**Joint Decree of the President of the National Bank of Georgia and the Minister of Finance of Georgia №328 - №246 / 04**

**December 31, 2020**

**Tbilisi**

# On Approval of Criteria for the Collection of Contributions and the Procedure for Making Contributions for the Purpose of Repayment of Funds Allocated under Temporary State Funding

## Article 1. General Provisions

1. The purpose of the Criteria for the Collection of Contributions and the Procedure for Making Contributions for the Purpose of Repayment of Funds Allocated under Temporary State Funding (hereinafter – the Rule) is to determine the grounds and criteria for the collection of contributions (hereinafter - Contributions) for the purpose of repayment of funds allocated under temporary state funding by the Ministry of Finance of Georgia (hereinafter - The Ministry of Finance) to a commercial bank under the resolution mode as provided for by the Organic Law of Georgia "On the National Bank of Georgia", as well as rules and procedures for making and deferring Contributions.
2. Upon the occurrence of appropriate grounds, Contributions are made by commercial banks and branches of foreign banks (hereinafter referred to as the Bank) licensed in Georgia, by transferring them to the Resolution Fund, defined by the Organic Law of Georgia On the National Bank of Georgia in accordance with Article 7 of this Rule.
3. Contributions shall be determined by the National Bank of Georgia (hereinafter referred to as the National Bank) for each bank on the basis of the proportionality and objectivity criteria provided for in Articles 3 to 5 of this Rule and in the manner prescribed by Annex N1 and Annex N2 to this Rule. According to Article 3 of this Rule, based on the proportionality criterion, the National Bank shall calculate the **initial amounts of the Contributions**, and on the basis of Articles 4 and 5 and the Annexes to the Rule - **the final amounts of the Contributions.**
4. When setting the upper limit of the amount of the contribution to be made by the Bank and/or assessing the Bank's claim to defer the payment of the contribution, the National Bank shall assess the impact of the contribution on the Bank's solvency/regulatory capital position and liquidity in accordance with the criteria set forth in Articles 7 and 8 of this Rule.
5. The decision on the collection of Contributions is made by mutual agreement of the National Bank and the Ministry of Finance. The National Bank will issue a Legal Act on the collection of Contributions.

## Article 2. Grounds for Collecting Contributions from the Banks

1. The grounds for collecting Contributions in the presence of grounds provided for by the Organic Law of Georgia "On the National Bank of Georgia" is temporary state financing of the resolution process

of a bank under the resolution mode, under which the relevant budget funds will be allocated by the Ministry of Finance in the manner prescribed by law and by a joint Decree of the President of the National Bank of Georgia and the Minister of Finance of Georgia "On the Creation and Administration of Resolution Fund and Provision of Temporary State Financing by the Ministry of Finance of Georgia".

2. The total amount payable to the Ministry of Finance is determined by the total amount of funds registered in the temporary state funding register, allocated by the Ministry of Finance in the resolution process under the Temporary State Funding.

**Article 3. Calculation of Initial Amounts of Contributions (Proportionality Criterion)**

1. The proportionality criterion established in paragraph 3 of Article 1of this Rule shall apply to the contribution in proportion to the liabilities, without taking into account the liabilities specified in Paragraph 2 of this Article.
2. For the purposes of calculating the initial contribution of the Bank, the National Bank deducts from the total amount of liabilities of each Bank liabilities that are at the same time elements of regulatory capital and insured deposits, and based on the resulted amount, calculates the first individual share of each Bank in the total volume of these amounts.

**Article 4. Contribution Adjustment in Accordance with the Risk Profile (Objectivity Criterion) and Determination of Final Amounts of Contributions**

1. Initial Contributions calculated on the basis of the proportionality principle defined in Article 3 of this Regulation are subject to risk adjustment (objectivity criterion) in accordance with Article 5 of this Rule, Annex N1 and Annex N2 to this Rule, as a result of which the final amounts of Banks' Contributions are determined.
2. Adjusting according to the risk profile and determining the amounts of final Contributions involves multiplying the initial Contributions, calculated on the basis of the principle of proportionality, by the Aggregate Risk Weight of the Bank. To determine the Aggregate Risk Weight, an Aggregate Risk Score is calculated for each Bank based on the floating-scale method, which is converted into the Aggregate Risk Weight using the exponential formula defined in Annex No 2 to this Rule.

