

Order N152/04
Of President of National Bank of Georgia
October 31, 2022
Tbilisi

On Approval of the Licensing Rules for Commercial Banks

Based on the article 15, paragraph 1, subparagraph “g”, article 48 of Organic Law "On the National Bank of Georgia", articles 3, 3¹ and 4 of the Law of Georgia "On the Activities of Commercial Banks" and article 25, paragraph 1, subparagraph "b" of Organic Law of Georgia "On Normative Acts, I order:

Article 1

Rule of licensing of commercial banks with the attached edition be approved.

Article 2

Order N 52/04 of June 17, 2014 of the President of the National Bank of Georgia On the Approval of the Licensing Rules for Commercial Banks" be declared invalid.

Article 3

The administrative proceedings started at the National Bank of Georgia until September 24, 2022 in connection with the bank activity license should be completed by September 24, 2022 according to the existing rules. In the case provided for in this article, the commercial bank is obliged to meet the updated license requirements stipulated by the legislation and to submit the relevant documentation/information to the National Bank of Georgia in the manner and within the time frame determined by the National Bank of Georgia.

Article 4

This order shall take effect immediately upon publication.

President of National Bank

Koba Gvenetadze

Licensing Rules for Commercial Banks

Article 1. General Provisions

1. The licensing rule for commercial banks (hereinafter - the Rule) determines the issues of licensing of commercial banks, foreign reliable bank branches, foreign bank branches and subsidiary banks by the National Bank of Georgia (hereinafter - the National Bank).
2. The National Bank will issue a banking activity license only to the legal entity registered in accordance with the law of Georgia, which meets the licensing requirements defined by article 3, paragraph 1 of the Law of Georgia "On the Activities of Commercial Banks".
3. Licensing of a branch/subsidiary company of a foreign bank can be carried out in a simplified manner if the applicant is a particularly reliable bank, in particular, if it is characterized by high visibility, good reputation, high credit rating, many years of experience in the financial sector, sustainable financial indicators and a high level of transparency.
4. In order to promote the entry of a reliable foreign bank into the market of Georgia, the National Bank shall individually determine the list of documents/information that the branch/subsidiary company of the foreign bank provided for in paragraph 3 of this article must be submitted for a banking license. The submitted documentation must include, at least, the information provided by article 2, paragraph 4 of this rule.

Article 2. Written application for obtaining a banking activity license

1. An interested legal entity applies in writing to the National Bank to obtain a banking activity license. A written statement must be submitted by the supervisory board of the applicant for a banking activity license, or a person authorized by the shareholders. The written statement must meet the requirements stipulated by article 78 of the General Administrative Code of Georgia.
2. The following documentation and information must be attached to the written application for obtaining a banking activity license (except for a branch/subsidiary company of a reliable foreign bank):
 - a) extract from the register of entrepreneurs and non-entrepreneurial (non-commercial) legal entities, which must be accompanied by the following information: identification data and contact information of the contact person regarding the application, head office address, if it differs from the registration address, website address (if any);
 - b) constitutional documents;

- c) information on the compliance of administrators and governing bodies with the individual and collective suitability criteria defined by the Law of Georgia "On Activities of Commercial Banks" and subordinate normative acts;
- d) commercial bank statement about the authorized and subscribed capital of the interested legal entity and its paid-in portion, as well as information that includes data on the ownership and origin of the subscribed part of the authorized capital and supervisory capital;
- e) information about the owner of a significant share provided for by the legal act of the National Bank on the acquisition of a significant share of a commercial bank, and in the absence of such information, identification information about the 20 largest shareholders;
- f) documentation confirming the right to use or own the real estate where the applicant for a banking activity license or its branch will be located in the future;
- g) a document confirming the payment of the license fee defined by the law of Georgia "On License and Permit Fees";
- h) bank statement confirming capital replenishment in accordance with the order N61/04 of the President of the National Bank of Georgia of May 3, 2017 "On Determining the Minimum Amount of Supervisory Capital for Commercial Banks";
- i) If the applicant for a banking activity license was engaged in commercial activities, information about its past activities, which includes:
 - i.a) information about any current, pending, revoked and/or unused license, authorization, registration and/or permit for carrying out activities in the financial sector by it and/or its subsidiary enterprise;
 - i.b) information about the insolvency, restructuring or reorganization, temporary administration, resolution and/or liquidation processes of the banking activity license applicant or its subsidiary enterprise;
 - i.c) information about administrative, relevant civil or arbitration disputes, as well as criminal proceedings related to the banking activity license applicant or its subsidiary enterprise, which have been decided and/or are ongoing against the applicant for a banking license, and which may be relevant for the purposes of considering a written application for a banking license. The National Bank is entitled, if necessary, to reasonably request, among others, the following detailed information:
 - i.c.a) information about satisfied complaints against the applicant for a banking activity license and about non-fulfillment of the assigned obligation;

