

**Order # 143/04
Of 5 July 2018
Of the President of the National Bank of Georgia
Tbilisi**

On Approval of Regulation on Supervision and Regulation of Microfinance Organization Activities

Pursuant to article 15 (1)(g), article 47, article 48 (1)(3), article 50 (1) of the *Organic Law of Georgia on the National Bank of Georgia* and article 3 (1) of the *Law of Georgia on Microfinance Organizations*.

I order:

Article 1

The attached *Regulation on Supervision and Regulation of Microfinance Organization Activities* shall be approved.

Article 2

The order shall enter into force on 1 September 2018.

**Vice-Governor
of National Bank of Georgia (Acting Vice-Governor)**

Archil Mestvirishvili

Regulation on Supervision and Regulation of Microfinance Organization Activities

Article 1. General Provisions

Pursuant to this Regulation, the National Bank of Georgia shall regulate Microfinance Organization activities by setting various prudential standards and limits and monitoring each bank's compliance with those standards.

Article 2. Definition of Terms

The terms used in this Regulation shall have the following meanings:

- a) Microcredit/microloan – (hereafter – the loan) a sum of money issued by a Microfinance Organization to a borrower or a group of borrowers according to the conditions of repayment, valuation, guarantee and timing envisaged by the credit/loan contract;
- b) Group of borrowers – the relationship between two or more borrowers when the borrowers represent one risk for the microfinance organization, have common purposes or/and collateral or/and one of them directly or indirectly controls the other one(s) or/and such a financial bond when financial problems of one borrower would cause difficulties for the other borrower(s).
- c) Administrator – a member of the supervisory board, or directorate (board of directors) of a Microfinance Organization, as well as a person authorized to enter into commitments singly or together with one or more persons on behalf of the Microfinance Organization;
- d) Insider - subsidiary/parent enterprises, administrators, partners/shareholders/ beneficial owners of a Microfinance Organization, and their relatives who represent first and second legal heirs under the Civil Code of Georgia, or persons related to them;
- e) Outsider - any non-insider individual and/or legal entity;

- f) Subsidiary (subsidiary organization) – a legal entity or an organizational establishment without a legal status controlled by a head organization or a legal entity with 50 per cent or more of the shares (voting stock, shares) owned by a head organization;
- g) Control – authority to administer financial and economic policy of the company (organization) in order to receive economic benefit from such activity;
- h) Blank credit – a credit granted without collateral or with collateral which does not have any market value, or/and despite its value, it is not executable due to its incorrect registration or any other reason. Also, a credit which has been granted by securing with own assets or/and share/assets of the affiliated organization;
- i) Regulatory capital – a type of capital created for conducting Microfinance Organization activities, for reserving against expected or unexpected financial loss/damages and protecting from different risks;
- j) Total capital - the difference between total assets and total liabilities of the Microfinance Organization;
- k) Paid-in capital – a capital agreed upon by the company shareholders and provided for by the charter and the actually paid-in portion of the capital;
- l) Total assets – the sum in the balance accounts of Asset Classes minus the sum on balance accounts of the Classes of Asset accumulated depreciation and reserves for possible losses;
- m) Fixed assets – material assets held by a Microfinance Organization, used for main activities for administrative purposes and with a useful life greater than one year.
- n) Residual value of fixed assets – the difference between the balance value and accumulated depreciation of a fixed asset;
- o) Intangible assets – assets that have definite value and lacks physical substance: patents, know-how, goodwill and other items of intellectual property;
- p) Residual value of intangible assets - the difference between the balance value and accumulated amortization of an intangible asset;
- q) Total liabilities – aggregate of sum in the class of obligations;
- r) Subordinated debt - a debt which has lower priority of payment (repayment) than other deposits and loans, i.e. the parties agree, based on an agreement, that in case of a hard financial position, bankruptcy or liquidation of the bank, the claims of the subordinated debt creditor shall be covered only after fully satisfying other non-shareholder/non-partner creditors' requirements;
- s) Convertible debt – a type of bond that may be unconditionally converted into an amount of the Microfinance Organization's equity at a certain time envisaged by a relevant agreement or upon the request of the National Bank;
- t) A reserve fund – a fund created from retained earnings of previous years, held by the Microfinance Organization and used to meet losses.

