

## Order 132/04

### of the Governor of the National Bank of Georgia

June 29 , 2020

Tbilisi

#### On approving the rule on licensing, Management and Market Exit of a Bridge Bank

Pursuant to the sub-paragraph “g” of article 15 of the Organic Law of Georgia on „the National Bank of Georgia”, paragraph 3 of article 6 of the Law of Georgia on „Commercial Bank Activities” and paragraphs 5 and 13 of article 37<sup>8</sup> of the same law, I hereby **order**:

#### Article 1.

To approve the the following edition of the Rule **on licensing, Management and Market Exit of a Bridge Bank**

#### Article 2.

This order shall enter into force on January 1st, 2021.

**The Governor of the National Bank of Georgia**

**Koba Gvenetadze**

### The Rule on Licensing, Management and Market Exit of a Bridge Bank

#### Article 1. General provisions.

1. Aiming to ensure application of the bridge bank resolution tool, established by the Ministry of Finance of Georgia (hereinafter - the Ministry of Finance) as prescribed in the Organic Law of Georgia on „the National Bank of Georgia”, the Rule on Licensing, Management and Market Exit of a Bridge Bank (hereinafter - the rule) determines the simplified procedures of a bridge bank licensing, documentations and information that shall be submitted after the licensing and establishes additional requirements in conjunction with the issues related to the development and implementation of the bridge bank market exit plan.

2. The major objective of the bridge bank resolution tool defined in the Organic Law of Georgia on „the National Bank of Georgia”, the Law of Georgia „on Commercial Bank Activities” and this rule, among other resolution objectives, is to ensure the maintenance of the continuation of critical functions of a commercial bank under resolution via full or partial transfer of its shares, assets or/and liabilities to a bridge bank.

3. Unless otherwise established in the Organic Law of Georgia on „the National Bank of Georgia” or under the rule, a bridge bank is subject to the norms stipulated in the the Law of Georgia „on Commercial Bank Activities” and written instructions of the National Bank of Georgia (hereinafter - the National Bank).

4. The terms used in this rule have the respective meaning defined in Georgian legislation.

## **Article 2. Application for the banking license.**

1. The Ministry of Finance shall submit a written request to the National Bank to receive the banking license for a bridge bank. From the information and documentation determined in paragraph 2 of article 2, of the rule „on Commercial Bank Licensing” adopted by the order №52/04 of June 17, 2014, of the President of the National Bank of Georgia, only following documentation and information shall be attached to the request:

- a) An extract from the registry of entrepreneurs and non-entrepreneurial (non-commercial) legal entities;
- b) Information on the compatibility of a bridge bank administrators with the eligibility criteria defined by the Law of Georgia „on the Commercial Bank Activities” and the secondary legislation;
- c) A bank statement confirming the capital replenishment in accordance with the order of the President of the National Bank of Georgia on „Determining the Minimum Amount of Supervisory Capital for Commercial Banks”, except for the case specified in paragraph 7 of Article 8 of this rule.

2. When, considering the resolution objectives, the immediate application of the bridge bank resolution tool is necessary, whereas the Ministry of Finance is unable to submit information and documentation specified in paragraph 1 of this article, the NBG, is authorized to issue the banking license in the timeline prescribed in the legislation solely on the basis of submission of the documentation prescribed in the a sub – paragraph „a” of paragraph 1 of the this article.

3. In addition to the information and documentation specified in paragraph 1 of this article, the National Bank is entitled to request additional information and documentation specified in the Law of Georgia „on Commercial Bank Licensing” approved by the order №52/04 of June 17, 2014 of the President of the National Bank of Georgia, unless this hinders timely and effective implementation of the resolution regime and the attainment of resolution objectives.

4. Documents determined in this rule shall be submitted either in the form of originals or notarized or apostilled or legalized copies, either in material or electronic form.