- i.c.b) settlement with any natural or legal person related to the financial sector;
- i.c.c) any criminal and/or administrative liability related to fraud, corruption, money laundering, other economic crime or financing of terrorism and/or improperly taken measures for its prevention;
- i.c.d) any responsibility imposed to the applicant for a banking activity license by the financial sector supervisory body for violating the requirements of the legislation related to financial services or the rights of consumers;
- i.c.e) complaints from customers or former customers, which were decided in favor of the customer by a third party (arbitration);
- i.c.f) any responsibility imposed due to the implementation of illegal entrepreneurial activity;
- i.c.g) the name and address of the body reviewing the issues provided for in this subsection, the date of the case review, the value of the dispute, the result and the explanation of the main circumstances;
- i.d) audited report on the financial situation of the last three years;
- j) information on the ownership structure/group structure of the banking activity license applicant, in accordance with paragraph 5 of this article;
- k) information about the supervisory board, audit committee and directorate of the applicant for a banking activity license in accordance with paragraph 6 of this article;
- l) documentation approved by the supervisory board of the banking activity license applicant, in accordance with paragraph 7 of this article;
- m) business plan of the applicant for a banking activity license, in accordance with paragraph 8 of this article.

3. A banking activity license is issued to a branch of a foreign bank (except a branch/subsidiary of a reliable foreign bank) and a subsidiary bank only if the bank itself is authorized to attract deposits in the country where the head office is located. In such case, the banking activity license is issued on the basis of a written application, which must meet the requirements stipulated by article 78 of the General Administrative Code of Georgia. In addition to the information provided in this article, the following documents must be attached to the written application:

- a) audited financial statement and profit and loss statement of the head office bank for the last 3 years;

b) the decision of the supervisory board of the head office bank regarding the application to the National Bank for the opening of a branch or establishment of a subsidiary bank and obtaining a banking activity license;

c) confirmation of the supervisory body of the head office bank on the opening of a branch/subsidiary bank in Georgia.

4. The National Bank shall issue a banking activity license to a branch/subsidiary of a reliable foreign bank only upon submission of the following documents:

a) statement of the founding bank, which must meet the requirements provided for in article 78 of the General Administrative Code of Georgia;

b) extract from the register of entrepreneurs and non-entrepreneurial (non-commercial) legal entities;

c) approval of the relevant supervisory body of the country to open a branch/subsidiary in Georgia, where the said bank is registered;

d) a document certifying that the founding bank, according to the assigned rating, is granted the status of a foreign reliable bank based on the Law of Georgia "On the Activities of Commercial Banks";

e) act of appointment of branch/subsidiary administrators;

f) a document confirming the authority of the person who submits the documents provided for in this paragraph;

g) document confirming the payment of the license fee defined by the law of Georgia "On License and Permit Fees".

5. Information on the ownership structure/group structure of the banking license applicant/commercial bank shall include data on all levels of ownership including direct shareholders, intermediate owners and beneficial owners holding significant shares. In particular, the mentioned information should include:

a) in the case of a natural person:

a.a) identity document;

a.b) information about citizenship and residency;

a.c) detailed autobiography;

a. d) information about the amount of shares and other business interests in a commercial bank currently or in the past operating in the territory of Georgia;

a.e) a certificate of criminal record from the administrative body of all the countries where the person was a resident during the last 10 years;

a.f) data on financial situation, source of income and origin of this income;

a.g) tax declaration on income;

b) in the case of a legal entity:

b.a) registration documents;

b.b) audited financial statements of the latest period (quarter) by the auditor;

b.c) the certificate of criminal record of the legal entity and the certificate of criminal record of its administrators, from the administrative body of all the countries resident of which the person was during the last 10 years.

