary to make a reasoned decision in a specific case. In case of request for additional information/documentation, the term provided for in this paragraph is suspended and a deadline for submitting additional information/documentation (including several times) is determined. Submission of the information/documentation requested is the ground for renewal of the term suspended, and failure to submit the information/documentation within the established term is the ground for refusal to issue the license. As a result of the assessment, the National Bank notifies the interested person in writing on issuance of the license or the reasoned refusal, if the license applicant does not meet the licensing requirements defined by the legislation.
6. The whole term for making a decision on issuing a banking license should not exceed 12 months.

Article 5 - Fit and Proper Criteria for Holders of Significant Share and Administrators of Commercial Banks

1. A person shall be prohibited to be a holder of commercial bank's significant share if such person has been convicted for heavy or especially aggravated crime, terrorism financing or/ and legalization of illicit income or the other economic crime.
2. A person can be an administrator of a commercial bank if:
 - a) He/ she has not been recognized as receiver of support by the court;
 - b) He/ she has not been convicted for heavy or especially aggravated crime, terrorism financing or/ and legalization of illicit income or the other economic crime;
 - c) He/ she has respective education or/ and experience;
 - d) He/ she simultaneously is not an administrator of another commercial bank except for the case when he/ she occupies position of an administrator in a bank controlled by this bank or in a bank which controls this particular bank.
3. The National Bank shall be entitled to define additional fit and proper criteria for holders of commercial bank's significant share and administrators under a normative act.

[Article 5 - Suitability criteria for Administrators of commercial banks]

1. An administrator of a commercial bank shall meet the following suitability criteria:
 - a) Good reputation, honesty and integrity, which, among other, implies that he/she/it should not be convicted of a heavy or especially aggravated crime, terrorism financing or/ and legalization of illicit income or the other economic crime;
 - b) Appropriate knowledge, skills and experience necessary for conducting banking activities;
 - c) Independence of mind, which means the ability to make decisions based on independent and objective judgment, assess decisions made by other members of management bodies and avoid conflicts of interest;
 - d) Sufficient time to perform one's duties properly;
 - e) The number of positions held at the same time - the administrator must not be the administrator of another commercial bank, microfinance organization and/or non-bank depository institution - credit union registered in Georgia, unless the aforementioned entities are under the control of the commercial bank where he/she/it holds the position of administrator, or represent the controlling entities of the commercial bank in which he/she/it holds the position of administrator. A bank administrator should not be a member of the supervisory board and/or directorate of more than five enterprises. However, one executive position is compatible with two non-executive positions, or five non-executive positions are allowed. For the purposes of this sub-paragraph, the positions occupied in non profit (non-commercial) organizations will not be taken into account.

For the purposes of this sub-paragraph, the following shall be considered as one position:

e.a) Positions held within one group. For the purposes of this subsection, group means a commercial bank, its parent enterprise/enterprises and the commercial bank's subsidiary enterprise/enterprises;

e.b) Positions in the enterprise/enterprises in which the bank holds a qualifying holding.

2. The decision on the suitability of the administrator shall be made by the National Bank, which is guided by the principle of proportionality when assessing the suitability of administrators. This implies assessing the suitability criteria according to the bank's size, internal organizational structure, risk profile and complexity. The principle of proportionality shall not apply while assessing the good reputation, honesty and integrity of administrator. The assessment intensity, assessment procedure and the content of the submitted information/documentation shall be determined based on the principle of proportionality.

3. The assessment of the suitability of administrators shall imply the assessment of the individual as well as the collective suitability of the bank's directorate and the supervisory board.

4. When assessing the suitability of administrators, a diversity policy shall be considered, which should be based on at least education, professional experience, age and gender factors.

5. Prior to the appointment of an administrator, the bank shall submit to the National Bank the documentation/information defined by the legal act of the National Bank on the suitability criteria for administrators. Bank shall not appoint a person until the National Bank makes a decision on the suitability of the administrator, and in case of non-compliance of the already appointed person, shall remove the person from the position.

6. The National Bank is authorized, in exceptional cases, to issue conditional consent to the appointment of an administrator without fully submitting the information/documentation defined by the legal act of the National Bank on the suitability criteria of administrators and to determine the period not more than six month for the complete submission of information/documentation. In the case of incomplete submission of information/documentation within the mentioned period, the conditional consent given for the appointment of the administrator will be automatically revoked from the moment of expiry the period determined by the National Bank.

7. The National Bank is authorized to determine, by the legal act, the rules and procedure for assessing the suitability criteria of the commercial bank administrators, including the collective suitability requirements of the Directorate and the Supervisory Board, the information to be submitted, and also clarify the meaning of the assessment criteria. *(in force from 1 November 2022)]*

Article 6 - Special cases for simplification of licensing procedures

1. Branch or subsidiary of a foreign bank may be licensed according to a simplified procedure if an applicant represents an especially reliable bank, in particular, it is well-known highly reputable bank with a high credit rating and multi-year experience in a financial sector, strong financial figures and high level transparency.
2. For the purpose of facilitating entry of a reliable foreign bank into the Georgian market, the National Bank shall, on an individual basis, define the list of documents, which a branch / subsidiary of a foreign bank provided for in paragraph 1 of this Article shall submit to obtain a banking license.
3. The National Bank of Georgia is authorized to define simplified procedures for licensing bridge bank by the legal act.

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 7 - Revocation of banking licence

1. A banking licence may be revoked by the decision of the National Bank on the following grounds:
 - a) Upon the request of a commercial bank on license revocation;
 - b) Violation of Article 21 of this Law;
 - c) Submission of forged or/and incorrect documents/information for the purpose of obtaining license;
 - d) Failure of a commercial bank to perform activities within 12 months following license issuance, and also suspension of activity by the operating commercial bank for more than 6 months;
 - e) Material deviation from the business plan and strategy submitted for licensing purposes without coordination with the National Bank;
 - f) If a commercial bank has been merged with, acquired by, or separated from the other bank;
 - g) If a commercial bank no longer has minimum regulatory capital formed with funds according to the National Bank's requirements; or a bank is no longer reliable for creditors due to failure to fulfil its obligations against them or a bank is no longer able to ensure security of assets entrusted to it;
 - h) If shareholders of a commercial bank decide on closure or liquidation of a bank;
 - i) If a commercial bank has weak risk management model, harmful or unsound banking practice for its financial condition, which may inflict significant damage to its depositors and/or stability of financial sector or which can create significant threat to the stable and effective operation of the banking system;

- j) The bank faces or is expected to face significant financial problems, which may be expressed in weak profitability figures, violation of regulatory coefficients or otherwise;
- k) The bank is insolvent or is likely to be insolvent;
- k¹) The bank needs temporary public funding or last resort loan as defined by paragraph 3 of the Article 33 of the Organic Law of Georgia on the National Bank of Georgia to sustain its operations;
- k²) The use of supervisory measures provided by Article 30 of this Law and/or the early intervention measures determined by Article 30¹ of this Law have been ineffective;
- l) Complexity and/or non-transparency of a commercial bank's structure, which impedes effective supervision;
- m) Such change in an ownership structure, which threatens financial stability and sound operation of a bank and/ or financial sector;
- n) Court decision on depriving the bank of the right to conduct banking operations;
- o) Failure of bank's administrators, holders of significant share to meet suitability criteria defined by the legislation.
- o¹) If the resolution of a commercial bank has finished ineffectively;
- p) In case of withdrawal of banking license of head office of the foreign bank branch in its home country or the foreign bank is unable, to the National Bank's opinion, to meet the obligations booked through the branch, and there is no resolution or insolvency proceeding that has been or will be initiated in a reasonable timeframe in the home country, or the action that is or will be taken in the home country, including a bankruptcy order, or resolution initiation, does not give due regard to the preservation of financial stability in Georgia, or the creditors of the branch in Georgia would not be treated equitably under the respective foreign proceeding;
- q) In case of issuance a conditional license, non-fulfillment of requirements/restrictions related to it.

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 8 – Publication of decision on revocation of banking license and its results

1. The decision on revocation of a banking license shall be published in the Legislative Herald of Georgia and on the official website of the National Bank. The decision shall be effective from the date of its publication on the official website of the National Bank, or from any other date determined by the decision;
2. Upon revocation of the banking license the National Bank shall commence the liquidation process of a legal entity in accordance with Article 37¹² of this Law;
3. A legal entity shall be prohibited to pursue any activity provided for in the banking license from the license revocation date. Legal entity shall meet all liabilities defined under the legislation within shortest period of time from the license revocation date. Prior to meeting

this liability, a person shall be subject to commercial banking law similar to licensed commercial banks.

4. Decision on insolvency and bankruptcy of commercial banks shall be made only by the National Bank.

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 5682 of 20 December 2019 – website, 31.12.2019

Chapter II¹

Acquisition of Significant Shares of Commercial Banks

Article 8¹ - Declaration of conformity

1. A person or a group of effective partners (shareholders) acting in concert ('the declarant'), who intends to acquire a share in a commercial bank so that his /her /its own or his/her/its beneficial owner's (owners) participation exceeds 10, 25 or 50 per cent in the bank's capital, shall be obliged to submit a fit and proper declaration to the National Bank ('the Declaration') as well as information on holder of a significant share and beneficiary owner provided for in Article 3 of this Law.

1¹. For the purpose of making decision on acquisition of a significant share, the National Bank shall review submitted documents and their correspondence with the requirements set under the Law and take into consideration declarant's reputation and financial position, potential impact of changed ownership/ group structure on effective supervision and transparency of the ownership/ group structure as a result of acquisition of significant share, as well as illicit money laundering and terrorism financing risks with respect to such transaction.

2. The declarant shall indicate the following in the declaration:

- a) His's/her's/its's identification data;
- b) Information that he/she has no criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income or other economic offences;
- c) Identification data of the beneficial owner (owners) under the first paragraph of this article, or a statement that, based on the information available to him/her, no beneficial owner (owners) shall exist as a result of this operation;
- d) Information that a beneficial owner under the first paragraph of this article, has no criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income, or other economic offences;
- e) The amount of his/her/its own shares if the acquisition is completed;
- e¹) Information on origin of funds required for acquisition of a significant share;
- f) Based on information available to him/her/it, the amount of shares owned by the beneficial owner whose share exceeds 10, 25 or 50 per cent, if the acquisition is completed;

g) A declaration of the beneficial owner (if submitted) to certify that the information in the declaration is accurate.

2¹. If possible, the declarant shall attach the declaration (declarations) of the beneficial owner (owners) under the first paragraph of this article to his/her/its own declaration.

3. If, based on information available to the declarant, the beneficial owner under the first paragraph of this article does not exist, the declarant shall indicate such in the declaration, and shall not fill in the beneficial owner's section of the declaration.

4. In the event the National Bank considers that additional information is required for making a decision, it shall be entitled to request any other information within its competence including information defined for licensing specified in Article 3 (including confidential information);

5. Direct or indirect owner of the Bank who intends to sell its share in a commercial bank directly or indirectly, as a result of which its share as of a beneficial owner becomes less than 10, 25 or 50 per cent, shall notify the National Bank in advance on this fact. The notification shall include detailed information about the transaction.

6. Commercial bank shall immediately notify the National Bank about any change in a fit and proper criteria related.

7. The National Bank of Georgia is authorized to define simplified procedures for acquisition of a significant share of a commercial bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5528 of 20 December 2011 - website, 28.12.2011

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

[Article 8¹ - Obligation to notify and submit information

1. A person or a group of partners (shareholders) acting in concert ('the Applicant'), who intends to directly or indirectly acquire a share in a commercial bank so that his /her /its own direct/indirect participation in the commercial bank's capital exceeds 10, 20, 30 or 50 percent, and/or acquires significant influence or control on commercial bank despite the share in the capital and/or voting stock, shall be obliged to submit information/documentation on the acquisition of the significant share determined by a legal act of the National Bank, personally, through a representative or the commercial bank. In case of a group of partners (shareholders) acting in concert, in order to determine the acquisition/change of significant shares, the total number of shares owned by the group of partners (shareholders) shall be taken into account.

2. In case of acquisition of a significant share without the prior intention of the applicant, the relevant information/documentation must be submitted to the National Bank immediately, as soon as the applicant becomes aware of this fact. A person shall not exercise voting rights and other powers related to holding a significant share until a decision on the suitability of a significant shareholder is made by the National Bank. When acquisition of a significant share occurs without the prior intention of the applicant, an obligation to submit information/documentation exists, regardless of whether he/she/it plans to transfer the shares in the amount that the shares in his/her/its ownership returns to the marginal number.
3. For the purpose of making decision on acquisition of a significant share, the National Bank reviews submitted information/documents and their compliance with the requirements of Georgian legislation and takes into account following suitability criteria:
 - a) Applicants's reputation, which includes his/her/its credibility and the presence of proper competence;
 - b) Suitability of the persons selected as administrators of the commercial bank by the Applicant (if such power exists) with the requirements determined by this Law and by a legal act of the National Bank on the suitability Criteria of Administrators;
 - c) Financial solidity of the Applicant;
 - d) Compliance of the commercial bank with prudential supervision requirements after the Applicant acquires the shares;
 - e) Illicit money laundering and terrorism financing risks with respect to Applicant/such transaction.
4. A person shall be prohibited to be a holder of commercial bank's significant share if such person has been convicted for heavy or especially aggravated crime, terrorism financing or/and legalization of illicit income or the other economic crime.
5. When assessing the suitability of an Applicant, the National Bank shall be guided by the principle of proportionality, which implies the assessment by the size of the commercial bank, internal organizational structure, risk profile and complexity, the amount of shares, the type of the acquirer (natural person, legal person, direct/indirect owner/acquirer), the purpose of share acquisition and the possible impact on commercial bank. The intensity of assessment, assessment procedure and the content of the information/documents to be submitted shall be determined in respect with principle of proportionality. The principle of proportionality shall not apply to the assessment of the credibility within the scope of the assessment of the Applicant's reputation.
6. The obligation to submit information/documentation to the National Bank applies to the direct acquirer of shares as well as to indirect acquirer. With the consent of the National Bank, information/documentation may be submitted on behalf of interim owners, by the beneficial owner.

