



საქართველოს ეროვნული ბანკი
National Bank of Georgia

SUPERVISORY STRATEGY

2023-2025

2024 EDITION

SUPERVISORY STRATEGY

2023-2025

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STATEMENT OF ACTING GOVERNOR



Since the publication of the National Bank of Georgia's supervisory strategy in 2020¹, practice has shown that it has become a very important reference document for both the National Bank and representatives of the financial sector. This document aids the effective planning of the National Bank's activities, provides a clear vision for its employees, and increases the predictability of planned activities for the sector. It also ensures that supervisory priorities and plans are available to investors, international financial institutions, rating agencies, the public, and other stakeholders.

In line with an aim of maintaining transparency in both completed and planned activities, the National Bank is pleased to present the 2024 edition of the 2023-2025 supervisory strategy².

As stated in the 2023-2025 supervisory strategy, the National Bank's supervisory priorities will remain the same over the three-year period. Therefore, the Bank will continue to focus on the following five priorities in its supervisory activities:

- Improvement of financial sector risk management framework and proactive response to outcomes;
- Promotion of competition in the financial sector;
- Promotion of financial innovation and development of supervisory technologies;
- Approximation to international standards;
- Strengthening the supervisory function of the National Bank and increasing transparency.

The 2024 edition of the Supervisory Strategy outlines an action plan to achieve the identified supervisory priorities over the next 12-18 months. It details the relevant activities, the timeline for their implementation, and includes a report on the implementation of the Supervisory Strategy in 2023.

This document presents a brief report on the activities carried out under the strategy in 2023. More detailed information about the National Bank's activities and indicators can be found in the 2023 annual report of the National Bank of Georgia.

Natia Turnava
Acting Governor of the National Bank of Georgia

1. The 2020-2022 supervisory strategy document of the National Bank of Georgia was published for the first time in 2020 and was updated annually. The main document as well as the 2021 and 2022 editions are available at the [link](#).

2. The 2023-2025 supervisory strategy document of the National Bank of Georgia is available at the [link](#).

3. Detailed information about the activities performed by the National Bank of Georgia is reflected in the annual reports, which are available at the [link](#).

WHAT IS THE SUPERVISORY STRATEGY BASED ON?

When developing the Supervisory Strategy for 2023-2025 and elaborating on the supervisory priorities, the National Bank of Georgia (NBG) considered the following factors:

- Main directions of supervision and regulation of financial sector⁴;
- Recommendations of international partners⁵ and commitments assumed⁶;
- Analysis of international practice and trends⁷;
- Opinions and recommendations of the private sector, including opinions regarding the formation of the main priorities of the Supervisory Strategy gathered through the published questionnaire⁸ and published draft document⁹;
- Needs identified within the supervisory mandate, underlying risks and challenges.

The National Bank of Georgia (NBG) strives to ensure that the financial system is secure today and prepared for tomorrow. Accordingly, the priorities and planned actions of the NBG are tailored to meet these goals.



Secure Today

Public confidence in the soundness and stability of the financial sector is a crucial prerequisite for economic activity. The NBG devotes considerable resources to achieving this goal and protecting the public's financial interests. To this end:

- Supervisory actions are guided by risk-based supervision principles¹⁰, which in case of customer rights protection shall be applied to activities in addition to existing framework.
- Decisions are made based on comprehensive data analysis.
- The prudential regulation framework is continuously improved to address ongoing challenges.
- A modern and flexible working environment enables a team of highly skilled professionals to respond effectively to new and unexpected challenges.

4. Decree No.23 of the Board of the National Bank of Georgia dated November 4, 2022 on "[Main directions of supervision and regulation of the financial sector](#)".

5. The recommendations provided by the International Monetary Fund and the World Bank for the National Bank of Georgia are available on the webpages of the respective institutions ([IMF](#); [Worldbank](#)).

6. Commitments taken under the [Georgia-EU Association Agreement](#) and [Letter of Intent](#).

7. The NBG continuously monitors the best international practice and trends, studies them and adapts the existing framework and practices as needed.

