Decree №128 / 04
of the Governor
of the National
Bank of Georgia

June 29, 2020
Tbilisi

On approving the rule for the valuation of the assets and liabilities of a commercial bank for the purposes of resolution

Pursuant to Subparagraph “g”, Paragraph 1 of the Article 15, of the Organic Law of Georgia on “the National Bank of Georgia”, Paragraph 6 of the Article 37^3, and Paragraph 5 of the Article 37^{11} of the Law of Georgia on “the Activities of Commercial Banks”, I order:

Article 1
To approve the rule for the valuation of the assets and liabilities of a commercial bank for the purposes of the resolution together with the attached appendix.

Article 2
This decree shall enter into force upon its publication.

President of the National Bank **Koba Gvenetadze**

The Rule for the valuation of the assets and liabilities of a commercial bank for the purposes of resolution

Article 1. General Provisions
1. For the purposes of resolution, the rule for the valuation of assets and liabilities of a commercial bank (hereinafter referred to as - the rule) determines the rules, procedures and methodology for the valuation of assets and liabilities of the commercial bank and a branch of a foreign bank operating in Georgia (hereinafter - the bank) and the qualification requirements for the independent valuer.
2. The valuation defined by this rule includes the accounting of the assets and liabilities of the commercial bank provided for in paragraph 1 of article 37^3 of the law of Georgia on “the activities of commercial banks”, the complete and / or provisional valuation provided for in paragraphs 2 and 4 of the same article, to select the appropriate resolution powers and tools and to determine the conditions for the use of these tools(**hereinafter referred to as - the valuation for the purposes of introduction the resolution regime and for selection the resolution tools**) and the valuation after the use of resolution powers, for the assessment the right of shareholders and/or creditors to receive a compensation and its amount (**hereinafter – valuation after the use of resolution powers**) provided for in paragraph 5 of article 37^{11} of the same law.
3. The qualification requirements for an independent valuer defined in this rule shall apply to an independent valuer provided for in articles 37^3 and $37^{11}$of the law of Georgia on “the activities of commercial banks.”
4. The valuation rules, procedures and methodology defined in this rule shall be used to determine the economic value of the bank's assets and liabilities for the purposes of resolution and does not alter and / or replace accounting principles and standards and prudential supervisory requirements. Accounting of the assets and liabilities of a commercial bank, referred to in paragraph 1 of article 37^3 of the law of Georgia “on the activities of commercial banks” shall be conducted in accordance with the accounting and prudential supervisory requirements, taking into account the principles set forth in this rule.

5. The valuation of assets and liabilities of the bank for the purposes of resolution is based on international valuation standards (IVS 2017), and in order to ensure the effective implementation of resolution goals, the peculiarities of the resolution regime should be taken into account during the valuation in accordance with this rule. Unless this rule governs any valuation issues, the national bank of Georgia (**hereinafter referred to as - the national bank**) and the independent valuer shall be guided by international valuation standards and the principles set out in the valuation handbook developed by the European Banking Authority (EBA) for the purposes of the resolution.

6. The valuation methodology defined in this rule is based on the discounted cash flow-methodology defined by international valuation standards (IVS 2017). However, the valuer can select and apply market value, adjusted book value and / or other relevant valuation methodologies if the use of them ensures the determination of the economic value of assets and liabilities, in accordance to the requirements set out in this rule.

7. The national bank is authorized to develop detailed guideline for the valuation of assets and liabilities of the commercial bank for the purposes of resolution, which may include detailed rules related to: granular valuation, valuation of equity value, valuation of derivatives and other issues.

Article 2. Definitions
1. The terms used in this rule shall have following meanings:
a) Valuer- an independent valuer as provided for in articles 37^3 and 37^{11} of the law of Georgia “on the activities of commercial banks” and / or the national bank, if a provisional valuation is conducted by the national bank;

b) Fair value – fair value in accordance with international financial reporting standards (IFRS);

c) Hold value- the present value, discounted at an appropriate rate, of cash flows that the entity can reasonably expect under fair, prudent and realistic assumptions from retaining particular assets and liabilities, considering factors affecting customer or counterparty behaviour or other valuation parameters in the context of resolution.

d) Disposal value– the value determined by the valuer on the basis of the cash flows, net of disposal costs and net of the expected value of any guarantees given, that the entity can reasonably expect in the currently prevailing market conditions through an orderly sale or transfer of assets or liabilities.

e) Franchise value - the net present value of cash flows that the bank reasonably expects from the maintenance and / or renewal of its shares, assets and / or liabilities. The franchise value, if relevant, should reflect the business opportunity that results from different resolution actions. The franchise value may be higher or lower than the value arising from the contractual terms existing at the valuation date;

f) Equity value - market price of issued and / or transferred shares, determined in accordance with international valuation standards, which, depending on the nature of the bank's activities and / or shares, may include the franchise value ;

g) Valuation basis - the approach chosen to determine the monetary amounts, according to which assets or liabilities are determined by the valuer (hold value, disposal value);

h) Resolution date- the date on which the decision to resolve the bank is adopted.

2. Other terms used in this rule shall have the relevant meanings specified in the international valuation standards (IVS 2017) and in the relevant legal acts of the Georgian legislation.

Article 3. General principles of the valuation for the purposes of introduction the resolution regime and for selection the resolution tools
1. The valuer shall take into account the circumstances that may have an impact on the expected cash flows of the bank,

on the discount rates, and should properly present the financial position of the bank, taking into account its capabilities and risks.
2. The valuer shall justify the key assumptions used in the valuation. Any significant deviations from the key assumptions used by the management of the bank in preparing the financial statements of the bank and in its prudential supervisory assessment should be supported by relevant available information and should comply with accounting standards and prudential supervisory requirements.