7. In case the National Bank considers that additional information/documentation is required for making a decision, it shall be entitled within its competence, in addition to information/documentation determined by this Law and legal act of National Bank on acquisition of significant share, to request any other information/documentation (including confidential information).
8. Direct or indirect owner of the commercial bank who intends to sell his/her/its share in a commercial bank directly or indirectly, as a result of which his/her/its own share becomes less than 10, 20, 30, or 50 percent in the commercial bank's capital, shall notify the National Bank in advance on this fact. The notification shall include detailed information about the transaction.
9. Commercial bank shall immediately notify the National Bank about any change in suitability criteria of the holder of significant shares.
10. The National Bank is authorized to define by a legal act content of suitability criteria of holder of significant share, issues related to determining the amount of significant shares, information/documentation to be submitted, assessment method and procedure.
11. The National Bank of Georgia is authorized to define simplified procedures for acquisition of a significant share of a commercial bank in resolution. *(in force from 1 November 2022)*

Article 8² – Review of declarations

1. The National Bank shall review a declaration within one month after it is submitted. The National Bank shall give consent or a substantiated refusal to the declarant to acquire the share.
2. If the National Bank considers the information submitted on the beneficial owner to be insufficient or inaccurate, it shall be entitled to verify or clarify that information directly with the beneficial owner. In this case, the deadline for response shall be extended to three months, and the declarant must be notified of it.
3. The National Bank's failure to respond within one month after a declaration is submitted shall automatically be considered as consent to acquire the share.
4. An agreement to acquire a significant share shall be void if the declarant fails to submit a declaration to the National Bank, or if the declarant received a substantiated refusal of the National Bank, but still acquired a significant share of a commercial bank.
5. When issuing a consent on application regarding acquisition of a significant share, the National Bank shall follow Paragraphs 1 and 2 of this Article and Article 4 of this Law and the other principles specified in the Georgian legislation.
6. Commercial bank shall inform immediately the National Bank regarding any change in fit and proper criteria of an owner of significant share.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29.

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

[Article 8² – Assessment of the Applicant’s suitability]

1. Within five working days after the Applicant submits the information/documentation, the National Bank shall review the formal compliance of the submitted information/documentation with the requirements determined by this Law and a legal act of the National Bank. If the Applicant has not fully submitted information/documentation determined by the legislation of Georgia, the National Bank shall claim to the Applicant about the defect and give period of no more than 15 working days to address the impediment. If the deadline established for the elimination of the defect is missed, the National Bank shall refuse the Applicant on acquisition of a significant share. In case the Applicant submits full set of information/documentation, the National Bank shall confirm its receipt, indicating the period for making a decision on suitability.
2. The National Bank shall review the submitted information/documentation within 60 working days after issuing confirmation of the receipt of complete set of information/documentation. During the review period, the National Bank shall have the right, within its competence, to request in writing any other additional information/documentation necessary for making a substantiated decision on a specific case, as well as it has the right to verify the mentioned information or clarify directly with the Applicant. Request for additional information/documentation may be made no later than the 50th working day after issuing written confirmation on the receipt of information/documentation. In this case, the review period shall be suspended until submission of additional information/documentation, for no more than for 20 working days, or for no more than 30 working days if the Application is a non-resident person, about which the Applicant must be notified. The submission of requested information/documentation by the Applicant shall be the ground for the renewal of the review term, and the failure to submit information/documentation within the established timeframe shall be the ground for refusal of significant share acquisition. The National Bank shall have the right to re-request the submission of additional information/documentation or clarification of information. In this case, the flow of the review period will no longer be suspended.
3. As a result of reviewing the submitted information/documentation, the National Bank gives consents to the Applicant to carry out the relevant operation or gives substantiated refusal if the Applicant fails to meet the suitability requirement defined by this Law and legal act of the National Bank on the acquisition of a significant share of a commercial bank, or he/she/it has not submitted the information/documentation requested by the National Bank. The National Bank shall be authorised to refuse the Applicant to carry out the relevant operation in the cases provided for by paragraph 4 of Article 48 of the Organic Law of Georgia on the National Bank of Georgia.

4. Consent or substantiated refusal to carry out an operation for acquisition of a significant share shall be notified to the Applicant within two working days after the completion of the assessment, without violating the total term of assessment.
5. The National Bank's failure to respond within 60 working days after confirmation on receipt of information/documentation shall automatically be considered as consent to conduct relevant operation. If necessary, the National Bank shall be authorised to extend the period of making a decision on the acquisition of significant share up to 90 working days, on which the Applicant shall be notified until the expiry of the period provided for by this Article.
6. If the Applicant fails to submit relevant information/documentation to the National Bank, or if the Applicant received a substantiated refusal from the National Bank, but still acquired a significant share of a commercial bank, the National bank shall be authorised to suspend the voting right of such person and/or require him/her/it reduction of his/her/its shares to 10 percent/annulment of significant influence/control, as well as to require the commercial bank to cancel the results of the use of voting rights and/or other powers obtained by a person as a result of the acquisition of share. *(in force from 1 November 2022)]*

Article 8³ – Information to be submitted to the National Bank

1. On the basis of available information, a commercial bank shall provide the National Bank, together with annual reports, with information on the direct owner and the beneficial owner of more than 10 per cent of bank shares and shall indicate whether it confirms the accuracy of the information provided.
2. A beneficial owner, who directly or indirectly holds more than 10 per cent of a commercial bank shares, shall be obliged to submit to the National Bank in April of every year a declaration as of December of the previous year.
3. If a direct owner and a beneficial owner of significant shares of a commercial bank fail to submit the required information to the National bank, they shall be held liable for the failure under the legislation of Georgia.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 8³ – Information to be submitted to the National Bank periodically

1. On the grounds of available information, together with annual reports, a commercial bank shall provide the National Bank with information on the owners of its significant shares and shall indicate whether it confirms the accuracy of the information provided.

2. In April of every year, owner of significant share, shall be obliged to submit to the National Bank an updated information on modified circumstances or confirm that there was no changes.
3. If the owner of significant share of a commercial bank fails to submit the required information to the National bank, he/she/it shall be held liable for the failure under the legislation of Georgia. *(in force from 1 November 2022)*

Article 8⁴ – Requirement of the declaration of significant owner and Supervisory measures

[Article 8⁴ - Requirement for submission of information by the owner of the significant share and the supervisory measures *(in force from 1 November 2022)*]

1. In case of reasonable doubt, the National Bank may require that a commercial bank submit a declaration on the direct and beneficial owners of its significant shares.
2. If the requirement provided in the first paragraph of this article is not satisfied or by the assessment of NBG the significant owner does not satisfy the fit and proper criteria, the National bank shall be authorised to:
 - a) Suspend the voting rights of such person for a certain period, and require him/her/it to reduce his/her/its shares to 10 per cent within 60 days;
 - b) Suspend the voting right of such person for unlimited period.
- [1. In case of reasonable doubt, the National Bank may require a commercial bank to submit an updated or clarified information/documentation on the owner of its significant share.
2. If in the case provided for by paragraph 1 of this Article, the owner of a significant share does not submit information/documentation or, according to the assessment of the National Bank, the owner of a significant share can no longer meet the suitability criteria, the National Bank shall be authorised to:
 - a) Suspend the voting rights of such person for a certain period, and require him/her/it to reduce his/her/its shares to 10 per cent within 60 days;
 - b) Suspend the voting right of such person for unlimited period. *(in force from 1 November 2022)*
3. The person shall have the right to appeal the decision of the National Bank on refusal to acquire shares in a commercial bank, suspension of the voting right and/or requirement to reduce his/her/its shares to 10 per cent to a court.
4. If there is a court decision suspending voting rights, the person shall have the right to exercise his/her/its voting rights proportionate to only 10 per cent of the shares.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015
Law of Georgia No 439 of 10 March 2017- website, 22.03.2017
Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Chapter III

Ownership and Administration

Article 9 - Requirements towards commercial bank capital and reserves

1. The National Bank shall periodically determine the minimum amount of reserves, paid-in capital and regulatory capital of a commercial bank, and regulations for their formation. A commercial bank may not pay in the subscribed capital in a nonmonetary form.
2. A commercial bank may not reduce its subscribed capital by redeeming shares, or reduce its regulatory capital by using reserves without the prior written consent of the National Bank, and without an appropriate amendment regarding a change in the subscribed capital defined in its charter.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125
Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160
Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015
Law of Georgia No 439 of 10 March 2017- website, 22.03.2017
Law of Georgia No 880 of 2 August 2021- website, 04.08.2021

Article 10 - Restriction of a commercial bank's proprietary right and assets, ownership and group structure

1. A commercial bank may:
 - a) Without the permission of the National Bank, directly or indirectly own a maximum of 20 percent shares in the subscribed capital of a legal person unless the bank's share exceeds 15 percent of its equity capital with consideration of Paragraph 1¹ of this Article;
 - b) (Deleted - 23.12.2018-No 1895)
 - c) With consideration of Paragraph 1¹ of this Article, based on a written permit of the National Bank establish or/and acquire an enterprise where its share exceeds 20%. In such case, the permit shall state the type of activity, which every such enterprise can pursue. Activities of enterprises shall be limited to the types specified in the permit. This share, without the National Bank's written permit, shall not exceed 15% of the bank's equity capital.
 - d) Receive a share to repay the amount of credit granted. The bank shall immediately inform the National bank about activities of such enterprise. If activities of an enterprise

the share of which is acquired by the bank do not meet requirements set for activities defined under Paragraph 1¹ of this Article, the Bank shall take steps for selling the share within 6 months. In case of the prior consent of the National bank of Georgia the commercial bank has to purchase the share within 1 year. In special case the National Bank can extend this period, Which, regardless of how many time it is extended, should not exceed 2 years in total. Where the volume of repurchased share authorizes the Bank to control and manage an enterprise, it shall not be allowed to commence any new additional activity within the period from repossession till disposal without the National Bank's consent.

e) Establish or acquire a subsidiary – a brokerage company which is engaged only in brokerage activity as determined by the Law of Georgia on Securities Market; the commercial bank may hold an unlimited amount of shares in the brokerage company unless the shares exceed 15 per cent of the bank's equity capital without permission of the National Bank.

- 1¹. Commercial bank shall be prohibited to directly or indirectly hold a share of any size in the capital of that legal entity, which does not represent a financial institution or its activities are not related to banking activity or bank's social projects. Such restriction shall not apply to securities designated for dealing transactions according to the procedure set by the National Bank.
- 1². Commercial bank, when making investment outside Georgia, shall substantiate to the National Bank that the legislation of the country where investments are made does not restrict effective supervision by the National Bank, including the possibility to exchange information among supervision bodies.
2. The total cost of shares referred to in sub-paragraph "a" and "c-e" of paragraph 1 of this Article may not exceed 50 percent of the equity capital of a commercial bank. The National Bank of Georgia is authorized to exempt the Bank from such limitation for no more than 1 year.
- 2¹. The National Bank shall be entitled to set criteria under a normative act, which will be used by a commercial bank for making decisions on investments.
3. A commercial bank shall be obliged to have complete information about the identity of each beneficial owner of the bank who directly or indirectly owns more than 10 per cent of shares (indicating the amount of shares); to provide the National Bank with that information (as well as with information of any significant changes regarding a beneficial owner) and to publish this information in the bank's annual reports. The National Bank shall define the method of providing and publishing this information on the basis of International Financial Reporting Standards and best international practices.
4. The obligation under the third paragraph of this Article shall not apply to beneficial owners of a commercial bank who cannot be identified by the bank because the nominal ownership in their favour is held by a clearing organisations located and exercising their authority in developed countries, or by international depositaries.

5. For the purposes of this Law, the requirements that apply to the partners (shareholders) of a commercial bank shall also apply to beneficial owners who directly or indirectly hold shares in the commercial bank.
6. The National Bank shall be entitled to request from a commercial bank change/ simplification of ownership or/ and group structure if ownership/ structure complexity impedes effective supervision process or/ and threatens or is expected to threaten stability and sound operation of a bank or/ and financial sector.
7. A commercial bank shall be obliged to agree in advance to the National Bank such a change of the founding structure, which may have some influence on the compliance of the commercial bank with the licensing conditions/criteria, in accordance with the procedure established by the National Bank.