8. To ensure the involvement of the private sector and other stakeholders in the development of the 2023-2025 Supervisory Strategy, the National Bank published a questionnaire. This allowed all interested parties to participate in defining the main directions of the supervisory strategy and to present their opinions and recommendations. The questionnaire is available on the National Bank's website at the relevant [link](#).

9. To ensure stakeholder involvement in developing the 2023-2025 Supervisory Strategy, the National Bank published the initial draft of the supervisory strategy for public review. This information is available on the National Bank's website at the relevant [link](#).

10. The NBG supervises and regulates commercial banks in accordance with the principles of risk-based supervision. The explanation of the NBG's supervisory regime and each principle can be found both in this document and at the following [link](#).



Prepared for Tomorrow

As the financial sector develops rapidly, the NBG is working today to ensure that the financial system is ready for tomorrow. For this purpose:

- The National Bank of Georgia continuously monitors the market to study innovations and risks, analyzes financial developments and participants to identify the need for further regulation.
- It collaborates with supervised entities to find solutions for significant challenges.
- The NBG ensures continuous improvement of the regulatory framework to align with international standards and best practices.
- It prioritizes the protection of consumer interests and rights, including enhanced practices for consumer rights protection in the financial sector.



Strengths and Advantages

In pursuing its priorities and goals, the National Bank of Georgia relies on its strengths and advantages:

- **Staff and Values:** The NBG boasts highly qualified, experienced, and motivated employees who share the organization's clear goals and values.
- **In-depth Supervisory Vision and Awareness:** Through active involvement and regular communication with supervised entities, the NBG possesses unique and comprehensive knowledge of sectoral risks.
- **Evaluation of the sector from a systemic perspective:** Leveraging its thorough sectoral awareness, the NBG consistently maintains a systemic view of supervised sectors.
- **Strong Regulatory Powers:** Recent reforms and legislative changes have significantly bolstered the NBG's supervisory and regulatory authority. This enhancement enables timely and effective responses to sectoral risks and vulnerabilities.

TO WHOM DOES THE SUPERVISORY STRATEGY CONCERN?

According to the Organic Law of Georgia "On the National Bank of Georgia," the NBG is authorized to supervise a wide range of entities, including Commercial banks, Microbanks, Banking groups, Non-bank depository institutions, Microfinance organizations, Independent registrars of securities, Brokerage companies (excluding insurance brokers), Stock exchanges, Central depositories, Specialized depositories, Asset management companies, Accountable enterprises, Currency exchange units, Investment funds, Authorized securitization special purpose entities, Payment system operators, Payment service providers, Credit information bureaus, Loan issuing entities and Virtual asset service providers.

The NBG plays a critical role in ensuring the stable and efficient functioning of the financial system, fostering a competitive environment, controlling systemic risk, and mitigating various risks. The prudential supervision framework is designed to support the sustainable operation of the entire financial system. Additionally, the NBG applies developed risk-based supervisory practices to protect consumer rights comprehensively. This approach allows the NBG to thoroughly assess sector-wide issues and ensure compliance with legal requirements, thereby enhancing consumer protection and fostering an improved regulatory environment.

It's important to note that the supervisory strategy outlined in this document focuses specifically on certain entities under NBG supervision, namely Commercial Bank, Microbank, Microfinance Organization, Credit Union, Currency Exchange Unit, Loan Issuing Entity and Credit Information Bureau. For the purposes of this strategy, these entities are considered part of the financial sector.



Table N1¹¹ - Representatives of the financial sector (by number)