3. The valuer shall provide the best point estimate of the value of the bank's assets, liabilities and their combination, which, if possible, may also be provided in the form of value ranges. When using the value ranges, the valuation report should include an explanation of the parameters and assumptions that where used on the calculation of the ranges, and to which the valuation results are most sensitive.

4. The requirements for the valuation of single assets and liabilities as defined in this rule shall also apply to the valuation of the bank's portfolio, groups of assets and liabilities, a combination of assets and liabilities, and / or the bank as a whole.

5. The valuation shall subdivide creditors in classes according to their priority ranking set forth in article 37^{12} of the law of Georgia „on the activities of commercial banks" and shall include:

a) the value of the claims included in each class(if necessary and possible, also according to the contractual claims of the creditors);

b) the initial assessment of the amount of losses that the shareholders and each class of creditors determined in accordance with Article 37^{12} of the law of Georgia on "the activities of commercial banks" would receive in case of wound-up of the bank under normal insolvency proceedings.

6. Given the timing and the necessity , the national bank may request several valuations based on various methodologies. When using them, the National Bank takes into account the principle of a conservative approach provided for in paragraph 2 of the article 37^{3}, of the law of Georgia on "the activities of commercial banks".

Article 4. Date of the valuation for the purposes of introduction the resolution regime and for selection the resolution tools
1. The valuation date shall be determined by the valuer and shall be as close as possible to the expected resolution date.
2. If the decisions on the introduction of the resolution regime and on the selection of the resolution tools were made on the basis of an provisional valuation, the date of the subsequent complete valuation shall be deemed to be the resolution date.

Article 5. Provisional valuation
1. The national bank is authorized to introduce a resolution regime, make a decision on the use of any resolution tool and exercise resolution powers on the basis of the provisional valuation if conducting the valuation by the independent valuer is not possible due to the relevant circumstances, including the urgency of the issue, or if the achievement of the resolution goals defined in the first paragraph of article 55^{1} of the organic law of Georgia "on the national bank of Georgia" are at risk. Provisional valuation should, as far as possible, meet the following requirements:
a) be based on fair, prudent and realistic assumptions;

b) be based on the information provided in the bank's accounting documents, on the updated balance sheet and financial statements, on the analysis of the accounting value of the assets and balance sheet and off-balance sheet liabilities;

c) include information on the amount of losses that the shareholders and each class of creditors determined in accordance with article 37^{12} of the law of Georgia on "the activities of commercial banks" would receive in case of wound-up of the bank under normal insolvency proceedings. This is an ex-ante estimate, within the information available at the date of the provisional valuation;

(d) if the provisional valuation is carried out for the purposes of selection appropriate resolution powers and tools and for determining the conditions for their use , the valuation shall include a buffer for additional losses accompanied with appropriate justifications. When determining the buffer for additional losses, the relevant facts and circumstances idicating the possible additional losses the exact amount of which cannot be determined at this stage, should be taken into account, including the various scenarios set out in the resolution plan. . The buffer for additional losses is calculated as follows:

d.a) the valuer can extrapolate the losses identified for a part of the assets to other similar types of assets in the balance sheet. The buffer can be calculated for certain asset classes or for the total volume of assets and can be expressed as a certain percentage of the relevant asset class or of the total volume of assets;

d.b) if available, information on average additional losses of the financial institutions similar in size and complexity can be used when determining the buffer for additional losses, which should be adjusted according to the peculiarities of the bank's business model and financial structure;

d.c) In order to avoid double counting of same factors, the factor considered at the level of a relevant class of assets should not be applied in adition on the level of whole assets.

2. The national bank shall, as soon as possible, ensure that the valuation is carried out by an independent valuer in order to fully identify any losses related to the assets. The outcomes of these valuation, taking into account the more time and more accurate information available, may differ from the outcomes of the provisional valuation and rely on a different methodology. In such a case, the valuation report should include the justification for the use of the different methodologies and of the differences in outcomes.

Article 6 - Sources of information of the valuation for the introduction the resolution regime and for selection the resolution tools

1. The valuation should be based on the relevant information to the assessment date, considered by the valuer. In addition to the bank's financial statements, audited statements and supervisory reporting(as of the most recent reporting date), the following information is considered relevant:

a) updated financial statements and supervisory reporting;

b) an explanation of the key methodologies, assumptions and assessments used by the bank to prepare the reports referred to in subparagraph (a) of this article;

c) data contained in the records of the bank;

d) relevant market data;

e) conclusions prepared by the valuer as a result of discussions with the bank's management and auditors;

f) where available, supervisory assessments of the bank's financial condition, which may include information acquired as a result of on-site inspection, including for the purposes of update the resolution plan, assessment the grounds for introduction the resolution regime and / or preparation the valuation of assets and liabilities;

g) assessment of the asset quality in the banking sector, if this is relevant for determining the value of the bank's assets, and the stress tests results;

h) assesment of the value of assets and liabilities of a similar financial institution in terms of size and complexity, which should be adjusted according to the specific characteristics of the bank;

i) historical information on the bank's performance adjusted according to the changed circumstances;

j) market trend analyses adjusted to reflect specific characteristics of the bank.

2. the valuer must have access to any source of information relevant to the valuation, including the bank's internal records, systems and models. The valuer should also have the opportunity to use additional assistance from relevant specialists and experts, if necessary.

Article 7. Consideration of banking group context in the valuation

1. If bank is a member of a banking group, the valuer should consider the impact of the intra-group agreements on the valuation, if, given the circumstances, they are likely to remain in force or will be put into effect by the deteriorating of group's financial condition or in resolution process.
2. The valuer should also consider the availability of resources of the member within the group to meet losses of other group members.