## **Article 3. Decision on issuing the banking license to a bridge bank.**

1. In order to make a reasonable decision on the issuance of a banking license, the National Bank shall verify the compliance of the documentation and information submitted by the Ministry of Finance with the requirements established by the legislation.

2. As soon as possible, but not more than 1 month after the submission of the application by the Ministry of Finance, the National Bank shall make a decision on the issuance of the banking license or on its refusal, which shall be immediately notified to the Ministry of Finance in writing (in material and/or electronic form).

3. The banking license determined under this rule shall be issued for a period specified by the National Bank.

4. Extension of the validity of a banking license is allowed, based on the reasoned decision of the National Bank, for the period specified by the National Bank, if the extension is necessary to ensure resolution objectives or its expiration coincides with the implementation of the bridge bank market exit plan.

5. The National Bank refuses to issue a banking license if documents or information submitted by the Ministry of Finance do not meet the requirements set forth in this rule and in the Georgian legislation or are inconsistent with the resolution objectives.

6. If the information or documentation submitted by the Ministry of Finance does not meet the requirements of the Georgian legislation, the National Bank shall set a deadline for the applicant to rectify the deficiency. The deadline shall not exceed 10 working days, during which the lapse of the timeline set in the paragraph 2 of this article is ceased. Except in the case specified in the paragraph 7 of this article, the release of the above - mentioned deadline without deficiency being rectified, represents the grounds for the refusal to the Ministry of Finance on the issuance of a banking license.

7. If considering the resolution objectives the immediate application of the bridge bank resolution tool is necessary, the National Bank is authorized to issue the banking license without the deficiency defined in paragraph 6 of this article being rectified and attach appropriate condition(s) to it.

8. Within no more than 3 months after the issuance of the banking license a bridge bank shall submit all the information and documentation specified in paragraph 2 of article 3 Law of Georgia on „Commercial Bank Activities”, which had not been submitted before the license issuance.

9. The National Bank, in a decision on the issuance of the banking license shall determine the list of the activities that a bridge bank is permitted to conduct.

10. The name of the bridge bank shall contain the title - "bridge bank".

#### **Article 4. Transfer of shares, assets and liabilities to a bridge bank.**

1. After issuing a banking license to a bridge bank, the National Bank shall, on the basis of Article 37<sup>8</sup> of the Law of Georgia „on Commercial Bank Activities”, make a decision on the transfer of shares, assets and/or liabilities of a commercial bank under resolution to a bridge bank.

2. Prior to the transfer, shares, assets and liabilities specified in the decision referred to in paragraph 1 of this article, are subject to the valuation in accordance with article 37<sup>3</sup> of the Law of Georgia „on Commercial Bank Activities” and provisions set out in the respective legislation adopted for the valuation of a bank assets and liabilities for the resolution objectives.

3. It is impermissible to transfer shares, assets and liabilities of a commercial bank under resolution to a bridge bank, which will adversely affect the bridge bank or the resolution objectives.

4. By decision of the National Bank, the transfer of shares, assets and/or liabilities to a bridge bank may be carried out several times.

5. If a certain part of the shares, assets and/or liabilities transferred to a bridge bank do not meet the criteria established in the decision on their transfer, those shares, assets and/or liabilities may be returned to the commercial bank under resolution.

6. The sum of liabilities transferred to a bridge bank shall not exceed the sum of the assets transferred to the bridge bank from a commercial bank under resolution and from other sources, save the case specified in paragraph 7 of this Article.

7. If the sum of the liabilities exceeds the assets transferred to the bridge bank from a commercial bank under resolution and from other sources, the difference is covered by the Resolution Fund in accordance with paragraph 1 of article 55<sup>5</sup> of the Organic Law of Georgia „on the National Bank of Georgia”.

8. A bridge bank is the successor of a commercial bank under resolution with respect to the assets and liabilities received from it.