Law of Georgia No 1751 of 24 December 1998 - LHG I, No 1(8), 14.1.1999, Art. 4

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 1938 of 28 December 2002 - LHG I, No 3, 17.1.2003, Art. 19

Law of Georgia No 2787 of 17 March 2006 - LHG I, No 8, 24.3.2006, Art. 59

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 880 of 2 August 2021- website, 04.08.2021

Article 10¹– Requirements for commercial bank subsidiaries that conduct activities outside Georgia under the legislation of Georgia for persons who carry out monitoring under the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing

1. To conduct activities outside Georgia under the legislation of Georgia for persons who carry out monitoring under the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, a commercial bank must submit to the National Bank within 14 days after establishing or acquiring a subsidiary the bank's decision that upon commencing operations, the subsidiary has developed a program to combat legalisation of illicit income and financing of terrorism for fulfilling recommendations for Money Laundering and Financing of Terrorism, and of the Financial Action Task Force (FATF).

2. If fulfilment of the FATF recommendations by a subsidiary is not provided for in the laws and subordinate normative acts of a foreign country of the subsidiary's residence, or if this country fails to combat money laundering and terrorism financing and the FATF recommendations are not followed, or followed insufficiently, then:

a) A bank must undertake a written obligation that it shall ensure implementation of measures for combating money laundering and terrorism financing by its subsidiary under the requirements established in Georgia towards the bank and the FATF recommendations;

b) A bank shall ensure that the National Bank is informed if its subsidiary fails to carry out measures under the legislation of Georgia for combating money laundering and terrorism financing because these measures are prohibited or restricted by the legislation of a foreign country of a subsidiary's residence.

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 5228 of 30 October 2019 – website, 30.10.2019

Article 11 - Merger, acquisition or separation of commercial banks

1. Commercial banks may be divided (divided, separated) or merged (incorporation, connection) only after receiving the written consent of the National Bank. Commercial banks may not be allowed such a division or merger that does not comply with the provisions of Article 10 of this Law.

2. The National Bank considers compatibility of commercial bank mergers with a competitive environment, based on the Law of Georgia on Competition and procedure of the National Bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 7130 of 16 September 2020- website, 21.09.2020

Article 12 - Charter of commercial banks

1. Each commercial bank has its charter which complies with the legislation of Georgia. The National Bank shall be immediately informed in writing if any amendments are made to the charter.

2. Each commercial bank shall be administered according to its by-laws to determine the following under its charter:
 - a) Organisational and administration structure of banks and their administrative and operational subdivisions, their constituent units and functions, administrative positions and accountability;
 - b) Duties of each department director, and of each division under his/her subordination and control;
 - c) Audit committee functions;
 - d) Authority of administrators and other employees of a bank to conduct bank transactions on behalf of and for the account of the bank.
3. Each commercial bank shall submit to the National Bank its charter, by-laws and names of officials that have the bank's representative authority, together with their specimen signatures and indication of their scope of authority.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 13 - Management bodies of commercial banks

Commercial bank management bodies shall be formed and operate under the Law of Georgia on Entrepreneurs. The highest management body of a commercial bank is a General Meeting of Shareholders which acts in compliance with the legislation of Georgia and the company Charter. The Meeting shall appoint the supervisory board. The National bank shall be informed of the date and agenda of the General Meeting for its possible participation in the Meeting, within the time frame determined for shareholders under the legislation of Georgia.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 14 - Supervisory Board

1. A Supervisory Board shall ensure supervision of commercial bank activities. The Board shall consist of at least 3 and a maximum of 21 members. The procedure for establishing and determining the composition of the Supervisory Board shall be regulated by the Corporate

Governance Code of Commercial Banks approved by an order of the President of the National Bank.

2. A member of the supervisory board of a commercial bank shall not perform executive functions.
3. Each member of the supervisory board shall be appointed by the General Meeting of Shareholders, for a term of four years. Their re-appointment shall be unlimited.
4. The General Meeting of Shareholders shall determine remuneration for Supervisory Board members in accordance with the Corporate Governance Code for Commercial Banks approved by the order of the President of the National Bank. Only fixed remuneration is allowed for members of the supervisory board.
5. A person may not be appointed as a Supervisory Board member and must be withdrawn from the Board by decision of the General Meeting of Shareholders if this person fails to meet the suitability requirements of administrators determined by Article 5 of this law and the legal act of the National Bank suitability criteria for administrators of commercial banks.
6. Supervisory Board members must administer commercial bank activities with good faith, care for the bank as a faithful and sensible person cares in similar conditions and they must act out of interest in the bank's stability. If they fail to fulfil these duties they shall be jointly and severally liable to the bank for damages caused. A member of the Supervisory Board shall be exempt from liability if he/she fulfils the decision of the General Meeting of shareholders by his/her action, unless he facilitated the decision of the General Meeting of shareholders by providing incorrect information or knowing that the decision would cause damage, but did not notify the General Meeting of shareholders until the decision was made or enforced.
7. The decision by each Supervisory Board member must comply with commercial bank's interests. The members must act reasonably and independently. They must ensure that qualified directors are appointed and retained; a commercial bank's business strategy is defined.
8. Supervisory Board of commercial bank or its members may not delegate their rights to others without the consent of the General Meeting of Shareholders.

Article 15 – Board of Directors

1. Commercial bank directors shall administer and represent the company. They are responsible for managing banking activities and performing its functions. The Board of Directors consists of at least 3 directors appointed by the Supervisory Board for a maximum of four years. Their re-appointment shall be unlimited.
2. In the structure of the directorate of all banks, there must be a Director General, which is appointed by the Supervisory Board.

3. A person may not be appointed as a member of commercial bank Board of Directors or must be dismissed from the Board Directors membership by decision of the Supervisory Board if this person fails to meet the suitability requirements of administrators determined by Article 5 of following law and the legal act of the National Bank on suitability criteria for administrators of commercial banks.
4. Members of the board of directorate must lead through their activities with good faith, care for the bank as a faithful and sensible person cares in similar conditions and they must act out of interest in the bank's stability. If they fail to fulfil these duties they shall be jointly and severally liable to the bank for damages caused. A director shall be exempt from liability if he/she fulfils the decision of the General Meeting of shareholders by his/her action, unless he facilitated the decision of the General Meeting of shareholders by providing incorrect information or knowing that the decision would cause damage, but did not notify the General Meeting of shareholders until the decision was made or enforced.
5. In certain cases, a commercial bank's Board of Directors shall have the right to delegate his/her authority to others, partially or completely, based on a prior written consent of the bank's Supervisory Board.

Article 16 - Audit committee

1. By decision of the Supervisory Board, an Audit Committee shall be established from the members of the Supervisory Board. Independent members of the Supervisory Board shall represent majority of the audit committee.
2. Supervisory Board members shall be considered independent if a commercial bank or other external party, which may interfere with making impartial and independent decisions during activities, makes no influence on him/her. Additional criteria for determining an independent member of the supervisory board of a commercial bank shall be determined by the Corporate Governance Code of Commercial Banks approved by an order of the President of the National Bank.
3. At least two members of the audit committee, including the chairman of the committee, must have the ability to analyze financial statements, experience or have education in finance.
4. Audit committee shall periodically submit report on its activities to the Supervisory Board.
5. The main functions of the Audit Committee shall be to determine the commercial bank's approaches in relation to internal control issues and financial reporting policies, monitor the financial reporting process, facilitate internal audits and the functioning of the auditors of a commercial bank. The functions and responsibilities of the Audit Committee shall be additionally determined by the legal act of the National Bank.

Article 17 - Bank secrecy

1. No one shall have the right to give anyone access to confidential information, to disclose or disseminate this information, or to use it for personal purposes. Confidential information may be communicated only to the National Bank within its authority.
[1. No one shall have the right to give anyone access to confidential information, to disclose and disseminate such information or to use it for personal purposes. Confidential information can be provided only to the National Bank and the National Bank Dispute Resolution Commission provided for by the Organic Law of Georgia "on the National Bank of Georgia" within their authority. (*in force from 1 August 2023*)]
2. Information on any agreement (including in the case of an attempt to conclude an agreement), payment operation, account, transaction conducted from this account and account balance may be granted to a party to a respective agreement, in the case of payment operation – to the person carrying out a payment and/or receiving person, a respective account holder and their representatives, and in the cases provided for by the legislation of Georgia – to the Financial Monitoring Service of Georgia, and to persons that are authorised to execute the enforcement subordinate acts defined under the Law of Georgia on Enforcement Proceedings during the course of their enforcement; during the inspection provided for by the Law of Georgia on Personal Data Protection – to the Personal Data Protection Service; to a tax authority, based on a judicial decision under the Code of Administrative <http://www.matsne.gov.ge> 220.020.000.05.001.000.126 Procedure of Georgia, and the Agreement between the Government of the United States of America and the Government of Georgia to Improve International Tax Compliance and to Implement the Foreign Account Tax Compliance Act (FATCA); also, to the Legal Entity under Public Law called Deposits Insurance Agency, in the cases provided for by the Law of Georgia on Deposits Insurance System. This information may also be issued on the basis of the relevant court decision.
3. Tax authority shall be entitled to transfer the information provided for in Paragraph 2 of this Article to the competent authority of the US in accordance with the Agreement between the Government of the United States of America and the Government of Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA) without court ruling.
4. The restriction provided for in Paragraph 2 of this Article shall not apply to exchange of information within commercial banking group and between commercial banks for purposes of legislation on facilitating the prevention of money laundering and the financing of terrorism.

Law of Georgia No 163 of 21 March 1996 - newspaper 'The Republic of Georgia', 3.4.1996

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 2474 of 20 June 2003 - LHG I, No 20, 11.7.2003, Art. 140
Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 213 of 15 July 2008 - LHG I, No 17, 28.7.2008, Art. 129
Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160
Law of Georgia No 5528 of 20 December 2011 - website, 28.12.2011
Law of Georgia No 2948 of 12 December 2014- website, 24.12.2014
Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015
Law of Georgia No 439 of 10 March 2017- website, 22.03.2017
Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018
Law of Georgia No 4593 of 8 May 2019 – website, 8.5.2019
Law of Georgia No 5228 of 30 October 2019 – website, 30.10.2019
Law of Georgia No 1332 of 30 December 2021 – website, 13.01.2022

Article 17¹ – Right to verify information

1. The bank shall be entitled to use the electronic database of the LEPL Public Services Development Agency for identification and verification of a physical person in case of obtaining consent from a person in accordance with the Law of Georgia on Personal Data Protection.
2. The bank is obliged to prevent disclosure of information obtained from the Public Service Development Agency to a third person, except as provided for by law.

Law of Georgia No 5978 of 21 March 2008 - LHG I, No 9, 4.4.2008, Art. 65
Law of Georgia No 6317 of 25 May 2012 - website, 19.6.2012
Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Article 18 – Branches of commercial banks

Branches, representative offices and other similar subdivisions of a commercial bank shall be established by decision of the Supervisory Board under the terms and conditions defined by the National Bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160
Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015
Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Chapter IV

Operational Requirements

Article 19 - General principles of banking activities

1. A commercial bank shall be managed and its operational activities shall be performed according to administrative and accounting procedures, conditions and restrictions attached to the banking license that are substantiated by the legislation of Georgia, as well as under the resolutions, procedures and guidelines of the National Bank. The National Bank procedures, standards and guidelines applying to more than one commercial bank shall be subject to mandatory publication and shall become effective from the date of publication or the date indicated in the procedures, standards and guidelines. If the National Bank has not determined procedures for a certain banking activity, a commercial bank shall act according to international banking standards and practices.
2. A commercial bank shall maintain an appropriate level of capital and liquid resources, and shall diversify its assets considering the risk of loss, as required by the National Bank.
3. The relationship for banking services between a bank and its customers shall be regulated by agreement. If the time frames under a money transfer agreement are violated, the bank shall be obliged to pay the customer not less than 0.5 per cent of the delayed amount for each overdue banking day.
4. A commercial bank shall be entitled to develop a security policy for using electronic signatures in providing certain banking services and submit the policy to the National Bank for approval. On the basis of the security policy approved by the National Bank for using electronic signatures in providing certain banking services, an electronic signature used when providing certain banking services by a commercial bank shall have equal legal force as personal signatures on a material document. Electronic document certified with an electronic signature may be used in all of those cases where Georgian legislation requires hard copy of the document.
5. Submission of security policy on use of electronic signature, provided for in paragraph 4 of this Article, shall not be mandatory only if commercial bank, when rendering banking services, uses signature affixed through an electronic ID issued by an administrative agency authorized under the Georgian legislation or a signature, certificate for which is issued in accordance with the Law of Georgia on Electronic Document and Electronic Reliable Services.
6. Paragraphs 4 and 5 of this Article do not limit the right of a commercial bank to use electronic signature in banking services in accordance with paragraph 8 of Article 3 of the Law of Georgia on Electronic Document and Electronic Reliable Services. In this case, the National Bank shall be entitled to request from a commercial bank coordination of the security policy on use of electronic signature with the National Bank. If the National Bank, after review of the security policy submitted by a commercial bank, rejects the security

policy on use of electronic signature in accordance with this paragraph, the commercial bank shall cease using such electronic signature.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6019 of 10 April 2012 - website, 30.4.2012

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Article 19¹ Recovery plan

1. The commercial bank shall develop and submit to the National Bank the financial recovery plan approved by the supervisory board of this commercial bank. Among other elements, the financial recovery plan shall include idiosyncratic, systematic and combined stress scenarios to reduce the risks related to the liquidity and/or insolvency of the commercial bank and the measures that have to be taken and implemented for the recovery of the financial health.
2. The National Bank shall discuss and evaluate the financial recovery plan. The National Bank is entitled to request the commercial bank to make amendment to the financial recovery plan to remedy significant defects which may pose a threat on the implementation of the plan.
3. The commercial bank shall review the financial recovery plan annually and if appropriate, update it. The financial recovery plan shall be updated if the activity, structure, risk positions of the commercial bank or admissions which have been used during the development of the financial recovery plan have changed significantly. The National Bank is entitled to require the commercial bank any time to review the financial recovery plan and update it.
4. All commercial banks and the banking group entities are obliged to cooperate with, and assist the National Bank in fulfilling its tasks related to recovery planning, including by providing all information required by the National Bank.
5. The National Bank shall be authorised to establish additional requirements and rules related to the financial recovery plan provided for by this Article by a legislative act. Taking into account their size, system and risk profile, the National Bank shall also be authorised to determine relevant criteria for those commercial banks which may be offered simplified/different requirements.