Article 8. Accounting of Assets and Liabilities

1. For the purposes of introducing the resolution regime and selecting resolution tools, the valuation shall include the accounting of the bank's assets and liabilities in accordance with the first paragraph of article 37^3 of the law of Georgia “on the activities of commercial banks”, in accordance with prudential supervisory requirements. In particular, to ensure that the examination of the grounds for revocation of the banking license provided for in the first paragraph of article 34 of the same law are informed.
2. Accounting of assets and liabilities should be based on fair and realistic assumptions. Its purpose is to determine whether the total value of a bank's assets (regardless of their maturity) exceeds the total value of liabilities and contingent liabilities (balance-sheet insolvency) and, as a result, to determine if the grounds for revocation of the banking license are met. The assessment of the grounds for revocation of a banking license may be the subject of a separate assessment by the national bank and fall outside the competence of an independent valuer .

3. The requirement to use fair and realistic assumptions includes the ability of the valuer to deviate from the assumptions, data and methodology on which the bank relied in preparing the bank's financial statements and in determining the compliance with prudential supervisory requirements, if such deviation is based on the valuer's independent expertise and international accounting standards.

4. The valur shall determine the relevant valuation methodology, that may be based on the bank's internal models if the valuer deems them appropriate taking into account the bank's risk management framework, data quality and available information. The outcomes of the valuation shall be presented in accordance with paragraph 3 of article 3 of this rule.

5. For accounting purposes, the accounting value shall be used as the valuation basis. Bank is required to provide updated financial statements and related information to the valuer in a timely manner. Related information may include information on the approaches and methodology used by the bank in the valuation, data used (including consolidated), and non-consolidated statements.

6. The updated financial information referred to in paragraph 5 of this article may be presented in the form of supervisory reporting forms. If the said report does not include all the data required for the purposes of the accounting specified in this Article, the said data shall be submitted as an additional separate document.

7. If submitting of the updated financial statements is hindered due to short periods of time and / or potential stress situation, by submitting of the updated information the priority shoud be given to assets and liabilities characterized by high volatility of financial position (due to valuation and pricing) and for relatively stable items, such as part of the loan portfolio and deposits, unless there is their significant outflow from the bank, the information presented in the most recent available financial statements may be considered sufficient. Items related to foreign currency need to be updated. However, the valuer must take into account the possible correlation between the rapid update of the data and their quality.

Article 9. Critical issues to be considered when accounting assets and liabilities

1. When accounting assets and liabilities, the valuer should pay particular attention to the cash flows associated with those balance sheet items that are characterized by significant variability that may have a material impact on the results of the valuation. These include, but are not limited to, the following balance sheet items:

a) Expected cash flows from loans and loan portfolios, which depends on the ability and / or willingness of the counterparty to perform on its obligation. Expectations on performance of obligations are based on the following factors: delinquency rates, probabilities of default, loss given default and / or other characteristics of the instrument as evidenced by models for a loan / loan portfolio losses;

(b) The expected cash flows from the repossessed assets, which are affected by both the fair value of the assets at the time the collateral used is enforced and the expected change in value of the item after enforcement;

(c) Cash flows from instruments valued at fair value, the determination of that fair value in accordance with accounting or prudential requirements on their marking to market or marking to model is no longer relevant or valid due to a changed circumstances;

d) Expected cash flows from goodwill and other intangible assets, the level of impairment of which may depend on subjective judgement. Subjective judgement includes an assessment of the expected cash flows, the discount rates, and the amount of the cash generating units;

e) Expected cash flows from legal disputes and other legal issues, the amount of which and / or the expected timing/ is difficult to determine.

f) expected cash flows related to pension assets and / or liabilities and deferred tax assets or liabilities;

2. When accounting assets and liabilities, the valuer shall take into account general factors that may affect the main assumptions related to the assets and liabilities referred to in paragraph 1 of this Article, including:

a) economic factors influencing the bank, including relevant market data;
b) the bank's business model and changes in its strategy;
c) the criteria for selecting the bank's assets, including the policy of issuing loans;

d) circumstances and practices that may result from payments problems;

(e) circumstances which may affect the calculation of capital adequacy, including the parameters used to determine the risk-weighted assets;

f) The impact of the bank's financial structure on its ability to maintain assets for the expected period and the possibility of receiving expected cash flows;

g) General or bank-specific issues related to liquidity or financing needs.

3. The valuer shall indicate separately any material unrealized gains identified in the valuation process, unless otherwise included in the valuation report, and provide relevant information related to its identification.

Article 10. Comprehensive valuation

1. The valuation for the purpose of introducing the resolution regime and selecting the resolution toolsshall include a comprehensive valuation provided for in paragraph 2 of the article 37^3, of the “law of Georgia on the activities of commercial banks”in order to fully identify the losses. Depending on the selected resolution toolsandpowers, the purpose of the valuation may be as follows:

A) when using the power of - recapitlization by write down and/or conversion of shares or other capital instruments provided for in article 37^4 of the law of Georgia on the activities of commercial banks - determining the extent of shares and/or capital instruments subject to write down and/or conversion;

B) when using the resolution tool – sale of shares, assets and / or liabilities of the bank, provided for in article 37^7 of the “law of Georgia on the activities of commercial banks” - determining the amount of shares, assets and / or liabilities to be alienated and informing on the relevant commercial conditions;

C) when using the resolution tool provided for in article 37^8 of the “law of Georgia on the activities of commercial banks” - determining the amount of shares, assets and / or liabilities to be transferred to a bridge bank, as well as the amount of any compensation to be paid to the bank and / or to shareholders;

D) when using the bail-in tool provided for in Article 37^{10} of the law of Georgia on the activities of commercial banks – determining the amount of liabilities to be written down and/or converted.