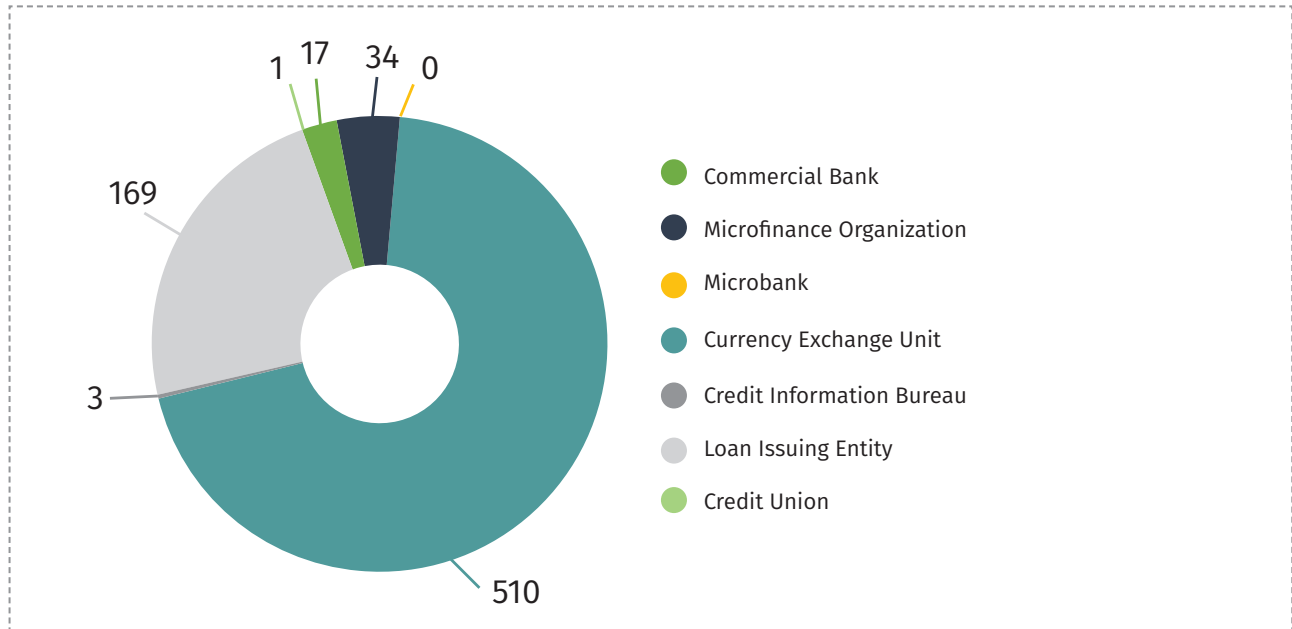
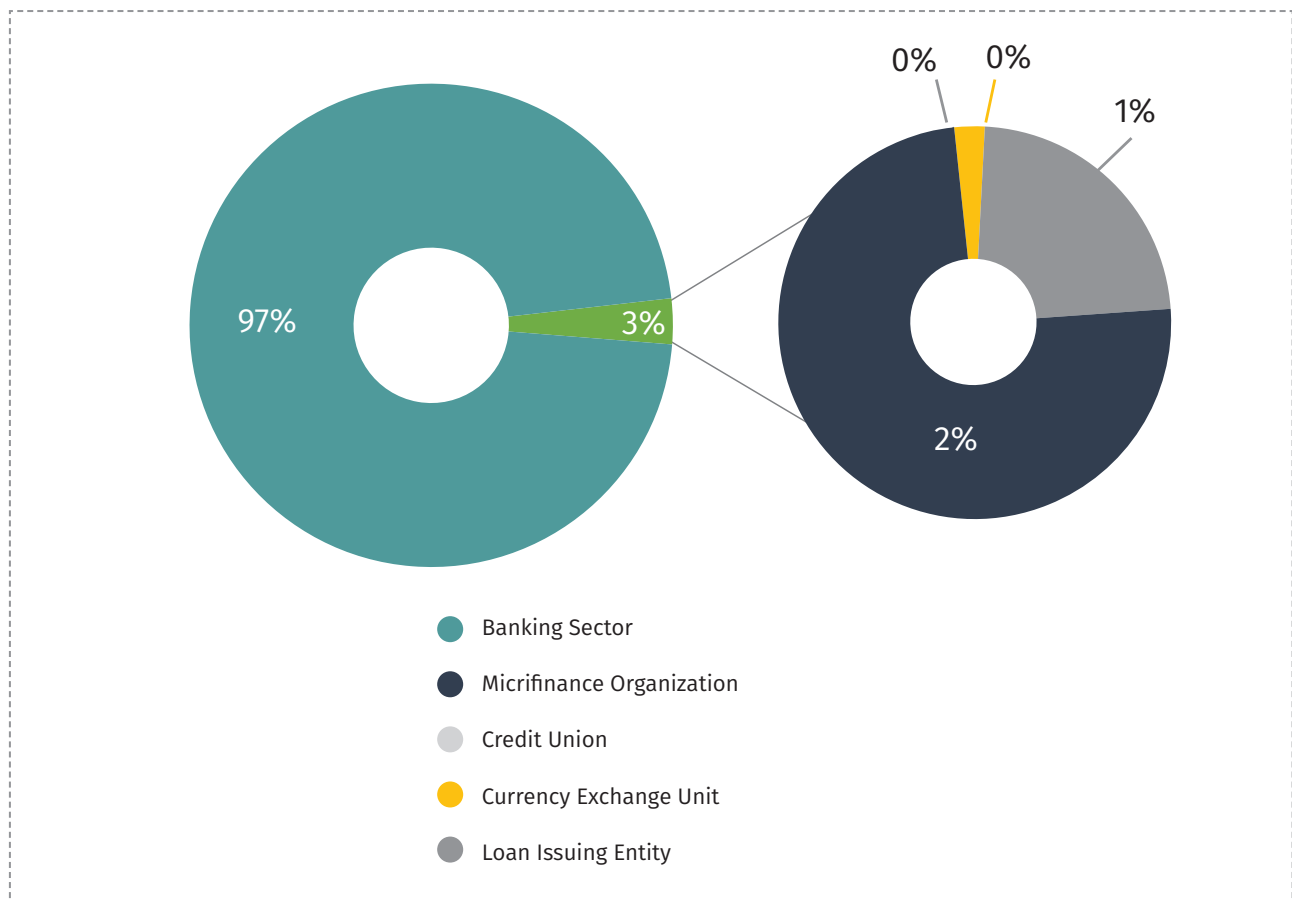