6. The financial recovery plan does not prevent the National Bank from acting differently from this plan.

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 20 - Banking activities

1. Commercial banks may only be engaged in:

- a) Soliciting interest-bearing and interest-free deposits (call deposits, term deposits and others) and other refundable means of payment;
- b) Grant loans including consumer loans, mortgage loans, unsecured and other credits; factoring operations with or without right of recourse; financing commercial deals, issuing guarantees, letters of credit and acceptances, including forfeitures;
- c) Sales, with its own and customers means, of monetary instruments (including cheques, bills of exchange and depositary certificates), securities, debt instruments or interest rates of futures and options, currency and interest rate instruments, debt documents, foreign currency, precious metals and gems;
- d) Performing monetary and non-monetary payment transactions and cash-collection services;
- e) Issuing means of payment and organising their circulation (including payment cards, cheques and bank bills);
- e¹) providing interest-free banking services;
- f) Rendering intermediary services in financial markets;
- g) Performing fiduciary (trust) transactions, soliciting and placing funds by order of customers;
- h) Storing and registering valuables, including securities;
- i) Providing credit reference services;
- i¹) Central depositary activities under the Law of Georgia on Securities Markets;
- i²) Leasing property;
- i³) Providing payment services, operating payment system, performing the functions of a paying agent;
- i⁴) Transfer of property under lease;
- j) Providing services related to all of the above activities.

[k) In accordance with the Organic Law of Georgia "On the National Bank of Georgia", provision of virtual asset services for the benefit of another person, in particular, exchange of a convertible virtual asset (including through a self-service kiosk) in national or foreign currency, another virtual asset or financial instrument; transfer or/and safekeeping of the convertible virtual asset or the instrument necessary for its

use, which enable control over the virtual asset, and provision of activities necessary for the provision of this service. *(in force from 1 January 2023)*

2. Exercising rights with respect to securities transactions under the first paragraph of this Article shall be regulated by the Law of Georgia on Securities Markets.
3. Before providing a banking service under paragraph 1(e1) of this Article, a commercial bank is obliged to submit the description of the respective bank product to the National Bank for approval.
4. In accordance with paragraph 1(i2) of this Article leasing property by a commercial bank is allowed only for the purpose of the management of property to fulfil an existing liability against a commercial bank and/or provided that the property will be used only for banking activities, related activities or the social projects of a commercial bank during the entire lease period.
5. In addition to the cases provided for by paragraph 4 of this Article, a commercial bank shall be prohibited to buy or possess property for the purpose of letting it on lease.
6. The National Bank shall be authorised to define additional/different criteria for the activity provided for in paragraph 1(i2) and (i4) and by paragraph 4 of this Article.

Law of Georgia No 1751 of 24 December 1998 - LHG I, No 1(8), 14.1.1999, Art. 4

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6019 of 10 April 2012 - website, 30.4.2012

Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5682 of 20 December 2019 – website, 31.12.2019

Article 21- Economic limits, normatives and individual requirements

1. Commercial banks are obliged to observe the following economic limits determined by the National Bank:
 - a) A minimum amount of subscribed and regulatory capital;
 - b) A ratio between various capital accounts of a bank and its classified assets under the procedures of the National Bank;
 - c) A marginal ratio between solicited deposits of the bank and its regulatory capital;
 - d) A ratio between the total sum of credits and other liabilities issued by a bank to one borrower (an insider or outsider) and the regulatory capital of the bank;

- e) A ratio between the total sum of credits and other liabilities issued by a bank to all insiders (persons connected to the bank and to each other) and the regulatory capital of the bank;
 - f) (Deleted – 23.12.2018, N1895).
2. Commercial banks are obliged to observe the following economic standards determined by the National Bank:
- a) A ratio of the minimum total sum of liquid funds or certain types of such funds to the value of assets (including acquired guarantees and pledges) or a change in their values. The ratio may be set generally for assets or liabilities (including off-balance sheet liabilities) or for specific types. Banks have the right to place appropriate funds with the National Bank in order to comply with liquidity requirements;
 - b) A standard for a maximum total sum of credits and investments or of special types;
 - c) Classification of assets and off-balance sheet liabilities, and formation and use of reserves against probable losses; also terms and conditions under which accounts receivable based on assets will not be entered into revenue except when received in cash;
 - d) Standards for prohibitions, restrictions and conditions in relation to:
 - d.a) types and forms of credits granted and funds invested;
 - d.b) conformity of maturity periods and interests based on assets and liabilities (off-balance sheet and other liabilities);
 - d.c) open positions in foreign currencies, precious metals and gems formed as a result of exceeding set limits.
3. Based on the risk-based supervision principles, the National Bank is authorised to set for each commercial bank individual indices and other requirements for economic limits and standards under the first and second paragraphs of this Article.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 5682 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 880 of 2 August 2021– website, 04.08.2021

Article 21¹ – Business relations with clients

1. Commercial banks shall open accounts in accordance with the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and the „Agreement between the governments of United States of America and Georgia for improving accounting and complying with Foreign Account Tax Compliance Act (FATCA)“.
2. In business relations with their service consumers and when verifying transactions of the consumers, banks must be aware of the identity and activities of their service consumers and the level of risk for these activities with regard to money laundering and terrorism financing. Bank shall also determine the tax residency of the client and retrieve the information on the corresponding status of this person in accordance with the „Agreement between the governments of United States of America and Georgia for improving accounting and complying with Foreign Account Tax Compliance Act (FATCA)“.
3. Commercial banks operating in Georgia shall have the right to decide and require other additional information.
4. Commercial banks operating in Georgia shall have the right to refuse without any justification to open an account or render service.
- [4. Commercial bank operating in Georgia shall have the right to refuse without any justification to open an account or render service. Commercial bank shall be obliged to open to the client an account determined by first paragraph of the Article 20² of the Law of Georgia on Payment Systems and Payment Services, unless the fulfillment of this obligation results violation of legislation on money laundering and prevention of terrorism financing. (*in force form 1 November 2022*)]
5. A commercial bank may refuse to open an account for a person, or close his/her existing account if the person refuses to provide the commercial bank with the information based on the requirements established under the Agreement between the Government of the United States of America and the Government of Georgia to Improve International Tax Compliance and to Implement the Foreign Account Tax Compliance Act (FATCA).

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 4459 of 28 October 2015- website, 11.11.2015

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5228 of 30 October 2019 – website, 30.10.2019

Article 22 - Prohibited agreements and methods of working

1. (Deleted).
2. Commercial banks may not conclude any agreement with their customers that will require acquisition or use of a non-banking service of this bank or any of its affiliates in exchange for granting a loan or providing any banking service, unless the customer is given an opportunity to receive this nonbanking service from other providers.

3. Controlling person/administrator of a commercial bank shall be prohibited to perform any action, which results granting them independently or together with other persons undue dominant positions and/or results restriction of competition on nonbanking sector.
4. Controlling person and administrator of a commercial bank shall ensure avoiding from conflict of interest and must not put their interests above those of the bank, or abuse their authority. A controlling person/administrator of a commercial bank who has access to a non-public information, which may have a significant influence on the value of certain investment, is prohibited to use this information independently or with other persons.
5. In order to meet the requirements of this Article, a commercial bank is obliged to ensure the implementation and monitoring of adequate policies, procedures and technical systems related with the management of non-public information. This should ensure the limitation of the improper outflow of information to the parties related to the commercial banks, its controlling persons and administrators.
6. In the case of non-fulfillment or improper fulfillment of the requirements of this Article, the National Bank shall be entitled to apply supervisory measures and/or sanctions (monetary fine) provided for by Article 30 of this Law.
7. In order to meet the requirements of this Article, the National Bank shall with a relevant legal act determine procedures regarding prohibited transactions and working methods with them, as well as the relevant supervisory measures and/or sanctions (monetary fine) for shareholders of a commercial bank, controlling persons and administrators.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6150 of 8 May 2012 - website, 25.5.2012

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Law of Georgia No 7130 of 16 September 2020 – website, 21.09.2020

Article 23 - Registration of transactions and liabilities

1. Commercial banks are obliged to keep all documents related to each of their transactions for the time frames determined by the National Bank, in particular:
 - a) Requests and all contractual documents related to transactions (including agreements on credits, guarantees and pledges);

- b) Those financial records and other documented certificates of the bank partners (including borrowers and guarantors) that form the basis for the bank to approve a transaction;
 - c) A signed record of the bank's decision to approve a transaction;
 - d) Other documents as provided for by the National Bank standards.
2. Commercial banks shall be obliged to store information on their customers and transactions implemented on their accounts in an electronic form for not less than 15 years.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Article 24 - (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Article 25 - Transactions with interested persons

Commercial banks may not grant any banking product or render any banking service within their banking activities under preferential conditions to any administrator, controlling person, affiliate or connected persons despite the type of loan, interest rate, maturity period, collateral, value or any other conditions.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter IV¹

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Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125 Law
of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Article 25¹ – (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4220 of 29 December 2006 - LHG I, No 2, 4.1.2007, Art. 27 Law
of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Chapter V

Reports, Audit, Accounting and Inspection

Article 26 - Reports and financial statements

1. Banks and their subsidiaries shall regularly prepare reports, records and annual financial statements that precisely include their operations and financial conditions under International Accounting Standards. In addition, banks and their subsidiaries shall follow an appropriate form of regulations, level of details and accounting standards determined by the National Bank.
2. Bank reports, records and financial statements shall reflect operations and the financial condition of its subsidiaries on a consolidated basis.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 27 - External audit

1. Each commercial bank and its subsidiary shall be obliged to invite external auditors and conduct an external audit inspection every year as determined by the National Bank.
2. Upon completion of an external audit, each commercial bank shall be obliged to provide the National Bank with a complete inspection report and publish the financial accounting and external audit opinion as defined under the procedures of the National Bank.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 28 - Branches of foreign banks

Articles 26, 27 and 29 of this Law shall apply to branches of foreign banks and their subsidiaries that operate in Georgia under licenses issued by the National Bank. Under the law, financial and accounting documentation of a bank branch may be submitted as simplified financial statements, which implies that an audit committee of the foreign bank or other respective body may be considered to be the audit committee for the bank branch.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Article 29 - Reporting and inspections

1. Commercial banks shall prepare reports and submit them to the National Bank. The reports shall include organizational-administrative and operational activities (of commercial banks and their subsidiaries), their liquidity, solvency and profitability in order to evaluate the financial condition of commercial banks and their subsidiaries jointly and individually. For the purposes of legislation on the prevention of money laundering and the financing of terrorism, a commercial bank shall submit relevant reports to the National Bank. The form, degree and terms for submitting reports shall be determined by the legal acts of the National Bank.

2. A commercial bank and its subsidiary shall be subject to inspection to be performed by inspectors of the National Bank or auditors appointed by it. If a branch or a subsidiary of a foreign bank is inspected, the employees of financial or regulatory bodies of respective foreign countries may be the auditors.