2. To conduct the comprehensive valuation, the valuer may use two approaches: valuation of single assets and liabilities (hereinafter - granular valuation) or valuation of the total equity value of the bank.

3. Granular valuation is applied at the level of individual assets and liabilities or their groups and in addition to the balance sheet assets and liabilities include off-balance sheet units (e.g., uncertain liabilities, franchise value) that affect the overall value of the bank’s assets and liabilities. It is preferred to use the equity valuation approach when disposing bank as a whole, or when transfering shares to a bridge bank or using the resolution tools and powers set forth in articles 37^4 or 37^{10} of the “law of Georgia on the activities of commercial banks” to determine appropriate conversion rate.

4. Communication between the national bank and the independent valuer in order to inform the valuer about the actions to be taken within the resolution should be carried out without violating the principle of valuer independence. In order to ensure a fair, prudent and realistic assessment, the valuer may, if necessary, based on the consultation with the national bank, provide several valuations reflecting the impact of various resolution instruments and powers and / or resolution scenarios.

5. If the value of the assets and liabilities identified by the valuer differs significantly from the values presented by the bank in the financial statements, the valuer shall use the assumptions in the bank's assessments to determine the adjustments required to submit the updated financial statements in accordance with relevant accounting standards. When identifying losses that cannot be reflected in the updated balance, the valuer should specify the amount of losses, the methods used to determine them, the probability of realization of losses, and the estimated period.

6. In case of conversion of capital instruments and / or liabilities into shares, the valuation shall determine the value of the newly issued and / or transferred shares to the respective creditors after conversion, in order to determine the relevant

conversion rate.

7. A comprehensive valuation should also include an assessment of the amount of losses that the shareholders and each of the creditors specified in Article 37[12] of the "law of Georgia on the activities of commercial banks" would receive in the event of the bank's liquidation. This assessment is not used to determine the amount of compensation that may be awarded to shareholders and / or creditors if in the event of the liquidation, shareholders and / or creditors would have suffered less than they suffered by introducing a resolution regime against that bank.

Article 11. Selection of a relevant valuation basis for a comprehensive valuation

1. In determining the valuation basis for a comprehensive valuation, the valuer shall take into account the scenarios and resolution tools and powers provided for in the resolution plan.
2. The valuer determines the cash flows that the bank expects from existing assets and liabilities, following adoption of the examined resolution powers and tools, based on fair, prudent and realistic assumptions. Cash flow shall discounted in accordance with the discount rates specified in accordance with paragraph 6 of this article.

3. Cash flows shall be determined at an appropriate level of aggregation, implying individual assets and liabilities, portfolios or bank as a whole, taking into account relevant differences in the risk profiles.

4. If the resolution powers and / or the relevant scenarios defined in the resolution plan assumes that the assets and liabilities are retained by the bank, the valuer shall use the hold value under normal market conditions as the valuation basis.

5. When using resolutio tools such as bridge bank or sale of shares, assets and / or liabilities of a bank, the disposal value shall be used as the valuation basis, taking into account the estimated period required for the disposal. According to the relevant resolution tools defined in the resolution scenario, the valuer should take into account the reduction of the observable market price caused by the accelerated sale or transfer of the respective assets and liabilities. To determine the disposal value of assets that do not have a liquid market, the valuer may take into account the observable prices on markets where similar assets are traded or model calculations using observable market parameters, with discounts for illiquidity reflected as appropriate. When using the resoluion tools such as sale of bank as a whole or bridge bank, the franchise value should also be reflected in the disposal value.

6. The discount rates shall be determined having regard to the timing of cash flows, risk profile, financing costs and market conditions as appropriate to the asset or liability being measured, the disposal strategy considered and the bank's post-resolution financial position.

Article 12 - Specific factors related to the estimationand discounting of expected cash flows during a comprehensive valuation

1. In estimating expected cash flows and determining the key characteristics of assets and liabilities, the valuer shall use his own expert judgement, taking into account the impact of the resolution and the relevant scenarios set out in the resolution plan on the cash flows.
2. If the resolution tools and powers set forth in the resolution plan envisage for the bank to maintain its assets and liabilities and / or continue a business, the valuer shall consider at least the following factors affecting future cash flows:

a) possible changes in the assumptions and expectations as compared to those prevailing as of the valuation date, taking into account the holding period of assets or for the recovery of the bank;

(b) the additional or alternative valuation basis and methodology deemed appropriate by the valuer, including in the context of assessing the post-conversion equity value of shares.

3. When determining cash flows on the basis of disposal value, the valuer shall take into account the factors affecting the disposal value and disposal periods, including:

a) the disposal value and the disposal period for similar transactions, taking into account differences in the business model and financial structure;

b) advantages and / or negative aspects of the transaction, which are specific to a particular contractor and / or to certain subgroups of market participants;

(c) the particular attributes of an asset or the business model of the bank that may be relevant only to a particular potential purchaser and / or to a certain subset of market participants;

d) the likely impact of expected sales on the bank's franchise value.

e) disposal costs necessary to bring the relevant assets and / or liabilities to a reasonable condition for sale;

f) differences caused by partial or joint sale of the relevant assets and / or liabilities in relation to the market price and the estimated disposal period.

4. When assessing the value of whole bank for purposes of the use of the sale of business or of the bridge institution tool, the valuer may take into account reasonable expectations for franchise value. Such expectation for franchise value shall include that resulting from a renewal of assets, from a refinancing of a portfolio, or from the resolution actions.