Table N2¹² - The share of representatives of the financial sector in the market by assets (in GEL)



11. The table reflects the number of supervisory entities as of December 31, 2023, which following document shall concern. The number of entities is variable and depends on licensing/registration of new entities and revocation of license/registration. Updated information is available on the website of the National Bank of Georgia ([Commercial banks](#), [Non-banking institutions](#), [Credit Bureau Supervision](#)).

12. The table shows the share of supervisory entities in the market according to their assets in national currency as of December 31, 2023: banking sector (80,044,846,006 GEL), microfinance sector (2,018,515,296 GEL), loan issuing entities (625,128,399 GEL), currency exchange units (81,163,546 GEL), credit union (489,600 GEL).

SUPERVISORY MANDATE, MISSION AND VISION



MANDATE

The National Bank of Georgia's statutory mandate in supervising the financial sector is to ensure financial stability, enhance transparency, and protect the rights of consumers and investors.

MISSION

Facilitating sustainable and sound development of the financial sector, open to qualified investors, ensuring a competitive environment, and protecting consumer interests.



VISION

Aligned with high international standards, the National Bank of Georgia aspires to be a dynamic, innovative, flexible, independent, and competent central bank. Our vision is to safeguard financial stability and transparency, promote consumer rights and investor confidence, and enhance financial education within society. Through these efforts, we aim to earn the trust and respect of the public, colleagues, and supervised entities.

CULTURE AND VALUES

Integral to fulfilling mandate, mission, and vision is cultivating a healthy organizational culture. This culture fosters shared goals and values among the NBG employees, promoting collaborative teamwork rooted in these principles.

PROFESSIONALISM

- In-depth knowledge of the industry
- Constant attention to development, introduction of innovative approaches



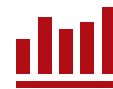
INTEGRITY

- Adherence to social, ethical and professional standards recognized in society



ORIENTED ON DEVELOPMENT AND GROWTH

- Constant striving for improvement of activities, environment and own abilities



TEAMWORK

- Recognizing the importance of teamwork to achieve goals
- Work effectively in a team



TRUST AND MUTUAL RESPECT

- Conducting cooperation within and outside the organization with integrity and respect for diverse opinions and views
- Fostering reliability and trust in relationships



In addition to these values, great attention is paid to openness and transparency, while ensuring adherence to the principle of confidentiality and related regulatory norms.