3. When inspecting commercial banks and their subsidiaries, the National Bank and its auditors shall have the right to:

a) Check accounts, funds, account books, documents and other necessary records of a commercial bank and its subsidiary;

b) Require administrators and employees of a commercial bank and its affiliates to provide information regarding the bank's shareholders, controlling persons and administrators, and any information on banking operations and transactions. In the event these requirements are not met or are met inadequately, as well as if commercial banks/ administrators fail to submit information within a timeframe set by the Georgian legislation or by National Bank, supervisory measures and/or sanctions (monetary fine) under Article 30 of this Law shall apply.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015- website, 10.09.2015

Law of Georgia No 439 of 10 March 2017- website, 22.03.2017

Law of Georgia No 1895 of 23 December 2017- website, 11.01.2018

Law of Georgia No 5228 of 30 October 2019 – website, 30.10.2019

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Chapter VI

Supervisory Measures of the National Banks and Sanctions (Monetary Fine), Early Intervention

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 30 - Supervisory measures of the National Bank and sanctions (monetary fine)

1. The National Bank may impose one or several supervisory measures and/or sanction – (monetary fine) in each individual case referred to in this Article in relation to a commercial bank, its administrators or controlling persons, if:
 - a) the bank or any of its administrators, or controlling persons has violated:
 - a.a) Any provision of this Law, or any standard, instruction, provision, regulation, resolution, requirement or written guideline of the National Bank;
 - a.b) Any condition or restriction included in a banking licence or a respective provision of the National Bank;
 - a.c) The deadlines for submitting reports, or has submitted wrong reports or other inaccurate information;
 - a.d) The requirements of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation;
 - a.e) The requirements of the Law of Georgia on Payment System and Payment Services.
 - a.f) The requirements of the Law of Georgia on Competition;
 - a.g) Impeded supervision process as a result of failure to fulfill or/ and inadequate fulfillment of requirements set by the legislation or/ and by the National Bank of Georgia;
 - b) The bank has engaged or is engaging in unsafe and unsound banking practices;
 - c) Risks have been identified through the supervisory review and evaluation process (including General Risk Assessment Program);
2. If one of the grounds under the first paragraph of this Article is identified, the National Bank is authorized to take the following one or several supervisory measures sequentially or without being subject to any order, based on the principle of proportionality:
 - a) send a written notice of warning to a commercial bank, its administrators and/or controlling persons;
 - b) require additional capital;
 - c) require the update or improvement of the internal policies and procedures, recovery plan, control systems and strategies;
 - d) determine special measures, terminate or limit certain transactions or issue an instruction (guideline) requiring that a commercial bank terminate and prevent any violation and unsafe and unsound practice in the future and take necessary measures to correct a violation and unsafe and unsound practice within the timeframe specified by the National

Bank. The National Bank is authorized to require a commercial bank to present a plan to restore compliance with supervisory requirements;

- e) require institutions to apply a specific provisioning policy or treatment of assets in terms of capital requirements;
- f) suspend the right of signature of one or more administrators of the commercial bank and of the Supervisory Board of the commercial bank and in the case of the member of the Supervisory Board – require from the general meeting of shareholders to temporarily remove from office or dismiss the administrator(s);
- g) suspend or restrict a commercial bank from increasing assets, distributing profits, paying dividends and bonuses, increasing salaries and soliciting deposits;
- h) suspend the voting right of controlling person of a commercial bank and/or holder of a significant share, in case of failure by a controlling person or a significant shareholder to provide financial or other information to the National Bank or other violations of legislation, including in case of the unconformity with the criterion/criteria determined by Article 8¹ of this Law or if, according to the assessment of the National Bank, a controlling person or a holder of a significant share uses his/her powers to the detriment of the interests of the Bank. The Conditions and timeframes for the cancellation or restriction provided for by this sub-paragraph shall be established by the National Bank based on the existing circumstances.
- i) require a controlling person of a commercial bank to repeal or restrict a control over a commercial bank in case of failure to submit the financial or other type of information or any other violation of the law. The National Bank determines the conditions and terms of the repeal and restriction based on specific circumstances;
- j) require a commercial bank to limit or prohibit the business or operations including selling the certain operations or business lines that pose excessive risks to the proper functioning of a bank;
- k) demand the commercial bank to respectively react on the risks related to its activities, products and/or systems;
- l) require the commercial bank to decrease variable payment to the extent that is necessary to meet the established coefficient of the adequacy of capital and to fulfil other standards;
- m) suspend and/or prevent the commercial bank from distributing capital and/or interest to its shareholders and/or owners of the additional initial capital;
- n) impose additional reporting requirements related to supervisory reporting;
- o) impose specific liquidity requirements, including restrictions on maturity mismatches between assets and liabilities;
- p) require additional disclosures;
- q) revoke the banking license of a commercial bank.

3. If one or several grounds under the first paragraph of this Article is identified and/or a bank's financial situation is rapidly deteriorating, or it is likely to do so soon, including deteriorating

capital, or liquidity situation, increasing level of leverage, non-performing loans or concentration of exposure, the National Bank is authorized to independently or simultaneously with one or more supervisory measures defined in the paragraph 2 of Article 30 impose one or more supervisory measures taking into account the proportionality principle:

- a) require a bank to implement one or more of the measures set out in the recovery plan;
 - b) require a bank to carry out valuation of a bank's assets and liabilities by an independent valuator approved by the National Bank;
 - c) require changes to a bank's business strategy or to the ownership or the organisational structure of a bank;
 - d) require a bank to draw up an action plan, including a plan for negotiation on restructuring of debt with some or all of its creditors according to the recovery plan and/or issues of taking responsibility by significant shareholders to recover from bank difficulties;
 - e) acquire, including through on-site inspections and provide to the resolution authority, all the information necessary in order to update the resolution plan;
 - f) demand that a commercial bank's Supervisory Board and Board of Directors convene an extraordinary General Meeting of Shareholders to discuss grounds defined by the first paragraph of this Article and take necessary measures for their correction. If these bodies fail to comply with the requirement, the National Bank of Georgia may directly convene a meeting of shareholders of the institution, and in both cases set the agenda and require certain decisions to be considered for adoption by the shareholders.
4. With the observance of the principle of proportionality the National Bank shall, with or without application of the supervisory measures for the cases provided for by sub-paragraphs (a) and/or (b) of this Article, have right to impose sanctions (monetary fine) in accordance with the procedure and the amount established by the National Bank that shall not exceed the regulatory capital of the commercial bank.
5. The amount of a financial penalty imposed under this Article shall be paid into the State Budget.
6. The party, on which the supervisory measures and/or sanctions (monetary fine) are imposed, shall have right to appeal in the court within one month after the official review of the respective individual administrative act.

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 30¹ - Early intervention

1. If, in the case of the existence of one or more grounds determined by Paragraph 1 and or 3 of Article 30 of this Law imposing the supervisory measures was insufficient or to the National Bank's opinion would not be sufficient to reach the result, for the purposes of facilitating the stable and efficient operation of financial sector and a commercial bank and protection of the interests of a bank's depositors and other creditors, National Bank is

authorized to appoint a temporary administrator independently or simultaneously with one or more supervisory measures defined in paragraph 2 and/or paragraph 3 of Article 30. A temporary administrator shall meet the suitability criteria defined by the legislation and shall be free from any conflict of interest. The National Bank issues a legal act on imposing temporary administrator regime that specifies the role, duties and powers of the temporary administrator. The above individual administrative act shall enter into force from the date of its publication on the official website of the National Bank. The decision on the appointment of a temporary administrator shall also be published in the official organ. A temporary administrator shall start performing his/her duties from the date referred to in the above decision.

2. The temporary administrator shall be authorised to work together with other administrators of the commercial bank or substitute them. If the temporary administrator carries out his/her duties together with the administrators of the commercial bank, the National Bank shall be authorised to determine the obligation of the consent of the temporary administrator for making certain decisions. The powers of the general meeting of the commercial bank shall not be transferred to the temporary administrator. By the decision of the National Bank, some of the decisions of the temporary administrator may require the prior consent of the National Bank. The obligation of the prior consent of the National Bank may be determined at the time of the appointment of the temporary administrator, as well as at some stage of exercising his/her powers. The consent shall not be required in the cases provided for by the Law of Georgia on Payment Systems and Payment Services and the Law of Georgia on Collateral Arrangements, Netting and Derivatives. The National Bank shall be authorised to dismiss the temporary administrator at any time with any ground.
3. The temporary administrator shall be appointed for not more than 1 year. In the exceptional case, if, according to the assessment of the National Bank, the reason of the appointment of the temporary administrator is not eliminated, this term may be extended.
4. The National Bank shall be authorised to determine the powers of the temporary administrator and the procedure for his/her appointment.
5. The party, against which the early intervention measures are used, shall have right to appeal in the court within 1 month after the official review of the respective individual administrative act.

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Article 30² - The principle of proportionality

1. National bank's decision taken in pursue of Article 30 and Article 30¹ should be proportionate to the grounds of imposing supervisory measure, sanction (monetary fine) and early intervention measure. National Bank should take into account following criteria while taking decision on imposing supervisory measure, sanction (monetary fine) and/or early intervention measure:
 - a) the seriousness of established grounds defined by Articles 30 and 30¹, while the National Bank assesses the commercial bank's financial position, the commercial bank's capital adequacy relative to the risks assumed, the impact of the grounds on the bank's future position, the scale of grounds, number and their interdependence; duration and frequency of ground, legality of the bank's operations and potential threat to the commercial bank's assets;
 - b) the readiness and the resources of the commercial bank to eliminate the grounds determined by Articles 30 and 30¹ of this Law. For this purpose, the National Bank shall at least evaluate the capability of the administrators of commercial bank to reveal and assess, monitor and manage the risks of commercial bank. It shall also evaluate, how effectively are eliminated the grounds determined by the same Articles and to what extent the commercial bank, its administrators and controlling persons cooperate with the National Bank;
 - c) the extent to which the bank jeopardises financial discipline and smooth functioning of the banking system, while National Bank assesses the bank's significance in the financial system, with particular regard to the bank's size, its interconnectedness with other participants in the financial system and substitutability in that system, as well as the complexity of its operations and the scope of its business network.
2. This Article shall not apply to the application of the supervisory measure, sanction (monetary fine) and early intervention measure in the cases when the legislation on facilitating the prevention of money laundering is applied.

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Chapter VII Resolution and Liquidation

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 31 - (Deleted)

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

Article 32 - Resolution principles

1. The National Bank implements the resolution procedure in accordance with the following principles:
 - a) shareholders of the bank shall bear losses first. The equal protection of interests shall be ensured;
 - b) the creditors of commercial bank shall experience loss after shareholders in the reverse order of the observance of requirements for liquidation, except for the cases provided for by Article 37¹¹ of this Law;
 - c) creditors of the same class shall be treated equally, except the cases defined by the Article 37¹¹ of this Law;
 - d) as due to the ultimate results of resolution and taking into account the right to get compensations as defined by the paragraph 4 of the Article 37¹¹, no creditor shall incur greater losses than he would have incurred if the bank had been liquidated under this Law;
 - e) the members of the supervisory board and directorate of commercial bank shall be dismissed, except for the cases when, taking into account the existing circumstances, the National Bank believes that it is necessary to keep on the position;
 - f) the deposits determined by the Law of Georgia on Deposits Insurance System shall be protected;
 - g) decision made while developing the resolution plan, decision on applying resolution regime to commercial bank, decisions made during the resolution regime of commercial bank, including decisions on applying resolution tools, shall be proportional in order to achieve resolution purposes determined by Paragraph 1 of Article 55¹ of the Organic Law of Georgia on the National Bank of Georgia.

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

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Article 33 - Resolution plans

1. The National Bank shall assess whether the bank is resolvable. The National Bank shall, while determining the possibility of the effective resolution of commercial bank, evaluate the appropriateness of the application of resolution to commercial bank or the beginning of the process of the liquidation of commercial bank in the case of the existence of the grounds provided for by the legislation of Georgia.
2. The National Bank shall develop resolution plans for commercial banks in the case of the existence of the grounds established by the legislation of Georgia, when instead of liquidation it is appropriate to apply a resolution. The resolution plan shall include respective resolution tools and resolution powers, which shall be used by a commercial bank during the resolution.

3. If the National Bank identifies substantial circumstances that hinder the implementation of the resolution of a commercial bank, the National Bank is authorised to demand the commercial bank to submit a plan for the elimination of these circumstances. If a plan submitted by a commercial bank shall not ensure the elimination of the above-mentioned circumstances, the National Bank shall give the commercial bank specific directions to achieve this goal and determine relevant time limit for their implementation. A commercial bank shall be obliged to apply all measures to fulfil the above-mentioned directions. The directions of the National Bank may include the following measures:
- a) limiting the bank's maximum individual and aggregate exposures;
 - b) requiring additional information relevant for resolution purposes;
 - c) requiring the alienation of specific assets;
 - d) requiring the bank to limit or cease specific existing or proposed activities or existing or proposed products;
 - e) requiring the bank/banking group to make changes to the organizational, operational, legal or ownership structure of the bank and banking group, including the simplification of ownership structure and/or establishment of a parent company or a subsidiary in Georgia in order to ensure that critical functions may be maintained during the resolution;
 - f) the requirement of protecting the relevant declared authorised capital for the purpose of issuing new assets or other property instruments during the resolution process;
 - g) the establishment and observance of the permitted liabilities and capital instruments provided for by Article 37¹⁰(16).
4. The National Bank shall review the resolution plan annually and if applicable, update it. The resolution plan shall be updated if the activity and/or organisational structure or financial status of a commercial bank has changed and it may have a significant influence on the content and/or implementation of the resolution plan.
5. Every commercial bank and banking group shall be obliged to cooperate with the National Bank and support it in the process of the development of resolution plan that also includes the submission of any requested information.
6. The National Bank is authorized to define additional/simplified rules and requirements regarding resolution planning. The National Bank shall also be authorised to determine the relevant criteria for commercial banks, which, taking into account their size, system and risk profile, may be offered simplified requirements.
7. The resolution plan shall not prevent the National Bank from acting differently from this plan.