5. If there is no realistic expectation of disposing of the bank's assets and / or business by the valuer, instead of the disposal value, the expected cash flows should be estimated for the purposes of continuing the operations or run-off the bank.

6. If the liquidation regime is likely to be initiated, the valuer may consider for the bank's assets and liabilities intended for the liquidation, the disposal values and disposal periods observed in auctions involving assets of a similar nature and condition. The determination of expected cash flows shall take into account illiquidity, the absence of reliable inputs for the determination of disposal values, and the resulting need to rely on valuation methodologies based on unobservable inputs.

Article 13. Consideration of operational costs in a comprehensive valuation

1. A copmprehensive valuation should include information on operational costs that might for instance result from liquidation costs and/or costs related to the implementation of the resolution tool(s). Any capital injections required would not be part of the operational costs but constitute a separate position within the valuation.

2. The valuation shall also reflect the expected positive effects that may result the reduction of costs and / or an increase of income due to synergy effects.

3. Operational costs in the valuation of assets and liabilities (including conditingent assets and liabilities and their groups), as well as assumed cost reductions and the synergy effects, might be disclosed separately within the valuation. However, any double counting of such effects should be avoided.

4. In the case of an equity valuation, such effects should be considered as part of the cash flow calculation.

Article 14. Report of the comprehensive valuation

1. A comprehensive valuation report prepared by an independent valuer should include at least the following information:
a) updated balance sheet and financial statement of the bank;
b) an analysis and an estimate of the accounting value of the assets;
c) the list of outstanding on balance sheet and off-balance sheet liabilities, according to the bank books and records, according to the priority ranking of creditors;

d) the subdivision of creditors, according to the priority ranking of their claims, and an estimate of the treatment that each class of shareholders and creditors would have been expected to receive in the event of liquidation;
e) assessment of liabilities arising from derivatives;
f) summary of the valuation, including information on the best point estimate, value ranges and possible inaccuracies;
g) information on the main methodologies and assumptions used for the valutaion, how the different methodologies and

assumptions used in the valuation affect the outcome of the valuation, and how they differ from the methodologies and assumptions used in the provisional valuation or in other assessments of the bank;

h) any additional information that the valuer deems relevant for the purposes of the valuation.

2. In addition to the information specified in paragraph 1 of this article, the valuation report may include information related to specific aspects of the valuation, including:

a) introduction, which should include: the purpose of the valuation, the name of the bank and the valuation date;

b) buffer for additional losses (in case of using provisional valuation), information on its calculation, assumptions used and relevant justification;

c) information on the differences between the provisional and the comprehensive valuation, the relevant reasons and justification;

d) list of assets and liabilities assessed. The indication of assets and liabilities valued under each resolution tool when using multiple resolution tools;

e) with respect to each balance item, the reference, valuation was made for the purposes of hold or disposal value;

f) information on the methodology used, which includes justification for the selection of a particular methodology as the key methodology, justification of the use of alternative methodologies for the valuation of particular assets and liabilities, and / or for comparison of results. For each methodology used, information on key data and assumptions related to the methodology parameters;

g) information on the key assumptions used in the valuation and the data used to determine them;

h) when using a resolution tool provided for in article 37^{10} of the law of Georgia on the activities of commercial banks - recapitalization of a commercial bank by write-down or convertion its liabilities: explanation of aggregate amount of write-down required to absorb losses and restore NAV to zero; NAV in accordance with the economic valuation; initial assessment of liabilities to be written down in accordance with insolvency hierarchy; post-conversion equity value; and treatment of shareholders and creditors;

i) when using the resolution tool - the sale of shares, assets and / or liabilities of the bank provided for in Article 37^{7} of the law of Georgia on the activities of commercial banks: commercial terms of the transfer; equity value in the event of a ‘share deal’ or value of specific assets and liabilities in the event of an asset deal; assumptions and explanation supporting the inclusion of franchise value when considered in the valuation, valuation of the different categories of assets and liabilities/or equity, valuation of the legacy entity; estimation of the necessary amount of bail-in to recapitalise the bank(if appropriate);

j) where the bridge bank tool, provided for in article 37^{8} of the law of Georgia on the activities of commercial banks, is applied: valuation of the different categories of assets and liabilities/or shares to be transferred; valuation of the legacy entity; estimation of the necessary amount of bail-in to recapitalise the perimeter/equity transferred; estimation of the necessary amount of bail-in/conversion to capitalise the new institution transferred (if appropriate).

k) where the franchise value is applied: assumptions, approach to its calculation, and data sources;

l) valuation of operational costs, cost reductions, synergies, how it was calculated, assumptions and justification;

m) specific consideration given for the valuation of funding liabilities, explanation, assumptions and justification;

n) the valuation of contingent assets and contingent liabilities, identification approach/process, assumptions and justification;

o) equity valuation of the institution as a whole: valuation methodology applied, reasoning, data basis/data sources, specifics of the valuation model applied, assumptions for cash flows and discount rates and/or for the market value methodology;

p) best point estimates (indication and explanation of the assumptions and reservations). Where, in addition to the best point estimate, a value range has been calculated, indication of how the value range has been derived, i.e. whether the range is the result of different approaches or scenarios and reasoning the valuer's choice of approaches/scenarios;

q) differences between assumptions used in the valuation and those underlying accounting or regulatory information, if appropriate;

r) In the case of identified losses that cannot be recognised in the updated balance sheet, a specification of the amount of and reasons for the losses and the likelihood and time horizon of their occurrence;

s) information about valuations of subsidiaries;

t) information and data about the events occurred after the introduction the resolution regime;

u) information on key sources of data: data provided by the bank, national bank and/or market data. Information on the data needed for performing a proper valuation is/was missing;

v) information if other valuers or advisors were involved in the valuation and indication of their respective contributions;

w) statement of compliance of the valuation with the applicable law;

x) statement of independence of the valuer.