**Article 5. Risk Categories to be Assessed when Adjusting Contributions by Risk Profile, Risk Indicators and Their Respective Individual Weights**

1. To calculate the Contributions, the National Bank conducts profiling of the Bank's risks based on an assessment of the following risk categories:

   A) Capital - in accordance with the risk indicators specified in Paragraph 2 of this Article;

   B) Liquidity - in accordance with the risk indicators specified in Paragraph 3 of this Article;

   C) Asset Quality - in accordance with the risk indicators specified in Paragraph 4 of this Article;

   D) Business Model and Profitability - in accordance with the indicators specified in Paragraph 5 of this Article;

2. Risk Indicators of the capital risk category defined in subparagraph “a” of Paragraph 1 of this Article are:
    A) Bank Leverage Ratio;
    B) The ratio of the Common Equity Tier 1 Capital Coefficient to the requirement of Common Equity Tier 1 Capital.
3. Risk Indicators of the liquidity risk category defined in Subparagraph (b) of Paragraph 1 of this Article are:
    A) Liquidity Coverage Ratio of the Bank;
    B) Net Stable Funding Ratio of the Bank;
4. The risk category of the asset quality category specified in Subparagraph (c) of Paragraph 1 of this Article is the ratio of overdue loans to the total loan portfolio.
5. Risk Indicators for the business model and profitability category defined in Subparagraph (d) of Paragraph 1 of this Article are:
    A) The ratio of Risk-Weighted Assets to Total Assets;
    B) High-Risk Positions ratio;
    C) Average Return on Equity - Annual Net Income divided by Average Annual Shareholders’ Equity (called ROE).
6. When assessing the risk categories and risk indicators defined in this article, the National Bank assigns to each risk category and risk indicator an appropriate weight in accordance with the table in Appendix No. 1 to this Rule.

**Article 6. Informing the Ministry of Finance on Contributions**

1. The National Bank shall inform the Ministry of Finance of the final amounts of Contributions specified in Article 5 of this Rule, as well as the frequency and timing of Contributions, the Ministry gives its consent or a substantiated comment on the final amounts, periodicity and/or timing of Contributions.
2. In case the Ministry of Finance makes a substantiated comment on the final amounts, periodicity and/or timing of Contributions, the National Bank and the Ministry of Finance are authorized to hold additional consultations.
3. After agreeing on the final amounts of Contributions, as well as the periodicity and timing of making these Contributions, a Legal Act of the National Bank is issued, which shall determine the amounts of individual Contributions for the Banks, the periodicity and deadlines for making these Contributions.

**Article 7. Contribution Payment and Deferment Request by the Bank**

1. Each Bank shall make the contribution specified in the Legal Act provided for in Paragraph 3 of Article 6 of this Rule by transferring the corresponding amount and at the frequency specified therein to the Resolution Fund.
2. In exceptional cases, if the Bank's contribution may jeopardize the Bank's financial standing, which may be manifested by a deterioration in the Bank's liquidity or solvency/capital adequacy indicator,

which may lead to a breach of supervisory requirements, the National Bank is authorized to defer the payment by the Bank or distribute the amount of the contribution upon the substantiated request of the Bank.