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 – LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 – website, 15.7.2011
Law of Georgia No 6306 of 25 May 2012 – website, 12.6.2012
Law of Georgia No 4189 of 3 September 2015 – website, 10.9.2015
Law of Georgia No 439 of 10 March 2017 – website, 22.3.2017
Law of Georgia No 1895 of 23 December 2017 – website, 11.1.2018
Law of Georgia No 5655 of 20 December 2019 – website, 31.12.201
Law of Georgia No 880 of 2 August 2021 – website, 04.08.2021

Article 34 - Conditions for Resolution and decision on applying the resolution regime to a commercial bank

1. The National Bank shall be authorised to make a decision on applying resolution regime to a commercial bank in the case of the existence of one or more grounds of the cancellation of banking licence provided for by Article 7 of this Law (except for the cases provided for by subparagraphs (c), (d), (f), (h) and (o) of the same Article) and/or in the case provided for by subparagraph (q) of paragraph 2 of Article 30 of this Law if the application of resolution is necessary for the resolution purposes determined by paragraph 1 of Article 55¹ of the Organic Law of Georgia on the National Bank of Georgia. Before applying resolution regime, the National Bank shall, taking into account time and other relevant circumstances, evaluate the existence of the possibility of the complete elimination of the resolution grounds provided for by this paragraph by private sector and/or early intervention measuree and/or supervisory measures.
2. Before making decision provided for by paragraph 1 of this Article the National Bank shall, within the time limit determined by the National Bank, be authorised to hear the proposals of a commercial bank on the elimination of the grounds for the resolution regime if, taking into account all relevant circumstances, including the exigent nature of the issue, by evaluation of the National bank, this does not pose a threat on the achievement of the resolution purpose determined by paragraph 1 of Article 55¹ of the Organic Law of Georgia on the National Bank of Georgia.
3. The use of the early intervention measure and/or supervisory measures provided for by Articles 30 and 30¹ of this Law by the National Bank shall not be a necessary prerequisite for the application of the resolution regime.
4. The resolution regime shall be applied to a commercial bank from the moment of the publication of the decision of the National Bank on the official website of the National Bank. The decision of the National Bank of the application of the resolution regime to a commercial bank shall include the information on the grounds of the application of the resolution regime. A commercial bank and interagency financial stability committee provided for by the Organic Law of Georgia on the National Bank of Georgia shall be immediately notified on the above-mentioned decision. The decision on the application of

the resolution regime to a commercial bank shall be published on the website of the Legislative Herald of Georgia. Other information on this decision shall be published on the official website of the National Bank in accordance with the procedure of confidentiality. From the moment of the publication of the decision on the application of the resolution regime to a commercial bank on the website of the National Bank the relevant information shall be considered as delivered to the interested persons.

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 – LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 6306 of 25 May 2012 – website, 12.6.2012

Law of Georgia No 4189 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 439 of 10 March 2017 – website, 22.3.2017

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 35 - The Duration and termination of resolution

1. The resolution shall be instituted for a term up to 12 months. The National Bank may extend this period up to 12 months. The National Bank's decision shall include the reasoning for such extension and be published in the Legislative Herald of Georgia and on National Bank's website, taking into account the confidentiality requirements.
2. Resolution of a bank shall terminate:
 - a) with the expiry of period defined in the section 1 of this Article;
 - b) if the National Bank determines that resolution is no longer necessary because the grounds for the commencement of resolution have been remedied;
 - c) if the National Bank revokes the bank's license;
3. If the National Bank imposes liquidation regime towards a commercial bank that has been in the resolution regime, the decisions made under the present chapter shall not become the subject of the paragraph 7 of the Article 37¹² of this Law.
4. This Article shall not apply to a bridge bank.

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 – LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 4189 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 439 of 10 March 2017 – website, 22.3.2017

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 36 – (Deleted)

Law of Georgia No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125

Article 37 - Special manager

1. The National Bank may exercise its powers under this Law directly or appoint one or more special managers. A special manager may be an official of the National Bank and shall comply with suitability criteria established by the National Bank.
2. The National Bank shall determine the powers and responsibilities of a special manager within which a special manager may exercise full control over a commercial bank and all powers of all bodies of a commercial bank may be transferred to a special manager.
3. Except for the actions carried out on the basis of the Law of Georgia on Collateral Arrangements, Netting and Derivatives, a special manager of a commercial bank shall be authorized to bring an action in Court to challenge any act or transaction performed by the commercial bank administrator one year before the special manager was appointed and to require that the act or transaction be declared void if as a result of such transaction, persons connected to the commercial bank enjoyed any material benefit or advantage, privilege or preference for the account of this bank, and which inflicted damage to the bank or its creditors.
4. The special manager shall act in accordance with the regulations, instructions and guidelines given by the National Bank and be accountable only to the National Bank for the performance of his duties and the exercise of his powers. A special manager shall, in accordance with the procedure and manner, and time limit established by the National Bank, submit a report on his/her activities regularly and/or on demand
5. The National bank shall be authorised to dismiss a special manager any time with any reason and appoint another person as a special manager in accordance with the procedures established by the National Bank. The responsibility of a special manager and the issues of the conflict of interests shall be regulated by the Organic Law of Georgia on the National Bank and in accordance with the procedures established by the National Bank. A special manager shall receive a remuneration determined by the National Bank. All costs, including the remuneration of a special manager, incurred by a special manager when performing his/her activities shall be borne by a commercial bank in the resolution regime.
6. In case National Bank revokes a banking license and a liquidation process of commercial bank begins, the National Bank may decide to appoint a special manager as a liquidator.

Law of No 1115 of 23 October 2001 – LHG I, No 32, 7.11.2001, Art. 125
Law of Georgia No 2787 of 17 March 2006 – LHG I, No 8, 24.3.2006, Art. 59
Law of Georgia No 5909 of 14 March 2008 – LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 1677 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 160
Law of Georgia No 2830 of 23 March 2010 – LHG I, No 19, 13.4.2010, Art. 104
Law of Georgia No 5002 of 1 July 2011 – website, 15.7.2011
Law of Georgia No 6306 of 25 May 2012 – website, 12.6.2012
Law of Georgia No 4189 of 3 September 2015 – website, 10.9.2015
Law of Georgia No 439 of 10 March 2017 – website, 22.3.2017
Law of Georgia No 853 of 17 May 2017 – website, 02.6.2017
Law of Georgia No 1895 of 23 December 2017 – website, 11.1.2018
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Article 37¹ - Taking Control of the Bank

1. With the commencement of resolution, all powers, functions and responsibilities of the bank's general assembly of shareholders, supervisory board, and executive board shall be vested to the National Bank. The National Bank requests the members of these bodies to carry out any activity provided under this Law. Any actions or decisions taken by or on behalf of the bank under resolution shall be null and void, unless they are taken by or under the authority of the National Bank
2. Immediately upon the initiation of resolution, the National Bank shall have unrestricted access to and secure the properties, offices, assets, books and records of the commercial bank. The National Bank may take all necessary or appropriate steps aimed at such purpose, including cancelling authorizations of persons to act in the name and/or on behalf of the bank.
3. After the application of a resolution regime, any action on behalf of a commercial bank shall be carried out only with the consent of a special manager and/or the National Bank, except for the cases provided for by the Law of Georgia on Payment Systems and Payment Services and Law of Georgia on Collateral Arrangements, Netting and Derivatives.

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Article 37² - The suspension of payments and restriction of legal procedures in the resolution regime

1. The payment of any dividends or other form of capital distribution to shareholders, as well as any payment to directors, including any incentive bonuses, other than for salaries for services provided to the bank under resolution upon a request of the National Bank, shall be suspended.
2. The National Bank has the power to impose a moratorium to suspend some or all payments due and payable by the bank, except payments for insured deposit claims, and claims owed to payment and settlement systems or operators of such systems, or their participants and arising from the participation in such systems, and claims owed to the National Bank. The duration of this moratorium cannot exceed 90 calendar days.
3. The National Bank may refer to the court to suspend legal proceedings or require postponing of legal proceedings against a bank under resolution. The request for the postponing cannot exceed 90 days.
4. Based on the request of the National Bank, enforcement and collateral events under the Civil Code of Georgia and the Tax Code of Georgia should be suspended and must not aim towards a bank under resolution including collateral for tax obligation, pledge, mortgage. The duration of this suspension cannot exceed 90 calendar days.
5. No right or obligation under any contract to which the commercial bank under resolution is a party may be terminated, accelerated, or modified by the commercial bank's counterparties solely because of the initiation of resolution or any resolution action taken under this law. The application of the resolution regime or exercising any of the resolution powers shall not be the reason for financial collateral in accordance with the Law of Georgia on Collateral Arrangements, Netting and Derivatives if a commercial bank in the resolution regime fulfils its obligations properly.

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Article 37³. Valuation of Commercial Bank's assets and liabilities

1. In order to inform its determination as to whether one of the license revocation grounds exists for a decision under Article 34, the National Bank will conduct a valuation of the bank's assets and liabilities in accordance with the applicable accounting and prudential regulation rules. This shall not prejudice the sole discretion of the National Bank to assess these conditions, and the unavailability of such an independent valuation shall not prevent the National Bank from taking a decision under Article 34.

2. In addition to the valuation defined by the first paragraph of this Article, for the purposes of informing its decision on the appropriate resolution tools and powers, and the terms and conditions of such tools, the National Bank shall conduct a valuation of the bank's assets and liabilities (comprehensive valuation) on a conservative basis.
3. The valuation under paragraph 2 of this Article shall also include an assessment of the amount likely to be realized in a liquidation of shareholders and each classes of claims as per the hierarchy of claims under Article 37¹² of this Law. This valuation shall not affect the application of the compensation provisions for shareholders and creditors if they incur greater losses than they would have incurred if the bank had been liquidated.
4. National Bank appoints an independent person to conduct the valuation defined by this Article. National Bank is authorized to conduct the valuations defined by this Article by itself if conducting an independent valuation is not possible in view of the circumstances, including the urgency, or achieving resolution objectives is under threat. The National Bank is authorized to initiate resolution, apply any resolution tool, and exercise all its resolution powers based on this interim valuation. Where interim valuation is carried out for the purposes of the paragraph 2 of this Article, it shall include a buffer for additional losses with appropriate justification.
5. In case of an interim valuation, the National Bank shall cause an independent valuation as soon as practicable. Depending on the outcome of this independent valuation, the National Bank may exercise its resolution powers to take additional measures, including, but not limited to, increasing the amount to be absorbed by the shareholders and other creditors, or writing back creditors' claims, to conduct supplemental or reverse transfers, or to increase the value of any consideration paid by the acquirer under the sale of business tool or by the bridge bank.
6. The National Bank shall determine the general rules, procedures and methodology of the valuations to be conducted under this Article, including the conservative assumptions that will guide the valuation and qualifications of an independent valuator.
7. The valuation is the composing element of the resolution decision. The valuation may be appealed solely with the primary decision on resolution in accordance with the requirements defined by the Article 68 of the Organic Law on National Bank.

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Article 37⁴. Recapitalization by write-down of shares and/or other regulatory capital instruments or their conversion into shares or other property instruments

1. The National Bank is entitled to write down shares and/or other regulatory capital instruments or convert these regulatory capital instruments into shares or other instruments of ownership in this bank. This power may be exercised independently or in combination with other resolution tools.

2. For the purposes of the resolution principles defined by the sub-paragraphs “a” and “b” of the Article 32, this power must be exercised before imposing the resolution tool that would result in losses being borne by other creditors (excluding shareholders and regulatory capital instruments holders). However, the National Bank may decide not to apply this power in cases where the bank’s assets and liabilities are partially transferred, and the shares and relevant capital instruments are left in the bank and their value covers the loss.
3. Write-down of shares and/or other regulatory capital instruments or conversion of regulatory capital instruments shall be based on a valuation of the assets and liabilities of the bank as per paragraph 2 of Article 37³.
4. Where exercising its power under this provision, the National Bank will follow the opposite order of priority of claims under the bank’s liquidation, and in a way to produce the following results:
 - a) the decrease of the nominal value of the core capital instruments in proportion to the loss and/or cancellation and/or transfer of the regulatory capital instruments;
 - b) in addition to the instruments provided for by subparagraph a of this paragraph, the decrease of the nominal value of other regulatory capital instruments and/or conversion into ordinary shares or other property instruments of a commercial bank.
5. The decision of the National Bank on write down or conversion of regulatory capital instruments immediately enters into force.
6. Before the application of temporary public funding, the National Bank may require a bank to issue common shares to the holders of the relevant capital instruments under the terms and conditions it determines.

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Article 37⁵ - Resolution tools of the National Bank

1. When exercising its powers the National Bank may apply one or more of the following resolution tools:
 - a) Merger of commercial bank;
 - b) the sale of a commercial bank’s shares, asset and/or liabilities of a commercial bank;
 - c) the transfer of shares, assets and/or liabilities of a commercial bank to a bridge bank tool;
 - d) recapitalization of a commercial bank by emission of new shares;
 - e) recapitalization of a commercial bank by way of write-down or conversion of its liabilities.
2. The application of resolution tools by the National Bank shall not be subject to the approval or consent of shareholders, debtors, or creditors of the bank, or of the bridge bank. In

addition, before applying the resolution tools by the National Bank, prior notification, publication and/or approval of issue prospectus in the cases determined by the Law of Georgia on Securities Market shall not be required.

3. Legal norms regulating the activities of a commercial bank as a legal entity may not be taken into account in order to prevent the interruption of the resolution regime.
4. For the resolution purposes, the National Bank shall be authorised to establish the simplified procedures of giving a consent in the supervisory process provided for by this Law in order to effectively use resolution tools.
5. The National Bank is authorized to modify the adopted or to be adopted resolution tool, or at any time decide to apply a different tool to resolve the bank.

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Article 37⁶ - Merger of a commercial bank

The National Bank shall be authorised to carry out a merger of a commercial bank under resolution with another commercial bank. The decision of the National Bank on the mentioned merger shall become effective notwithstanding the requirements/procedures established by the legislation of Georgia.