#### **Article 5. Governing bodies of a bridge bank**

1. An administrator of a bridge bank shall meet the eligibility criteria established by the law.

2. An administrator of a bridge bank shall not be an employee of the National Bank.

3. The Ministry of Finance, in the agreement with the National Bank, shall determine the remuneration of an administrator, its payment method and duties and obligations of an administrator.

4. The National Bank is authorized to dismiss an administrator of a bridge bank, at any time, on any grounds.

#### **Article 6. Bridge bank Liquidity requirements.**

1. The National Bank is authorized to determine liquidity requirements of a bridge bank that differs from the requirements applying to commercial banks.

2. To comply with the liquidity requirements set forth in paragraph 1 of this Article, the National Bank is entitled to request the bridge bank to take measures that are necessary to improve its liquidity.

#### **Article 7. Permitted and prohibited banking operations for a bridge bank.**

1. Unless they are banned by the National Bank, a bridge bank, together with the ones specified in the banking license, is authorized to carry out the following activities:

a) Purchase government bonds;

b) Acquire low-risk financial instruments and assets;

c) Place deposits in the National Bank, receive a loan from the National Bank in accordance with the legislation;

d) Issue low-risk loans.

2. A bridge bank is not authorized to receive deposits, except the deposits received from a commercial bank under resolution or deposits insured in accordance with the Law of Georgia „on the Deposit Insurance System”, which are transferred to the bank based on the decision of the National Bank.

#### **Article 8. Management and reporting of a bridge bank.**

1. A bridge bank should be managed on professional and commercial basis, to ensure maintenance of the critical functions of a commercial bank under resolution and ensure its exit from the market in shortest time possible.

2. The governing bodies of a bridge bank shall take all necessary measures to maintain or increase the value of the shares and assets transferred to a bridge bank, unless this adversely affects the effectiveness of the resolution regime or the achievement of the resolution objectives.

3. The supervisory board of a bridge bank, in agreement with the National Bank, shall develop a charter and by-laws of a bridge bank. The National Bank is authorized to request a bridge bank to make appropriate changes in the charter and by-laws of a bridge bank, at any time.

4. A supervisory board of a bridge bank shall, in agreement with the National Bank, determine the strategy and risk profile of a bridge bank.

5. A strategy of a bridge bank should ensure its low-risk banking operations, its stability of a bridge bank, the possibility of uninterrupted delivery of banking services and within existing possibilities, timely exit of a bridge bank from the market.

6. Capital adequacy ratios and supervisory capital of a bridge bank shall be compatible with the requirements of Georgian legislation, risk profile of a bridge bank and requirements set out in rule adopted through the №100/04 order of 28<sup>th</sup> October 2013, of the President of the National Bank of Georgia „on Commercial Bank Capital Adequacy Requirements”

7. In the interests of financial sector stability, for the duration of no longer 6 months, the National Bank is authorized to exempt a bridge bank from the minimum requirement of supervisory capital, set out in the rule adopted through the №61/04 order of 3<sup>rd</sup> May of 2017, of the President of the National Bank of Georgia on „Determining the Minimum Amount of Supervisory Capital for Commercial Banks”.

8. The National Bank may at any time, within the framework of supervision, request a bridge Bank to take or refrain from taking specific action or give specific instructions to an administrator of a bridge bank to ensure achievement of resolution objectives.

9. In addition to standard supervisory reporting requirements, the bridge bank shall, at least once every two months, provide the National Bank with information on measures taken to exit the market. Also, the bridge bank shall, upon the request of the National Bank, immediately provide the information on its financial conditions and the measures taken to exit the market.

## Article 9. Market exit of a bridge bank.

1. No later than 6 months after receiving the banking license, based on the instructions of the National Bank, a bridge bank shall develop a market exit plan, which may result in one of the following:

- a) Merger of a bridge bank with another commercial bank;
- b) Full or partial sale of a bridge bank shares, assets and/or liabilities to one or more acquirers.