3. In making the decision provided for in Paragraph 2 of this Article, the National Bank is authorized to request additional information and arguments from the Bank regarding the deferral/distribution of the contribution. Herewith, if the Bank is a member of a banking group, the National Bank is authorized to take into account the risk of a substantive negative impact of the contribution on the solvency/capital adequacy and liquidity of the banking group.
4. Before making a decision on the deferral/distribution of the contribution, the National Bank shall consult with the Ministry of Finance and provide it with a reasoned opinion on the need to defer/distribute the contribution for a particular Bank, which should be based on the principles set out in this Rule.
5. The contribution referred to in this Article may be deferred for no more than 1 year. The Bank may, with appropriate justification, request an extension of the period provided for in this Paragraph, if the payment of the contribution may again pose a threat to the financial standing of the Bank.
6. The term of the contribution may be postponed if it is likely to lead to one of the following consequences no later than 6 months after its payment:
   A) Violation of the capital adequacy requirements established by law;
   B) Violation of the Liquidity Coverage Ratio established by law;
   C) Violation of the liquidity requirement established for the Bank.
7. The National Bank is authorized to defer the contribution to the Bank several times on the basis of a substantiated request of the Bank. For this purpose, the National Bank will regularly assess the financial standing of the Bank and the Bank's ability to make a contribution without further postponement.

**Article 8. Solvency/Capital Adequacy and Liquidity Assessment in Assessing of Deferral of Payment**

1. The National Bank, in assessing the need for deferred payment by the Bank, assesses what impact the payment of the contribution may have on the Bank's ability to maintain the solvency/regulatory Capital Ratio and the Liquidity Coverage Ratio.
2. In order to assess the Regulatory Capital Ratio specified in Paragraph 1 of this Article, the National Bank shall, inter alia, assess the impact of the contribution on the Bank's ability to meet the capital adequacy requirements set by the National Bank. For this purpose, the National Bank shall take into account the amount of the Bank's regulatory capital, which is reduced by the amount of the contribution to be paid by the Bank.
3. For the purpose of assessing the Liquidity Coverage Ratio specified in Paragraph 1 of this Article, the National Bank shall take into account the full amount of the payment due in calculating the total net cash outflow of the Bank and assess the impact of the contribution on the Bank's ability to meet individually established liquidity requirements.

4. The assessment provided for in this Article must be based on the requirements for capital adequacy and Liquidity Coverage Ratio at least, as of the next reporting period.

**Article 9. Obligation to Provide Information to the National Bank**

1. The Bank shall cooperate with the National Bank and assist it in the process of determining and collecting Contributions, including providing any information requested by the National Bank.
2. The National Bank is authorized to request the necessary information from the relevant administrative body in the process of determining and collecting Contributions, including requesting updated information on insured deposits from the LEPL Deposit Insurance Agency, both for the individual Bank and for the banking sector.

**Article 10. Supervisory Measures and/or Sanction (Fine)**

In case of non-compliance with the requirements provided for in this Regulation, the National Bank shall be authorized to apply the supervisory measures and/or sanction (fine) provided for by the legislation of Georgia.

*Annex N1*

**Relevant Weights of Risk Categories and Risk Indicators**

| Risk Category | Risk Indicator | Relative Share |
|---|---|---|
| **Capital (40%)** | Bank Leverage Ratio | 50% |
| | The ratio of the Common Equity Tier 1 Capital Coefficient to the requirement of Common Equity Tier 1 Capital. | 50% |
| **Liquidity (20%)** | Net Stable Funding Ratio of the Bank | 50% |
| | Liquidity Coverage Ratio of the Bank; | 50% |
| **Asset Quality (20%)** | The ratio of overdue loans to the total loan portfolio | 100% |
| **Business Model and Profitability (20%)** | The ratio of risk-weighted assets to total assets | 33.33% |
| | High-risk positions ratio | 33.33% |
| | Average Return on Equity - annual net income divided by average annual shareholders' equity (called ROE) | 33.33% |

*Annex N2*

## Instructions for Calculating Contributions

**1. Calculation of each Bank's Share in Contributions**

- $Pi \times ARWi$

  Where:
  - $i$ is the Bank
  - $Pi$ is $i$ Bank's proportion calculated in accordance with Article 3 of this Regulation
  - $ARWi$ is $i$ Bank's Aggregate Risk Weight calculated as in Paragraph 2 of this instruction.

**2. Aggregate Risk Weight Calculation**

2.1 To calculate the Aggregate Risk Weight, it is necessary to determine the individual risk score for each risk indicator (see subsection 2.2) using the floating scale method (see subsection 2.3) and then to determine the Aggregate Risk Score, which is converted into the Aggregate Risk Weight (see subsections 2.4 and 2.5).