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Article 37⁷ - The sale of a commercial bank' shares, assets and/or liabilities

1. The National Bank shall be authorised to sell the shares, assets and/or liabilities of a commercial bank in resolution in full or in part to the purchaser, except for a bridge bank.
2. The National Bank shall be authorised to apply the resolution tool provided for by paragraph 1 of this Article multiple times, as well as, with consent of the acquirer, request back in the predetermined period the sold shares, assets and/or liabilities of a commercial bank in resolution and return them to following commercial bank.
3. The amount received from the sale of the shares, assets and/or liabilities of a commercial bank in the resolution shall be given to the shareholders of this commercial bank or to the commercial bank in the resolution after the reimbursement of the expenses (if any) of the resolution fund provided for by the Organic Law of Georgia on the National bank of Georgia.
4. The decision on the sale of the shares, assets and/or liabilities of a commercial bank shall become effective immediately notwithstanding the requirements/procedures established by the legislation of Georgia. A purchaser of the shares of a commercial bank under resolution shall be the shareholder of this commercial bank, and the acquirer of the assets

and/or liabilities of a commercial bank under resolution shall be the successor in title of a commercial bank under resolution in respect of each alienated asset and liability. If the purchaser does not meet the criteria for participation in payment, clearing and settlement systems or for access to the stock market, by the decision of the National Bank, the purchaser may be granted an access to the above-mentioned systems/stock exchange for not more than 24 months.

5. The shareholders and creditors of a commercial bank under resolution, as well as the third parties whose shares, assets and/or liabilities have not been alienated, shall have no right on the alienated shares, assets and/or liabilities.
6. In the supervision process the purchaser shall be obliged to obtain every consent provided for by this Law from the National Bank. In the case of the transfer of deposits to the purchaser, he/she shall possess a current banking licence.
7. If the direct/indirect participation of the purchaser (including the beneficial owner) in the capital of a commercial bank exceeds 10, 25 or 50 percent as a consequence of the alienation of the shares, assets and/or liabilities of a commercial bank under resolution, the National Bank shall review the application on the acquisition of the significant share of the mentioned commercial bank in a simplified procedure established by Article 8¹ of this Law in order not to hinder the resolution regime. If the resolution tool provided for in this Article needs to be applied immediately in order to speed up the resolution regime, the National Bank shall be authorised to alienate shares, assets and/or liabilities of a commercial bank without the evaluation of the transaction of purchasing the significant share and limit the voting shares before the evaluation by the National Bank and/or make a decision on using the voting rights by the National Bank. On the basis of the results of the above evaluation the National Bank shall be authorised to request the purchaser to alienate shares if the purchaser does not meet the eligibility criteria established by the legislation of Georgia.
8. The process of the alienation of the shares, assets and/or liabilities of a commercial bank under resolution shall be transparent, impartial and non-discriminatory and this process shall ensure that the alienation value is increased maximally and the conflict of interests is eliminated. This shall not exclude the authority of the National Bank to alienate the shares, assets and/or liabilities of a commercial bank under resolution by making an offer to one person if otherwise the effectiveness of the resolution regime may be hindered and the achievement of the resolution purposes jeopardised.
9. The information disclosure requirements provided for by the legislation of Georgia regulating the securities market may be postponed or observed when using the resolution tool provided for by this Article.
10. The shares of a commercial bank shall be alienated in proportion to the equity participation of its shareholders Law of Georgia.

Article 37⁸ - Bridge bank

1. For the purposes of maintaining critical functions of a commercial bank in resolution, the National Bank shall be authorized to make a decision on transferring shares, assets and/or liabilities of a commercial bank in the resolution to a bridge bank, fully or partially.
2. For the purposes of application the resolution tool defined by this Article, the Ministry of Finance directly or indirectly establishes the bridge bank for the purposes of disposal of the transferred shares, assets and/or liabilities. Before the application of a resolution regime, the Ministry of Finance of Georgia shall be authorised to establish a joint stock company which shall operate as a bridge bank directly after granting the banking licence by the National Bank. The relevant authorities and registration bodies shall take all measures necessary to complete the process of establishing the bridge bank in time.
3. The total value of liabilities transferred to the bridge bank cannot exceed the total value of assets transferred to the bridge bank from the commercial bank under resolution or other sources.
4. If some shares, assets and/or liabilities of a commercial bank under resolution transferred to the bridge bank do not comply with the criteria established by the decision on their transfer, by the decision of the National Bank the above shares, assets and/or liabilities may be returned to a commercial bank in the resolution.
5. Upon the request of the Ministry of Finance of Georgia, the National Bank shall, as soon as possible but not later than one month, make a decision on granting a licence to the bridge bank. This decision shall specify the types of activities permitted to the bridge bank. The National Bank shall be authorised to establish the procedure for licencing the bridge bank, including simplified procedures and the list of the documents, which may be filed after granting a banking licence to the bridge bank.
6. Bridge bank must meet all the requirements and criteria set by the legislation of Georgia. National Bank may exempt the bridge bank from the minimum regulatory capital requirements for up to 6 months from the date of issuance of banking licence, if it considers this necessary for purposes of financial stability. Bridge bank's constituting documents, the strategy and risk profile, the remuneration of the bridge bank's administrators and their responsibilities shall be agreed with the National Bank.
7. Administrators of a bridge bank must satisfy suitability requirements defined by the National Bank. National Bank officials cannot be appointed as the administrators of a bridge bank. The National Bank may give instructions to the administrators of the bridge bank as it deems necessary for the achievement of resolution objectives.

8. The bridge bank shall be managed and operated on a professional and commercial basis. The bridge bank shall not be implemented as a permanent measure, and its shares, assets and/or liabilities shall be alienated as soon as possible. For this bridge bank shall, on the basis of the instructions and directions of the National Bank, develop and implement the banking market exit plan according to which bridge bank may be merged with another commercial bank, the shares, assets and/or liabilities of bridge bank may be alienated in full or in part, bridge bank may be recapitalised, including by writing- down or converting the liabilities.
9. Except for the cases provided for by Article 7 of this Law, by the decision of the National Bank license of bridge bank shall be revoked after executing the market exit plan or completely writing down its remaining assets and/or liabilities.
10. Any proceeds generated as a result of the termination of the operation of the bridge bank will be received by the shareholders of the bridge bank.
11. When transferring the assets and/or liabilities of a commercial bank under resolution to a bridge bank, a procedure established by Article 37⁷ shall be applied, except for the requirements determined by paragraphs 7 and 8 of the same Article.
12. Legal norms regulating the activity of a commercial bank shall apply to bridge bank unless otherwise provided for by the Organic Law of Georgia on the National Bank of Georgia, this Law or the legal act of the National Bank.
13. The National Bank is authorized to prescribe additional requirements for managing and operating a bridge bank, as well as the rules and conditions of developing and implementing exit plan of a bridge bank.

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Article 37⁹ - Recapitalization of a commercial bank by issuance of new shares

1. In order to increase the regulatory capital of a commercial bank under resolution and ensuring its healthy functioning, the National Bank shall be authorised to make a decision on the emission of new shares by this bank and their sale.
2. The National Bank may decide, if necessary for an expedited resolution, to offer newly issued shares to existing shareholders, if they comply with suitability requirements determined for administrators by Georgian legislation and they have not previously violated requirements and instruction of the National Bank. Unless the National Bank offers to shareholders of commercial bank in resolution newly shares of commercial bank, they shall not have no preemptive or other rights to purchase following shares.
3. Following the principle of resolution that the shareholders and owners of other regulatory capital instruments of a commercial bank in resolution bear the first loss, before emitting the new shares by this bank, the National Bank shall write-down the regulatory capital instruments of this commercial bank or convert them in accordance

with Article 37⁴ of this Law.

4. The National Bank shall, by a legal act, be authorised to establish the terms of recapitalisation by the emission of new shares, as well as the time limit for their capital contributions, which shall not exceed 10 working days. These contributions shall be paid in full. By the decision of the National Bank, this obligation may be extended for no more than 10 days.

Law of Georgia No 5655 of 20 December 2019 – website, 31.12.2019

Article 37¹⁰. Recapitalization of commercial bank by write-down or conversion of bank's liabilities

1. The National Bank may apply the tool of recapitalization by write-down or conversion of bank's liabilities in order to:
 - a) Recapitalize the commercial bank under resolution;
 - b) To recapitalize the bridge bank when applying resolution tool.
2. The recapitalisation instrument by writing down or converting the liabilities of a commercial bank shall be applied on the basis of the evaluation provided for by paragraph 1 of Article 37³ of this Law.
3. When applying a recapitalisation instrument by writing down or converting the liabilities of a commercial bank under resolution or conversion of the liabilities shall be carried out in the reverse order to the requirements established for liquidation, taking into account the requirements of the paragraphs 5 and 6 of this Article. If the respective order of the creditor liabilities of a commercial bank under resolution is not a subject to full write-down or conversion, their writing down or conversion shall be carried out in proportion to the claim amount of each creditor in the order listed.
4. Before applying a recapitalisation instrument by writing down or converting the liabilities of a commercial bank under resolution, writing down or conversion of those liabilities shall be carried out first, the contractual terms of which explicitly provide for an obligation to write down or convert the liabilities into ordinary shares of a commercial bank.
5. The tool of recapitalization by write-down or conversion of bank's liabilities measures cannot be implemented towards the following liabilities:
 - a) insured deposits provided for by the Law of Georgia on Deposits Insurance System;
 - b) contributions provided for by the Law of Georgia on Deposits Insurance System;
 - c) liabilities to tax and social security authorities;
 - d) any liability arising from the ownership of the assets of client;
 - e) liabilities secured by financial, movable or immovable assets, up to the value of such security interest;

- f) claims owed to the employees of the bank except for the incentive-based remuneration of the administrator of a commercial bank;
 - g) liabilities with a remaining maturity of up to 7 days owed to payment, settlement and clearing systems;
 - h) liabilities to commercial banks (excluding banks that are part of the same group) with an original maturity of less than seven days;
 - i) liabilities to the creditors of a commercial bank which arise from the provision of such products and services (including information technology, utility, lease or other technical services) to a commercial bank which are critical to the daily activities of a commercial bank.
6. The National Bank shall be authorised to eliminate other liabilities, in full or in part, from the scope of recapitalisation instruments by writing down or conversion of the liabilities of a commercial bank under resolution, except for the liabilities determined by paragraph 5 of this article if, by the evaluation of the National Bank, one or more conditions provided for by paragraph 3 of Article 37¹¹ exist.
7. Write-down or conversion of liabilities arising from derivatives may be affected after only after their mutual offset.
8. When applying a recapitalisation instrument by writing down or converting the liabilities of a commercial bank under resolution, the National Bank shall be authorised to carry out the following activities in relation to the shareholders and/or owners of other property instruments:
- a) cancel existing shares or other instruments of ownership or transfer them to the creditors affected by imposing the tool defined in this present Article;
 - b) convert the regulatory capital and/or liabilities into the ordinary shares or other property instruments of a commercial bank in the case of the positive share capital to maximally reduce the interest of shareholders of this commercial bank.
9. The abovementioned tool shall also be taken regarding the shares defined by the 4th paragraph of this Article, if conversion has been implemented before the resolution regime or after the implementation of write down of shares and/or other regulatory capital instruments or conversion of other regulatory capital instruments into shares as defined by the Article 37⁴.
10. To apply a recapitalisation instrument by writing down or converting liabilities of a commercial bank under resolution, the National Bank shall determine the amount of a regulatory capital which is necessary to observe the established coefficient of core capital of this commercial bank, and in the case of a bridge bank – established coefficient of capital. In the case provided for by this paragraph, when determining the amount of the regulatory capital the temporary state financing and resources necessary to build confidence in the

commercial bank/bridge bank and to meet the license requirements of the commercial bank/bridge bank for at least the next 1 year shall be taken into account.

11. By writing down or converting liabilities of a commercial bank under resolution, within the recapitalisation instrument the National Bank shall:

- a) reduce the value of the shares and/or other instruments of regulatory capital and/or liabilities to zero in the reverse order of compliance with the order requirements established for liquidation, to the limit when the share capital of a bank reaches zero. The liabilities shall be reduced by maximum amount;
- b) convert the liabilities of this commercial bank into ordinary shares or other property instruments of a commercial bank in order to achieve the compliance provided for by paragraph 10 of this Article.

12. If as a result of applying recapitalisation instrument by writing down or converting liabilities of a commercial bank under resolution the compliance provided for by paragraph 10 of this Article is not reached, in order to finance a resolution, a temporary state financing provided for by the Organic Law of Georgia on the National Bank of Georgia may be implemented. The temporary state funding may be carried out in one or both of the following ways:

- a) in order to reduce the share capital of a commercial bank under resolution the Ministry of Finance of Georgia shall, through the resolution fund, reimburse any losses that were not compensated by applying the instrument provided for in this Article;
- b) the Ministry of Finance of Georgia shall acquire the shares or other regulatory capital instruments of a commercial bank under resolution.

13. The decision on applying the tool of recapitalization by write-down or conversion of bank's liabilities immediately enters into force and is binding for the commercial bank under resolution, bridge bank and affected creditors and shareholders of a commercial bank and bridge bank. A liability and any obligations of commercial bank or claims that have not accrued yet in relation to that liability shall be cancelled and shall not be restored. In case of a partial reduction, the underlying agreement shall continue to apply in relation to the residual principal amount and can be the subject to any modification required by National Bank.

14. If as a result of the application of a recapitalisation instrument by writing down or converting liabilities of a commercial bank the direct/indirect participation of a person or a group of partners (shareholders) acting together or beneficial owner in the bank capital exceeds 10, 25 or 50 percent, the National bank shall review the application on the acquisition of the significant share in an expedited manner in accordance with the procedure established by Article 8 of this Law.

15. The National Bank may require the bank to draw up and implement an action plan setting out the measures to be taken to restructure the long-term viability of the enterprise or entity or relevant parts of its business within a reasonable timeframe. This plan shall be

approved by the National Bank, and where approved, the bank shall report the implementation progress to the National Bank on a regular basis.