2. In order to timely and effectively implement the exit plan, at least following issues shall be determined in the plan:

a) Criteria and procedure for the selection of a person(s) acquiring the shares, assets and/or liabilities of a bridge bank;

b) In the case of a market exit plan through merger, the criteria and procedure for selecting a potential commercial bank with which a bridge bank may be merged;

c) Methods for determining the type, amount and sale price of shares, assets and/or liabilities that are to be sold;

d) Information related to a bridge bank, which should include at least:

d.a) The composition of assets and liabilities of a bridge bank;

d.b) Information related to the previous sale of shares, assets and/or liabilities (if any);

d.c) Type, amount, composition and price of shares, assets and/or liabilities that are to be sold;

d.d) The calculations that were used to determine a price of shares, assets and/or liabilities and the substantiation of these calculations;

e) Measures to be taken to ensure confidentiality of the information that are to be provided to the interested party under sub-paragraph „d” of this paragraph.

3. In order to ensure the timely exit of the bridge bank from the market, the National Bank:

a) Verifies the feasibility of a bridge bank market exit plan and its compliance with the resolution objectives, besides the adequacy of the type, amount and price of shares assets and/or liabilities that are to be soled;

b) If necessary, makes appropriate changes in a bridge bank market exit plan;

c) Verifies compliance of terms and provisions of agreements, on the sale of a bridge bank shares, assets and/or liabilities and on the merger of the bridge bank, with the resolution objectives.

- d) In accordance with sub-paragraphs "a" - "c" of this paragraph, gives consent to a developed exit plan and its implementation.
4. In order to ensure the timely exit of a bridge bank from the market, the National Bank is authorized to recapitalize a bridge bank through writing off or converting its liabilities in accordance with article 37<sup>10</sup> of the Law of Georgia „on Commercial Bank Activities”.
5. To ensure the exit of a bridge bank from market, a bridge bank is obliged to submit to the National Bank a list of potential acquirers of its, shares, assets and/or liabilities and/or the list of commercial banks with which a bridge bank may merge.
6. The National Bank verifies the compliance of listed commercial banks and potential acquirers with the requirements of the Organic Law of Georgia „on the National Bank of Georgia” and with the resulting secondary legislation, and is authorized to ban a bridge bank from selling shares, assets and/or liabilities to one or more acquirers or ban it from merging with a commercial bank.
7. In order to determine the compliance of an acquirer of a bridge bank’s shares, assets and/or liabilities with the eligibility criteria established by the law, the National Bank is authorized to hold relevant consultations with an acquirer.
8. Potential buyers of a bridge bank are obliged to sign confidentiality agreement in order to protect the confidentiality of the information received during the negotiations on the acquisition of a bridge bank.
9. If the sale of a bridge bank is impossible or it may jeopardize the resolution objectives or in spite of the lapse of the time determined under the banking license, a bridge bank exit from the market is not implemented or the exit has occurred via partial sale of shares, assets and/or liabilities of a bridge bank the National bank, in accordance with the rules established under the Law of Georgia „on Commercial Bank Activities”, shall revoke the banking license of a bride bank and start its liquidation proceedings in accordance with article 37<sup>12</sup> of the same law.

#### **Article 10. Revoking banking license of a bridge bank.**

1. In addition to article 9 of this rule, according to the the decision of the National Bank, the banking license of a bridge bank shall be revoked in one of the following cases:
- a) When one or more grounds for revocation of a banking license as defined in article 7 of the Law of Georgia „on Commercial Bank Activities” are present;
- b) Upon expiration of the period specified in the banking license.
2. The decision to revoke a banking license shall enter into force on the day of its publication on the official website of the National Bank or on another date specified in the decision.
3. Upon revocation of the banking license, the National Bank shall begin the process of liquidation of the bridge

bank in accordance with the procedure established by Article 37<sup>12</sup> of the Law of Georgia „on Commercial Bank Activities”.