2.2 Risk Indicators

- Capital:
  - Leverage Ratio: $\frac{Tier\ 1}{Total\ Assets}$;
  - The ratio of the Bank's Common Equity Tier 1 Capital Coefficient to Requirement of Common Equity Tier 1 Capital: $\frac{Common\ Equity\ Tier\ 1\ Capital\ \ Indicator\ \ (\%)}{\text{Requirement of Common Equity Tier 1 Capital(\%)}}$;
- Liquidity:
  - NSFR;
  - LCR;
- Asset Quality:
  - $\frac{Overdue\ \ Loans}{Total\ Loans}$;
- Business Model and Profitability:
  - $\frac{Total\ Risk\ Weighted\ Assets}{Total\ Assets}$;
  - $\frac{Highest\ Risk\ Position\ of\ Interconnected\ Borrowers}{Tier\ 1}$;
  - $\frac{Net\ Income}{\text{Average Annual Shareholders' Equity}}$.

2.3 Determination of an individual risk score using a floating scale method

- An individual risk score (IRSj) for each Bank is calculated according to the separate risk indicator Aj. Upper (aj) and lower (bj) limits should be defined for each risk indicator. If the high value of the risk indicator reflects the riskiness of the Bank and this indicator exceeds the upper limit, (IRSj) is defined as 100. Similarly, when the risk indicator is below the lower limit, (IRSj) is defined as 0. Similarly, if the low value of the risk indicator reflects the riskiness of the Bank and this indicator is below the lower limit, (IRSj) is defined as 100. Similarly, when the risk indicator exceeds the upper limit, (IRSj) is defined as 0.

- If the value of the risk indicator falls between the upper and lower limits, (IRSj) is defined in the range of 0 to 100.
- Illustration of the method described above:

| Risk Indicator | Risk Indicator Weight | Upper Limit | Lower Limit | Individual Risk Score ($IRS_j$) |
|---|---|---|---|---|
| Indicator $A_1$ | $IW_1$ | $a_1$ | $b_1$ | $IRS_1$ |
| Indicator $A_2$ | $IW_2$ | $a_2$ | $b_2$ | $IRS_2$ |
| … | … | … | … | … |
| Indicator $A_n$ | $IW_3$ | $a_n$ | $b_n$ | $IRS_n$ |

Where

$\sum_{j=1}^{n} IW_j = 100\%$.

- For each Risk Indicator Aj, (IRSj) is defined as follows:

$$IRS_j = \begin{cases} 100 & if\, A_j > a_j \\ 0 & if\, A_j < b_j \\ \dfrac{A_j - b_j}{a_j - b_j}\, x\, 100, & if b_j \leq A_j \leq a_j \end{cases} \text{, where j = 1…n}$$

or

$$IRS_j = \begin{cases} 0 & if\, A_j > a_j \\ 100 & if\, A_j < b_j \\ \dfrac{a_j - A_j}{a_j - b_j}\, x\, 100, & if b_j \leq A_j \leq a_j \end{cases} \text{, where j = 1…n}$$

### 2.4 Aggregate Risk Score (ARS)

- The Aggregate Risk Score (ARSi) for each 'i' Bank is calculated as

$$ARS_i = \sum_{j=1}^{n} IW_j * IRS_j.$$

### 2.5 Aggregate Risk Weight (ARW)

- Using the floating scale method (ARSi) is converted to Aggregate Risk Weight (ARWi). The following exponential formula is used for this transformation:

$$ARW_i = \beta + (\alpha - \beta) * (1 - \log_{10}(10 - 9 * \left(\frac{ARS_i}{100}\right)))$$

- In this formula, ARWi is an exponential function of ARSi, with α and β boundaries equal to 150% and 75%, respectively. For a bank with ARSi equal to 100, the risk weight will be equal to α (150%). Similarly, for a bank with ARSi equal to 0, the risk weight will be β (75%). When ARSi falls within the range of 0 to 100, ARWi is calculated using the above-mentioned formula and will be in the range of 75%-150%.