6. Information about the banking activity license applicant's supervisory board, audit committee, risk committee and directorate should include information on the suitability criteria of administrators defined by the legal act of the National Bank.

7. The documentation approved by the Supervisory Board of the applicant for a banking activity license should include:

a) corporate management regulations;

b) organizational structure and management job description;

c) credit, market, transaction, money laundering and terrorism financing and other relevant risk management framework;

d) the internal assessment model of capital adequacy;

e) calculation of capital adequacy in accordance with the requirements of the National Bank based on the budget presented in the business plan;

f) accounting policy;

g) identification data, address and contact information of the auditor/auditing firm of the applicant for a banking license.

8. The business plan of the applicant for a banking activity license must correspond to the planned activities of the said legal entity and must include at least the following information:

a) business strategy;

- b) information about the potential influence of the country's macroeconomic situation and other factors important for the viability of the business model on the commercial bank's business strategy;
- c) description of the target market and assessment of own competitiveness, including customer segments, products, services and their delivery channels;
- d) budget plan and forecast of financial indicators, including stress scenarios for the next three years, which should include at least:
 - d.a) forecast indicators at the individual and group level;
 - d.b) forecast indicators for each business line;
 - d.c) balance sheet, income and cash flow forecast indicators;
- e) risk factors related to business and regulatory legislation;
- f) description of human and technological resources in accordance with the planned activities, including the minimum information technologies to be implemented at the initial stage and the plan for implementation in the next operational period;
- g) the plan for the start of full functioning, if the applicant for a banking activity license cannot be fully functioning at the time of obtaining the license;
- h) the name of all the payment and settlement systems that the applicant for a banking activity license plans to become a member of during the first operational year;
- i) issues related to the use of outsourcing, which should include at least information: about the outsourcing of activities related to the operational and internal control of the applicant for a banking license, about the relevant service provider and any connection with the license applicant, as well as information about the location of the service provider, the reasons for using outsourcing, the service provided by the provider, the appropriate plan and responsibilities for impossibility to receive services from provider which outsourcing will be used.

9. The documents stipulated by this rule must be submitted in the form of originals or their notarized copies. Documents issued in a foreign country must also be certified by apostille and/or legalized. In addition, a duly certified translation of the documentation into Georgian must be submitted.

10. In the case of a non-resident legal entity, if the legislation of the relevant country does not provide for the issuance of a certificate of criminal record of the legal entity, an official

document issued by an authorized agency confirming the aforementioned must be submitted to the National Bank.

11. The time elapsed from the issuance of notices of conviction and criminal responsibility of a legal entity in the territory of Georgia shall not exceed 15 calendar days, and in the case of a foreign country - 60 calendar days or the validity period specified in this document, if any. In case the consideration of the written application for obtaining a banking activity license is continued for more than 6 months, the National Bank is authorized to request the re-submission of the information on the conviction and criminal record defined in this rule.

12. During the licensing process, a detailed description of the group that the commercial bank should become a part of in case of licensing must be submitted. The structure of the mentioned group should be acceptable to the National Bank. In particular, the structure of the group should not be so complex that it can hinder the supervision. A licensed commercial bank must comply with this requirement at all times.

Article 3. Decision on licensing

1. Only the National Bank makes a decision on issuing a banking activity license.

2. Banking activity license is issued for an indefinite period and it is not allowed to transfer it to others.

3. In order to make a decision on the issuance of a banking activity license, the National Bank will examine the compliance of the submitted documentation and information with the licensing requirements established by the legislation of Georgia.

4. The National Bank checks the formal compliance of the submitted information/documentation with the requirements defined by the legislation of Georgia within 5 working days after submitting a written application for a banking activity license. If the applicant for a license has not submitted the complete information/documentation defined by the legislation of Georgia, the National Bank will determine a deficiency to the applicant and set a deadline of no more than 15 working days to eliminate it. In case of missing the deadline set for the elimination of the deficiency, the National Bank shall refuse licensing. In case of submission of a complete written application by the license applicant, the National Bank confirms its receipt to the person in writing, indicating the deadline for making a decision on the issuance of the license.