16. The National Bank shall be authorised to establish procedures and terms related to the application of a recapitalization instrument by writing down or converting the liabilities of a commercial bank, including the issues of calculation, evaluation, determination of conversion rates of the allowed liabilities and capital instruments, development, approval and implementation of the action plan necessary to achieve compliance provided for by paragraph 10 of this Article.

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Article 37¹¹ - Legal safeguards of resolution

1. In carrying out any resolution tool pursuant to this law, the National Bank shall take into account the order of priorities of claims during liquidation, with due regard to the provisions of paragraph 5 of the Article 37¹⁰ of this Law.
2. In carrying out any resolution tool pursuant to this law, the National Bank shall take into account the principle of equal treatment of creditors belonging to the same class order of priorities of claims during liquidation, with due regard to the provisions of the paragraph 5 of the Article 37¹⁰ of this Law. The National Bank shall be authorised not to adhere to this principle in the cases provided for by paragraph 3 of this Article.
3. While imposing the resolution tools under Articles 37⁷, 37⁸ of this law and in case of paragraph 6 of 37¹⁰, National Bank is authorized to depart from the principles defined by the paragraphs 1 and 2 of this Article if one or more of the following conditions are met:
 - a) notwithstanding the efforts of the National Bank, application of the resolution tool within a reasonable time is impossible;
 - b) it is necessary and proportionate for supporting the essential functions and main activities of a commercial bank under resolution in order to ensure the continuity of the main operations, services and transactions of this commercial bank;
 - c) it is necessary and proportionate for reducing the risks of the distribution of financial difficulties and threats on other participants of the financial sector;
 - d) the losses borne by other creditors would be higher than in case of meeting the principles defined by the paragraphs 1 and 2 of this Article.
4. No shareholder and creditor shall incur greater losses than he/she/it would have incurred if the bank had been liquidated. This principle must be met by the ultimate results. If as a result of a valuation after resolution, shareholder or creditor, has incurred losses greater as a result of resolution than he/she/it would have incurred had the bank been put into

liquidated he/she/it is entitled to request the monetary compensation. Such compensation shall be paid from the Resolution Fund.

5. To assess whether any right to compensation exists, the National Bank shall conduct a valuation by an independent valuator as soon as possible after the application of the resolution powers until the completion of the resolution. This valuation shall be distinct from the valuation under the Article 37³. The National Bank shall determine the general rules, procedures and methodology of the valuation to be conducted for this purpose, including the qualifications of an independent valuator. Within such assessment, actual or potential financial assistance by National Bank or state should be excluded (except for the cases when a commercial bank might take a loan in accordance with the Article 31 and paragraph 1 of Article 33 of the Organic Law).
6. In the case of transferring a liability, the separation of a liability and its security shall be inadmissible. In a particular case, for the purpose of the effective resolution, the National Bank is authorised to separate liability from its security provided that the security shall be substituted by a security of the same type and value and/or financial compensation shall be paid. Financial collateral agreement and mutual offset agreement which have the same contracting party and is a subject to the mutual offset of the same liability shall not be separated except for the case when it is necessary for the resolution purposes.
7. The National Bank shall be authorised to limit the early termination right of the financial collateral agreement or mutual offset agreement provided that the observance of the following conditions is ensured:
 - a) only the rights which arose from the terms of these agreements as a result of the application of the resolution regime and/or implementation of the resolution powers shall be limited;
 - b) the limitation shall be carried out only for 2 working days;
 - c) when transferring these agreements to the acquiring part, resulting from the mentioned agreements, their early termination right continue to apply to the acquiring party in the case of failure to properly fulfil its contractual obligations;
 - d) the contracting party shall have right to carry out an early termination right as soon as the limitation determined by this Article is exhausted or in the case if the National Bank notifies that the above agreements shall not be transferred to the third party.

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Article 37¹². Liquidation

1. A commercial bank shall be liquidated when a banking license is revoked. The purpose of liquidation is to support the stable functioning of financial sector, protection of insured

deposits in accordance with the Law of Georgia on Deposits Insurance System and maximal satisfaction of the requirements of creditors. A person appointed by the National Bank shall act as a liquidator of a commercial bank as determined by the National Bank. A person connected to the commercial bank may not be appointed as a liquidator. Compulsory enforcement shall be terminated as soon as the liquidation process starts.

2. If a liquidated commercial bank was a payment system operator and/ or a settlement agent, the liquidator shall be obliged, upon appointment, to ensure that transfer orders accepted prior to commencement of his/ her activities are fulfilled, the settlement positions are defined and/ or settlements are performed under the Law of Georgia on Payment System and Payment Services.
3. The liquidator shall be obliged, within three months after appointment, to prepare a list of assets and liabilities and submit a copy to the National Bank. The commercial bank's liquidator shall be accountable to the National Bank as defined by the latter;
4. A commercial bank's liquidator shall be authorized to sell bank assets at a public auction, or to select another form of sale in agreement with the National Bank, as well as transfer the right of claim for assets to creditors according to their priority, or transfer the right of claim for loans or other financial assets to other commercial banks and arrange for the transfer of liabilities to these banks.
5. When transferring assets and liabilities provided for by paragraph 4 of this Article, the consent of the creditors of a commercial bank to transfer assets or liabilities to another commercial bank shall not be required.
6. The commercial bank liquidator shall be authorised to terminate:
 - a) Agreement on recruiting a bank employee;
 - b) Contracts for services in the provision of which the bank was taking part;
 - c) Any liability of the bank as a real property lessee, unless a lessor (who must be notified 60 days in advance that the bank intends to cancel the lease agreement) has any claims on the lease payment, except for the amount that has accrued until the lease cancellation date and unless the lessor requires compensation for damages incurred due to cancelling the lease.
 - d) Bank guarantee issued by a commercial bank and transfer those on the same terms to another commercial bank. Consents of a guarantee beneficiary and principal shall not be required for such transfer. Liquidator shall notify the beneficiary and principal about transfer of guarantees to another commercial bank.
7. A liquidator of a commercial bank shall be authorized to bring an action in court to challenge any act or transaction performed by the commercial bank administrator one year before the liquidator was appointed and to require that the act or transaction be declared void if as a result of such transaction, persons connected to the commercial bank enjoyed any material

benefit or advantage, privilege or preference for the account of this bank, and which inflicted damage to the bank or its creditors.

8. The liquidator shall:

- a) take all necessary measures to terminate all functions of a fiduciary person that were performed by the institution, return all assets and property held by the company as a fiduciary person to their owners and settle all accounts of the fiduciary;
- b) send statements on claim types and amounts according to the bank's accounting documents to all depositors, the rest of its creditors, customers who store valuables in the bank's safes; also to the depositors of the property administered by the company. The statement shall indicate that claims may be submitted to the liquidator within one month after receiving the letter and that the customers can receive their valuables back.
- c) request from bank's borrowers and debtors to repay liabilities against the bank within the timeframe set by a liquidator, while for the purpose of maximum recovery of commercial bank's assets, in agreement with the National Bank, achieve restructuring of loans of those borrowers and debtors who do not have sufficient funds and assets required for meeting their liabilities in full and within the timeframe requested by liquidator.

9. Any property that is stored on a commercial bank premises and which is not claimed within the timeframe indicated in the statement, any unclaimed financial resources and property remaining on the bank's balance sheet under an agreement, shall be considered as unclaimed resources and become the property of the National Bank in order to identify their owners. The funds shall be recorded on the account of unclaimed amounts at the National Bank.

10. When liquidating a commercial bank, a pledge of a financial collateral shall have a preferential right to have its claim satisfied. When liquidating a commercial bank, secured claims shall be satisfied in the following order:

- a) the Resolution Fund, the Ministry of Finance of Georgia, except sub-paragraph "k" of this Article, for the purposes of other types of financial assistance defined by the Organic Law on the National Bank of Georgia (except the temporary state funding through the resolution fund), the National Bank, and other creditors to which a commercial bank became liable after having its banking license revoked, except the loans disbursed by the other commercial banks in the course of liquidation. In addition, tax liabilities emerged after revocation of banking license shall be allowed in the order provided for in subparagraph "k" of this paragraph;
- b) insured deposits under the Law on Deposit Insurance System of Georgia, up to the coverage level, and the claims of the Deposit Insurance Agency, including its claims for compensation reimbursements as per paragraph 2 Article 20 of the said law;
- c) balances on accounts or the amounts of the certificates of deposits of individuals not exceeding GEL 10,000 (ten thousand) or its equivalent in foreign currency;
- d) balances on accounts or the amounts of the certificates of deposits of legal entities not exceeding GEL 10,000 (ten thousand) or its equivalent in foreign currency;

- e) balances on accounts or the amounts of the certificates of deposits of individuals not exceeding GEL 100,000 (hundred thousand) or its equivalent in foreign currency
 - f) balances on accounts or the amounts of the certificates of deposits of individuals that have not been paid under subparagraphs (c) and (e) of this paragraph and that are denominated in GEL;
 - g) balances on accounts or the amounts of the certificates of deposits of individuals that have not been paid under subparagraphs (c), (e) and (f) of this paragraph and that are denominated in foreign currency;
 - h) balances on the accounts or the amounts of the certificates of deposits of legal entities that have not been paid in accordance with subparagraph (d) of this paragraph and that are denominated in GEL;
 - i) balances on the accounts or the amounts of the certificates of deposits of legal entities that have not been paid in accordance with subparagraphs (d) and (h) of this paragraph and that are denominated in foreign currency;
 - j) Loans disbursed by the other commercial banks during the liquidation period;
 - k) indebtedness to budget, including claims secured with a tax lien;
 - l) other claims to a commercial bank except the cases in accordance with (m)-(r) subparagraphs of this paragraph;
 - m) Loans of a commercial bank toward direct and indirect owners of the commercial bank, except the cases in accordance with (n) and (r) subparagraphs of this paragraph;
 - n) subordinated debt of a commercial bank that is not a regulatory capital instrument of a commercial bank;
 - o) liabilities of a commercial bank that are subject to write-down and conversion on a contractual basis except the cases in accordance with (q) and (r) subparagraphs of this paragraph;
 - p) tier 2 capital instruments of a commercial bank;
 - q) additional Tier 1 instruments of a commercial bank;
 - r) other claims of a commercial bank toward its direct and indirect owners;
11. If the available funds are not sufficient to completely meet claims under paragraph 10 of this Article, then all respective claims shall be paid in proportion to the claim amount of each creditor in the order listed.
 12. The claim of each following order shall be met after the claims of a preceding order are satisfied.
 13. Failure of a commercial bank's depositor to submit a claim for his/ her own funds within the timeframe set by a liquidator shall entail transfer of such amount to the account of unclaimed funds in the National Bank to reveal the owner of such funds.

14. For the purpose of timely completion of liquidation process a liquidator shall be entitled in agreement with the National Bank to transfer the bank accounts against which legal restrictions or/ and enforcement measures are applied in accordance with the Georgian legislation to the National Bank and/or any other commercial bank, without violating the order of restrictions or/ and enforcement measures according to the procedure set by the National Bank.
15. After seizing an asset which was a commercial bank asset before an administrative-legal act on completion of a liquidation process was issued, it shall automatically be considered as the liquidated bank's asset and the right of its management shall be transferred to the National Bank. If the seized asset of the liquidated bank is represented by monetary funds, they must be transferred to an account opened at the National Bank for the liquidated bank's unclaimed funds. The monetary funds must be distributed according to the final, specified order of liabilities submitted by the liquidator, according to the National Bank's procedure. If a nonmonetary material asset is seized, in order to manage it, the National Bank shall issue an individual administrative - legal act to determine the procedure for management of the seized asset to satisfy the liquidated bank's liabilities.

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Article 37¹³ Netting and Close-out Netting

In accordance with the Law of Georgia On Financial Collateral Arrangements, Netting and Derivatives and the netting and close-out netting agreement between the parties and activities taken in accordance, shall not be disputed by the third persons, administrative and regulatory/supervisory bodies, liquidators of commercial banks, trustees, insolvency manager, temporary administrators, special manager of commercial bank and any other person undertaking similar functions.

Law of Georgia No 5682 of 20 December 2019 – website, 31.12.2019

Chapter VIII Transitional Provisions

Article 38 – (Deleted)

Law of Georgia No 5909 of 14 March 2008 – LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 160

Article 38¹ – Legal regulation during transition period in relation to persons declared as legally incompetent by court before 1 April 2015

A person may be a commercial bank administrator if he/she:

- a) is not a person declared as legally incompetent by the court before 1 April 2015;
- b) has no criminal records for a heavy or especially aggravated crime, or for financing terrorism, and/or legalising illicit income, or other economic crimes;
- c) has appropriate education and/or experience;
- d) at the same time is not an administrator of another commercial bank, except when holding the position of an administrator in a bank under control of this bank, or in a bank that controls this commercial bank;

Law of Georgia No 3392 of 20 March 2015 – website, 31.3.2015

Article 39 - Requirements towards subsidiaries established or acquired by commercial banks A commercial bank, which established or acquired, before Article 10¹ of this Law was effected, a subsidiary that conducts activities outside Georgia as provided for by the legislation of Georgia for persons carrying out monitoring under the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation, shall submit documents under Article 10¹ of this Law to the National Bank within six months after this Law takes effect.

Tbilisi

23 February 1996

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