Article 15. Valuation after the use of resolution powers

1. Valuation after the use of resolution powers shall be carried out by an independent valuer as soon as possible after the use of the resolution tool, regardless of the completion of the process of theirapplication.

2. In order to ensure a comprehensive and credible valuation, the valuer shall have access to any necessary legal documentation, including a list of all shareholders, claims and contingent claims specified in accordance with article 37^{12} of the law of Georgia on the activities of commercial banks.

3. In order to determine the amount of losses to be received by shareholders and / or creditors in the event of liquidation of the bank, the valuer shall determine the expected timing and amount of net cash flows that each shareholder and creditor would have received in the event of liquidation. Temporary State aid and all types of potential financial assistance provided by the national bank should be excluded (unless a commercial bank could obtain a loan under article 31 and under paragraph 1 of article 33 of the organic law of Georgia on the national bank of Georgia). When determining cash flows, the valuer may also take into account information related to the liquidation process of a similar financial institution in the near future.

4.In order to determine the amount of losses to be received by each class of shareholders and creditors, in the event of liquidation of the bank, the valuation should be based solely on information about facts and circumstances that existed and could reasonably have been known at the resolution decision date, and which had they been known by the valuer, would have affected the measurement of the assets and liabilities of the bank at that date.

5. The actual treatment received by shareholders and creditors in resolution should be determined having regard to whether such shareholders and creditors have respectively received compensation in the form of equity, mutual claims or cash as a result of the adoption of the resolution tools and powers.

6. For purposes of determining the actual treatment of shareholders and creditors in resolution, the valuer shall rely on available information concerning facts and circumstances existing as of the actual treatment date or dates at which shareholders and creditors receive compensation.

7. The date of the valuation shall be the resolution date, which may differ from the actual treatment date. Insofar as the valuer deems the impact of any discounting of the proceeds to be negligible, the undiscounted proceeds at the date the resolution action has been implemented may be directly compared with the discounted amount of hypothetical proceeds

that shareholders and creditors would have received had the entity entered normal insolvency proceedings at the resolution decision date.

Article 16. Inventory of assets and claims

1. For the purposes of the valuation provided for in article 15 of this rule, the valuer shall make an inventory of all identifiable and contingent assets owned by the bank. An inventory should also include such assets for which the existence of associated cash flows has not been proven, but is expected to be reasonable.

2. The valuer shall have access to a list of all claims and contingent claims on the bank to the priority levels of creditors.

3. Encumbered assets and claims secured by those assets shall be identified separately by the valuer.

4. If a bank is part of a group, the valuation should take into account the impact of the intra-group claims on the losses and compensation received by shareholders and creditors.

Article 17. Steps for the valuation after the use of resolution powers

In order to assess the right of shareholders and / or creditors to receive compensation and to assess its amount, the assessor shall determine:

a) the amount of losses that shareholders and / or creditors affected by the resolution tools and powers would have received in the event of the bank's liquidation by the date of the resolution;

b) the value of the restructured claims following the application of the bail-in tool or other resolution powers and tools, or of other proceeds received by shareholders and creditors as at the actual treatment date or dates, discounted back to the resolution decision date if deemed necessary to enable a fair comparison with the treatment referred in sub-paragraph "a" of this paragraph;

c) whether the value of the losses, in accordance with sub-paragraph “a”, exceeds the amount determined by sub-paragraph “b” of the same paragraph, for each creditor in acordance to their pririty levels.

Article 18. Determination of the amount of losses of shareholders and creditors in case of liquidation of the bank

1. In order to determine the amount of losses specified in article 17 (a) of this rule, the amount of expected cash flows in the event of liquidation, discounted at the appropriate rate shall be determined.

2. Expected cash flows shall be discounted at the rate reflecting: the timing associated with expected cash flows, prevailing circumstances as of the resolution decision date, risk-free interest rates, risk premia for similar financial instruments issued by similar financial institutes, market conditions and / or discount rates applied by potential acquirers and other relevant characteristics of the elements being valued (relevant discount rate).

3. When determining the discounted amount of cash flows, the valuer should take into account the following circumstances:

a) factors prescribed by applicable insolvency law, which may influence factors such as the expected disposal period or recovery rates;

b) costs related to administration, transactions, asset maintenance, disposal and other liquidation costs, which would have been incurred by the liquidator as well as financing costs;

(c) in the case of availability and relevance, information relating to the liquidation process of a similar financial institution in the near future.

4. For assets traded on active markets, the valuer may use an observable market price, unless specific circumstances, such as market concentration, saturation and / or other relevant circumstances, reduce marketability of the assets of the bank.

5. For assets that are not traded in an active market, the valuer should take into account the following circumstances when determining the amount and timing of expected cash flows, including:

a) the observable price in the markets where similar assets are traded;

b) prices observed in normal insolvency proceedings or otherwise distressed transactions involving assets of a similar nature and condition;

c) prices observed in transactions involving the sale of shares, assets and liabilities or the transfer to a bridge institution in a resolution context relating to similar entities;

d) probability of generating net cash flows by the asset in the liquidation;

e) market conditions expected during the disposal period, including market development and market opportunity to ensure the exchange of the relevant volume of assets;

f) factors affecting the duration of the disposal period in liquidation regime, including the duration of the liquidation process and / or the characteristics of the respective assets.

6. The valuer should take into account the impact of the bank's financial situation on the expected cash flows, including the factors influencing the process of negotiating with potential purchasers.

7. The hypothetical proceeds resulting from the valuation shall be allocated to shareholders and creditors in accordance with their priority level.