Article 3. Capital Adequacy

1. The Capital of a microfinance organization is a resource necessary for microfinance organization operations, stable growth, reliability and sustainability. It is a source of covering microfinance organization's financial losses.
2. The purpose of the capital of microfinance organization is to:
 - a) Ensure reliable and appropriate use of the monetary funds of the creditors by the microfinance organization. Minimize the possible negative effect of the risks related to the microfinance organization's activity in order to eliminate the spread of the effect of financial losses and insolvency over other microfinance organizations and representatives of the financial sector. Prevent the processes from taking systematic form and minimize the possibility of a systemic crisis.

b) Ensure the execution of the activity by the microfinance organization, enable an expansion of an organization's operations and allows microfinance organizations to handle anticipated and unanticipated financial losses.

3. Capital adequacy is a basic component for the evaluation of financial strength, reliability, capacity and sustainability of the microfinance organization, which should comply with the essence and objectives of the capital of microfinance organization.

Article 4. Regulatory capital and its calculation

1. Regulatory capital of the microfinance organization should not be less than 1 000 000 (one million) GEL;
2. Regulatory capital is calculated as the sum of the total capital, subordinated liabilities and convertible loan minus the retaining elements in accordance with Subparagraph "a" of Paragraph 2 of Article 5 of this Regulation.
3. For the purpose of including into the Regulatory capital, subordinated liability shall meet the following terms:
 - a) Received with a useful life at least 5-years of profitability;
 - b) Without any securing and limits to usage;
 - c) Terms of the contract may only be changed by agreement with the National Bank.
4. During the last 5 years, the subordinated loan shall be amortized with 20% per year and the unamortized part will be included in the capital.
5. The microfinance organization is forbidden to attract subordinated and convertible loans from individuals (including, individual entrepreneurs), except for partners/shareholders/beneficial owners of the microfinance organization.
6. For the purpose of including a subordinated loan, the microfinance organization is obliged to obtain consent from the National Bank. The National Bank shall issue the consent within 10 days from the date of submitting the Contract.
7. Subordinated loan will participate in the calculation of the supervisory capital with the amount no more than 100% of the total amount of the charter capital and reserve fund.

Article 5. Prudential Standards and Limits

1. Prudential standards and limits set for Microfinance Organizations shall be the following:
 - a) CC (Capital Coefficient) - the ratio of the Regulatory capital to the value of output – 18 %; and 24 % for Microfinance Organizations whose funds attracted from physical and non-finance legal entities are over 50 % of the Regulatory capital;
 - b) LQ (Liquidity Ratio) – ratio of average current assets to average current liabilities of a reporting month – 18%; and 25% for those microfinance organizations whose funds attracted from individuals and non-financial legal entities are over 50% of the Supervisory capital.
 - c) IC (Investment Coefficient) – the amount of shares in the authorized capital of a legal entity shall not exceed 15% of the authorized capital of the Microfinance Organization.
 - d) PC (Property Investment Coefficient) – the sum of residual value of basic means and investments of the microfinance organization in the capital of legal entities shall not exceed 40% of the gross capital of the microfinance organization;

- e) ICC (Insider Credit Coefficient) – sum of the amount of the claims towards all insiders shall not exceed 15% of the supervisory capital of the microfinance organization;
 - f) PAC (Pawned Assets Coefficient) – the ratio of the pawned or/and mortgaged assets to the gross capital shall not exceed 90%. Pawn/mortgage shall be executed in the volume of that asset the security of which is the subject of the pawn/mortgage. The calculation of the mentioned coefficients shall not include the reevaluation reserve and monetary funds which are pawned with the purpose of swap operation.
2. For the purpose of calculating coefficients:
- a) Supervisory capital and detainment of gross assets consist of the following elements: reevaluation reserve of assets, a residual value of intangible assets and investments in the authorized capital of the affiliated company;
 - b) Liquid assets are calculated as the sum of balances on the accounts of monetary funds and state securities. Calculation of liquid assets shall not include reserved/pawned monetary funds and irrevocable deposits.
 - c) Liabilities – total liabilities minus:
 - c.a) subordinated/convertible liabilities with the residual term of payment of more than 6 months, borrowed funds from commercial banks and other financial institutions;
 - c.b) funds received from commercial banks and financial institutions in exchange for monetary funds;
 - c.c.) Obligations per remittances, in the amount not exceeding the requirements of the same type towards one counteragent;
3. Total amount issued to one borrower or a group of borrowers shall not exceed 100 000 (one hundred thousand) GEL.