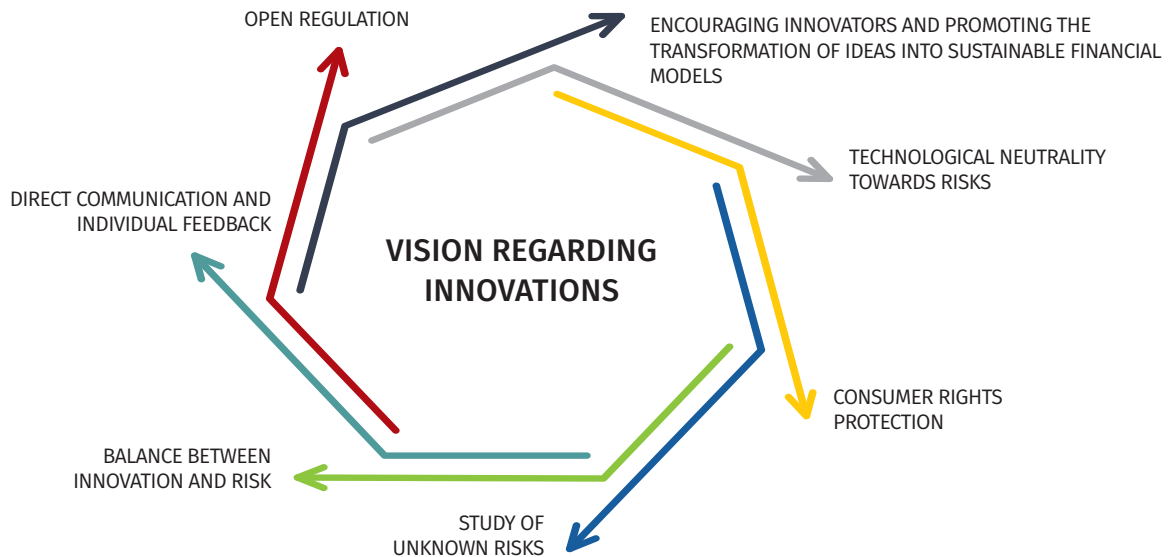
SUPERVISORY REGIME AND VISION FOR INNOVATIONS

The supervisory regime and principles of the National Bank, as well as the vision for innovations within the framework of the 2023-2025 strategy, remain largely consistent with previous years. However, considering the ongoing changes in the environment, particularly regarding consumer rights protection, the National Bank continually refines and enhances its approaches to address market challenges effectively.

SUPERVISORY PRINCIPLES					
Concentration on material risks	Future-oriented approach	Dialogue with regulated financial institutions	Coordination of micro and macro prudential supervision	Consistency, compliance and compatibility, same regulation for same activities and risks	Effective use of internal resources

- **Concentration on Material Risks:** Focus proportionally on risks that pose the most substantial threat to the stability of the financial sector or the safeguarding of the financial resources of depositors, creditors, and investors, following the relevant legal sequence.
- **Future-Oriented Approach:** Identify threats and problems in the financial sector at an early stage and take timely corrective measures to eliminate them.
- **Dialogue with Regulated Financial Institutions:** Engage in dialogue to understand the internal culture, strategy, and incentives of financial institutions. This supports the strengthening of internal control mechanisms by supervisory boards and directorates and enhances risk management sophistication.
- **Coordination of Micro and Macro-Prudential Supervision:** Integrate considerations of ongoing systemic risks in the financial sector, measures to mitigate these risks, business and credit cycles, and other macroprudential policy factors while conducting micro-prudential analysis.
- **Consistency, Compliance, and Compatibility:** Ensure uniform requirements and approaches in decision-making processes related to institutions with similar characteristics and regulation. Establish similar regulatory requirements for market segment representatives with the same activities and risks, ensuring a proportional response to risks.
- **Effective Use of Internal Resources:** Risk-based supervisory processes and principles-based regulation ensure the most efficient allocation of supervisory resources. This approach shifts the focus from passive regulatory compliance assessment to actively addressing risks and implementing practical mitigation techniques.