Article 19. Calculation of the actual treatment of shareholders and creditors in resolution

1. The valuer shall identify all claims outstanding after the write-down or conversion of capital instruments and the application of any resolution tools and powers, and shall assign those claims to the legal and natural persons who were the bank's shareholders and creditors at the resolution decision date. The valuer shall determine the actual treatment of the bank's shareholders and creditors in accordance with paragraphs 2-4 of this Article, unless the bank's shareholders and creditors as of the date of the resolution have received compensation in the form of cash payments.

2. If the existing shareholders and creditors receive compensation in the form of equity compensation as a result of the resolution, the valuer shall determine the overall value of the shares transferred or issued to them to determine their actual treatment, which may be based on the assessed market price resulting from the internationally accepted valuation methodologies.

3. If the exisng shareholders and creditors at the resolution date receive compensation as a result of the resolution in the form of debt compensation, the valuer shall take into account changes in contractual cash flows that result from the write-down or conversion of relevant instruments and / or from the use of other resolution tools and powers.

4. For any remaining claims, the valuer shall consider, together with circumstances specified in paragraphs 2 and 3 of this article, the prices observed in the active markets for similar instruments issued by similar financial institutions, if relevant.

Article 20. Report on valuation after the use of resolution powers

1. Report on valuation after the use of resolution powers, shall be provided in a language which is comprehensible and shall include:

(a) a summary of the valuation, which includes the results of the valuation, including in the form of value ranges and information on the inaccuracies;

b) en explanation of the key methodologies and assumptions used, and how sensitive the valuation is to these choices;

(c) if feasible, an explanation of results different from other relevant valuations, including other resolution valuations (comprehensive valuation, provisional valuation) and / or other supervisory or accounting valuations.

2. In addition to the information referred to in paragraph 1 of this article, the report may include the following:

a) the difference between the amounts of the treatment of the shareholders and creditors in case of liquidation and actual treatment in the resolution regime (if any);

b) a description of the assumptions related to the liquidation strategy;

c) when using the discounted cash flow methodology, information on the relevant adjustments to the expected cash flows due to the liquidation scenario;

(d) where the adjusted book value methodology is used, information on the assumptions used to adjust the accounting value of assets and liabilities, including adjustments related to the illiquidity of the market or assets;

e) a description and explanation of the assumptions related to the determination of liquidation costs;

f) information on the hypothetical impact of the hypothetical contribution of the deposit guarantee scheme.

Article 21. Appointment of independent valuer and qualification requirements

1. In order to carry out the valuation provided for in this rule, an independent valuer shall be appointed by the national bank. An independent valuer may be a natural or legal person. The valuations provided for in paragraph 2 of article 1 of this rule may be carried out by the same independent valuer. The national bank is authorized to require assessments by different valuers and select several of them.
2. An independent valuer must meet the following qualification requirements:

a) possess the qualifications, knowledge, skills, experience and resources relevant and necessary for the independent and effective conduct of the valuation in accordance with article 22 of this rule;

b) be independent from the bank in resolution regime, as well as from the national bank and other public authorities involved in the process, in accordance with article 23 of this rule;

(c) shall not have a conflict of interest with the bank, the national bank and any other public authority involved in the resolution, in accordance with article 24 of this rule.

3. In order to appoint the independent valuer without hindrance when the grounds for the introduction of a resolution regime are present, the national bank is authorized to select and determine a preliminary list of persons who meet the qualification requirements for an independent valuer in accordance with the rules and based on the questionnaire specified in Annex №1 and select the most qualified person from the pre-defined list according to the needs of specific case.

4. The national bank shall make a decision on the appointment of the valuer and on starting the valuation process based on the assessment of the level of risk facing the bank and the progress of its development, if it considers that it is probable that the grounds for the introduction of the resolution regime will arise.

5. The decision of the national bank on the appointment of an independent valuer shall also determine:

a) the type of valuation to be carried out;

b) in case of provisional valuation, the obligation of ex-ante estimate of losses to be incurred by shareholders and creditors during the liquidation process;

c) Resolution powers and tools planned by the national bank;

d) the timeframe and intermediate stages of the valuation;

e) if necessary, the obligation to carry out sensitivity and / or scenario analysis, taking into account the resolution powers and tools and the specific characteristics of the bank;

f) Areas and issues where the independent valuer can use the assistance of experts and non-disclosure / confidentiality obligations for them;

g) confidentiality obligations;

h) other issues related to the valuation, if necessary.

6. The national bank shall determine the timeframe of the valuation individually, taking into account the size and complexity of the bank, the availability of information, the need of thoroughness of the valuation and the current situation of a bank stress.

Article 22. Qualification, knowledge, skills, experience and resources of the valuer

1. The independent valuer must have the appropriate qualifications, knowledge, skills, experience and resources to act as a valuer, in all matters deemed relevant by the National Bank.
2. An independent valuer must possess or have access to appropriate human and technical resources, the appropriateness of which must be assessed taking into account the complexity of the valuation to be carried out.

3. In carrying out the valuation, the valuer:

a) shall not be subject to instructions or guidance from the bank, the national bank or any other public authority;

b) should not receive financial or other benefits from the bank, the national bank or any other public authority.

4. The requirements specified in paragraph 3 of this Article does not apply to:

a) the receipt of instructions, guidance, technical equipment or other forms of support considered necessary by the national bank for the purposes of the valuation;

b) the payment to the valuer its remuneration and expenses resonable with the conduct of valuation.