Article 6. Obligations of the Microfinance Organization

1. Microfinance Organizations registered by the National Bank shall:
- a) strictly adhere to the requirements of this Regulation;
 - b) provide transparent, accurate and complete financial reporting, follow the principle of publicity and fulfill the requirements of The Manner and Term of Filing Financial Statements and Regulation of Submitting Accounts by Microfinance Organizations to the National Bank of Georgia.
 - c) submit the Agreement on Subordinated and Convertible Debt to the National Bank within 10 days from the date of its execution;
 - d) not reduce their paid-in capital and reserves without prior written consent from the National Bank of Georgia;
 - e) not provide credits and liabilities and banking services to insiders on terms that are more preferential than those for outsiders and shall follow the arm's length principle.
3. Microfinance Organizations shall ensure that Category 2 lari banknotes and coins are not put back into circulation in accordance with the *Ordinance of the Board of the National Bank on determining the fitness of lari banknotes and coins for use and the procedures for their acceptance and replacement* and shall ensure that they are replaced or handed over to a commercial bank.
4. Upon detecting suspicious (counterfeit) money, the Microfinance Organization shall draw up a report (in accordance with Annex 1) in three copies, one of which will be handed to the client, second – to the cashier's office and third – together with the banknote shall be sent to National Bank for further consideration. The National Bank shall inform the Microfinance Organization on the examination results within 10 days. After the examination, in case the banknote is proved to be authentic and fit, the corresponding amount shall be refunded to the client; counterfeit money shall not be refunded. Unfit money shall not be refunded and shall be returned to the client upon request.

Article 7. Sanctions and Restrictions

1. In case of violation of requirements set under this Regulation, the National Bank of Georgia shall have the right to use the applicable measures and sanctions against the Microfinance Organization.

Article 8. Transitional Provisions

1. Microfinance organizations, registered before the enactment of this rule, shall fill the minimum amount of supervisory capital defined by Paragraph 1 of Article 4 of this Regulation with the following order:

- a) Not less than 500 000 (five hundred thousand) GEL – until 31 December 2018;
- b) Not less than 1 000 000 (one million) GEL – until 30 June 2019;

2. Microfinance organizations registered before the enactment of this rule shall adhere to the capital coefficient defined by Subparagraph “a” of Paragraph 1 of Article 5 of this Regulation with the following order: 16% until 31 December 2018; 18% - until 30 June 2019. For those microfinance organizations whose funds attracted from natural persons and non-financial legal entities exceed 50% of the supervisory capital: 16% until 31 December 2018, 20% until 30 June 2019, and 24% until 31 December 2019.

3. Microfinance organizations registered before the enactment of this rule shall adhere to the liquidity coefficient determined by Subparagraph “b” of Paragraph 1 of Article 5 of this rule with the following order: 16% until 31 December 2018 and 18% until 30 June 2019. For those microfinance organizations whose funds attracted from natural persons and non-financial legal entities exceed 50% of the supervisory capital: 16% until 31 December 2018, 20% until 30 June 2019 and 25% until 31 December 2019.

4. Microfinance organization shall collect the debt liabilities existent before the enactment of this Regulation and further credit them in accordance with the requirements of Paragraph 3 of Article 5 of this Regulation.

City _____
 “____” „____” 20 .

Notice

On detecting suspicious (counterfeit) money

Name of the microfinance organization _____

Responsible person _____

Payer _____

 Name, surname, citizenship, personal number according to an identification card,

 Address (actual) and telephone number

In case of a legal entity, the name and legal form of the legal entity _____

Name of the currency	Nominal	Year of Issuance	Series, number

Signature of a responsible person: _____

Signature of a payer of suspicious money: _____

Examiner's report: _____

Examiner's signature: _____

** If the owner of the banknote refuses to sign the notice, microfinance organization is obliged to make a relevant remark on the notice.*