5. The National Bank shall consider the documents and information submitted for obtaining a banking activity license within 6 months from the date of issuance of the certificate on receipt

of a complete written application. During the review 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 by the license applicant is the basis for renewal of the term, and failure to submit the information/documentation within the established term is the basis for refusal to issue the license. As a result of the review, the National Bank notifies the interested person in writing of the consent to the issuance of the license or the reasoned refusal, if the license applicant cannot meet the licensing requirements defined by the legislation of Georgia and/or in the cases stipulated by article 48, paragraph 4 of the Organic Law of Georgia "On the National Bank of Georgia".

6. The total term of the National Bank's decision to issue a license shall not exceed 12 months.

Article 4. Conditional license for banking activities

1. In order to promote the stability and development of the financial sector, as well as in the interests of the banking sector, including the use of essentially new and innovative financial technologies in the local market and to increase consumer access to financial services, the National Bank is authorized to issue a conditional license to a legal entity for licensing a commercial bank by temporarily simplifying the minimum capital requirements established under the legislation of Georgia. When issuing a conditional license, the National Bank is authorized to define appropriate restrictions and/or individual/additional requirements, stages and deadlines for their full satisfaction, in order to reduce risks.

2. In accordance with the first paragraph of this article, as a result of the temporary simplification of the requirement related to the minimum capital, the amount of the minimum supervisory capital equals to 10% (5 (five) million GEL) amount determined by the order N61/04 of the President of the National Bank of Georgia of May 3, 2017 "On Determination of the Minimum Amount of Supervisory Capital for Commercial Banks". The bank must ensure compliance with the full amount of the minimum supervisory capital determined by the order provided for in this paragraph within 3 years from the issuance of the conditional license for banking activity. In an exceptional case, the period provided for in this paragraph may be extended by no more than 1 year, if it is clear that the bank is sound and provided with appropriate financial resources, and the extension of the period is caused by the need to ensure formal compliance with the capital requirement.

3. In order to reduce risks, the restrictions and/or individual/additional requirements specified in the first paragraph of this article, amongst others, may refer to liquidity requirements, limits on deposit attraction and lending, restrictions related to certain banking operations and types of banking activities.

Article 5. Merger (concentration, merger) and division (division, separation) of commercial banks

1. Commercial banks may be merged by two or more banks based on the prior approval of the National Bank.

2. The following documents must be submitted with the application to the National Bank to obtain the approval provided for in the first paragraph of this article:

- a) the decision of the general meeting of the partners of the relevant commercial banks on the merger;
- b) the balance sheet project of the new bank formed as a result of the merger of banks;
- c) business plan of the new bank and economic justification of the merger;
- d) draft of the new bank's charter.

3. The National Bank makes a decision and informs the banks about it in writing after reviewing the documents provided for in paragraph 2 of this article, no later than two months.

4. If the merger of commercial banks has been positively assessed, then additionally, for the licensing of the commercial bank, the documentation/information provided for in article 2 of this rule must be submitted, in terms of changed circumstances.

5. The decision to issue a license is made in accordance with article 3 of this rule.

6. When one commercial bank joins another commercial bank, the requirements stipulated by the Organic Law of Georgia "On the National Bank of Georgia", the Law of Georgia "On the Activities of Commercial Banks" and the legal act of the National Bank on the acquisition of a significant share of a commercial bank apply. Information should be submitted to the National Bank in the changed circumstances part. In addition, the following must be attached to the application for the approval of the National Bank for the merger of a commercial banks:

- a) decision of the general meeting of commercial banks on concentration;

b) business plan, which includes drafts of documents (balance sheets, statements) reflecting the financial situation when one bank joins another.

7. The National Bank makes a decision and informs the bank in writing after reviewing the documents provided for in paragraph 6 of this article, no later than two months.

8. In the case of a positive decision on the issue concentration of the banks, the banking activity license of the commercial bank joined to the other bank based on the relevant individual administrative-legal act of the National Bank shall be considered revoked, while the banking activity license of the commercial bank that joined the other one will remain unchanged.

9. The division of a commercial bank into two or more commercial banks is considered as the creation of new commercial banks, and accordingly they must be licensed in accordance with this rule and the requirements of the relevant legislation.