Article 23. Structural independence

The valuer must be independent from the bank in the resolution regime, as well as from the national bank of Georiga or from other relevant public authorities, which means the following:
a) in the case of a natural person, the valuer should not be an employee or contractor of a bank, national bank or other relevant public authorities;

b) in the case of a legal entity, it should not belong to the banking group of the bank in resolution regime or to the relevant public authorities.

Article 24. Conflict of interest

1. The independent valuer should not have a material current or potential conflict of interest with the bank, the national bank and / or other relevant public authorities.

2. Existing or potential conflict of interest shall be deemed to be material if, according to the assessment of the National Bank, it may affect the valuation by an independent valuer.

3. Conflict of interest means a conflict of interest with at least the following persons:
a) administrators of the bank;
b) significant shareholders or controlling persons of the bank;

c) significant creditors identified on the basis of information available from the National Bank;

d) members of the relevant banking group.

4. The following are considered as material conflicts of interest:

a) the provision or past provision of services by an independent valuer to the bank and / or to the persons referred to in paragraph 3 of this article and the and the link between those services and the elements relevant for the valuation;

b) personal or professional relationship between the valuer and the bank and / or the persons referred to in paragraph 3 of this article, in accordance with the Decree of March 10, 2015 N 26/04 of the Governor of the National Bank of Georgia on approving the regulation on “the management of the conflict of interests ";

c) the existence of an investment or other material financial interest in the bank by the valuer;

(d) In the case of a legal entity, any structural separation that could eliminate the factors influencing the independence of the valuer, including the exclusion of employees involved in the provision of services, shall also be ensured.

5. A person shall be deemed to be in conflict of interest with the bank if he or she has conducted an audit of the bank for the previous reporting year.

6. A person who is considered or appointed as an independent valuer has the obligation to:

(a) ensure that any current or potential material conflict of interest are identified in accordance with relevant standards of professional conduct and code of ethics;

b) immediately notify the National Bank of any possible material conflict of interest;

c) ensure that its staff and / or other persons involved in the valuation do not have a conflict of interest as defined in this article.

Attachment №1

Independent Valuer Assessment Questionnaire

I. Valuer identification data

a) Natural person

Name
Surname
Date of Birth
The actual address
Legal address
Citizenship (residency)
ID number / passport number
Contact number (with country code)
e-mail

b) A legal entity

Name
Identification number
Place of registration
Head office address
Contact number (with country code)
e-mail

II. Qualification, experience and resources of the valuer

a)	**Please indicate your qualifications and length of experience (relevant to the valuation activity). In case of a legal entity, please also indicate the rating of the company (if any), the date of the last rating and the name of the rating company.**
b)	**Please provide information on relevant resources required for conducing the valuation (human and technical resources)**

III. Structural independence

a)	Are you an employee or contractor of the national bank of Georgia, the ministry of finance of Georgia and / or a commercial bank under the resolution and / or any other structurally related person?	☐ yes ☐ no
	In case of selecting the "Yes" column, please provide detailed information	
		☐

b)	**Are you a member of the banking group [1] of a commercial bank in a resolution regime or a legal entity subordinated to the ministry of finance of Georgia?**	yes ☐

		no
In case of selecting the "Yes" column, please provide detailed information		

IV. Material current or potential conflict of interest

a)	**Have you audited a commercial bank in resolution regime for the previous reporting year?**	☐ yes ☐ no
In case of selecting the "Yes" column, please provide detailed information		
b)	**Have you had any other professional or employment relationship (including provision of services) with a commercial bank or entities in the banking group/his administrators[2]/ significant shareholder [3], controlling persons and / or with important contractors indicated by the national bank of Georgia during the last three years?**	☐ yes ☐ no
In case of selecting the "Yes" column, please provide detailed information		
c)	**Do you have or have you had any personal relationship [4] with the administrators of a commercial bank or of entities in the banking group, in the last three years? Also, with the person (s) who owns a significant share in a commercial bank or in any entities of the bank's group, with controlling persons and / or significant contractors of the bank indicated by the national bank of Georgia?**	☐ yes ☐ no
In case of selecting the "Yes" column, please provide detailed information		
d)	**Do you have, directly or indirectly, any material financial interest (e.g., property, investment, loan, deposit, significant transaction) in the bank in resolution regime?**	☐ yes ☐ no

	In case of marking "Yes", please indicate the details of the financial interest	
e)	**Do you have any other relationship, position or any kind of participation that is not given in the present questionnaire but may have influenced the independence of the valuer?**	☐ Yes no

		☐ no
In case of selecting the "Yes" column, please provide relevant information (such as the nature of the relationship, period, etc.)		

An independent valuer confirms that:

The information provided in the questionnaire is true and accurate. Ensures the identification of any current or potential material conflict of interest and immediately informs the national bank of Georgia, if any.

Signature **Date**

[1] The group includes enterprises of the banking group, as well as other enterprises in which the siginificant shareholder, administrator or a family member or a close person of the bank / enterprise of the banking group (defined by the order of Governor of the National Bank of Georgia March 10, 2015 N26/04 on approving the regulation on “the management of the conflict of interests ")holds a significant share;

[2] This notion includes the administrators defined by of Decree of the Governor of the national bank of Georgia No. 50/04 of 17 June 2014, “on the suitability criteria for the Administrators of Commercial Banks '

[3] More than 10 per cent of the authorised or paid-in capital of a person or persons acting in concert (shareholders) and/or of the voting shares, also the possibility to make a significant influence on the commercial bank by a person or persons acting in concert (shareholders), irrespective of the amount in equity capital and/or voting rights;(sub-paragraph “k” of article 1 of the law of Georgia on the activities of commercial banks).

[4] Family members and close associates of a natural person determined by the order of Governor of the National Bank of Georgia(March 10, 2015 N26/04)on approving the regulation on “the management of the conflict of interests ".