The vision of the NBG regarding innovation is closely aligned with its supervisory principles, particularly its risk-oriented approach.



Encouraging Innovators and Promoting Sustainable Financial Models: The National Bank of Georgia places significant emphasis on encouraging innovations and transforming them into sustainable financial models. To achieve this, it develops various supervisory approaches and participates in creating the foundational infrastructure for fintech activities. This infrastructure development comprises two vectors: financial infrastructure and supervisory framework development¹³.

Open Regulation: The supervisory approach is open to new ideas and initiatives that promote financial market development without increasing risks to financial stability and the system. Innovators whose ideas may be impeded by the National Bank's supervisory techniques can submit justifications based on international practice and local facts to the National Bank of Georgia for regulatory development.

Technological Risk Neutrality: The supervisory approach is technologically risk neutral. For the NBG, the stability of the financial system is paramount, regardless of the type of technological means used. The same risk is subject to the same supervisory requirements, irrespective of the technological processes underlying the financial institution's business model.

Protection of Consumer Rights: With innovative products, consumers may find it challenging to understand new features. Therefore, monitoring consumer rights, particularly in information disclosure, should be strengthened. Financial institutions should be encouraged to develop robust consumer protection policies as part of their product development activities. Additionally, given the complexity of innovative products for retail consumers, financial education plays a crucial role in raising awareness and understanding of such products.

Exploring Unknown Risks: The risk and potential impact of new financial technologies are often unknown, especially in their early stages. A risk-based approach is cautious with such technologies. The NBG can utilize a regulatory sandbox to determine these risks. This involves financial institutions conducting various tests in a controlled environment set by the National Bank of Georgia and discussing the results with the supervisor. The Regulatory Sandbox focuses primarily on detecting systemic risks.

Balance between Innovation and Risk: The rapid development of financial innovation and risk reduction can often conflict. The NBG's vision involves continuously striving to maintain an optimal balance between fostering financial market development and mitigating risks.

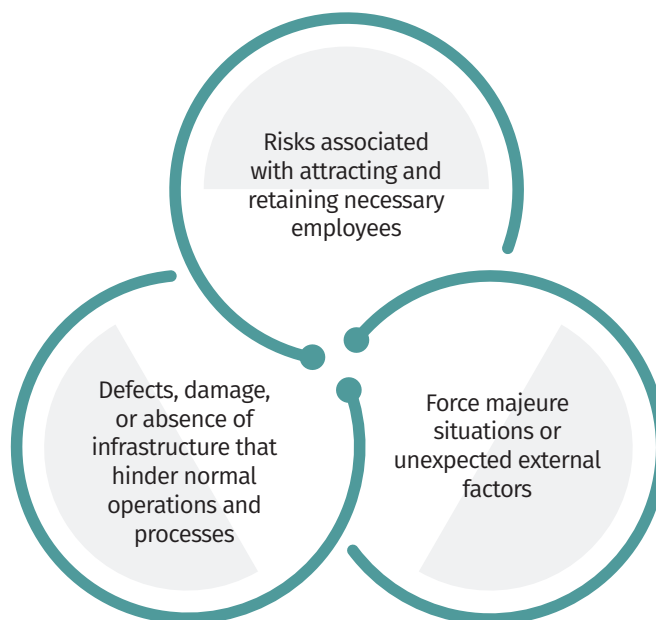
Direct Communication and Individual Feedback: To encourage innovation, the NBG is committed to direct communication and providing individual feedback to stakeholders. This entails timely and detailed responses to questions related to the supervisory approach to financial technologies, as well as offering tailored feedback to meet the specific needs of interested parties.

13. Information on open regulation framework and its elements is available on the NBG [webpage](#).

RISKS ASSOCIATED WITH THE EXECUTION OF THE SUPERVISORY STRATEGY

In addition to challenges in the operational environment, other risks and external factors may also contribute to the failure of the supervisory strategy or certain parts thereof, including:

- Changes in priorities resulting from force majeure situations or other unexpected external factors that were not considered in the supervisory strategy.
- Risks associated with attracting and retaining necessary employees required for executing the strategy.
- Defects, damage, or absence of NBG infrastructure that hinder normal operations and processes.

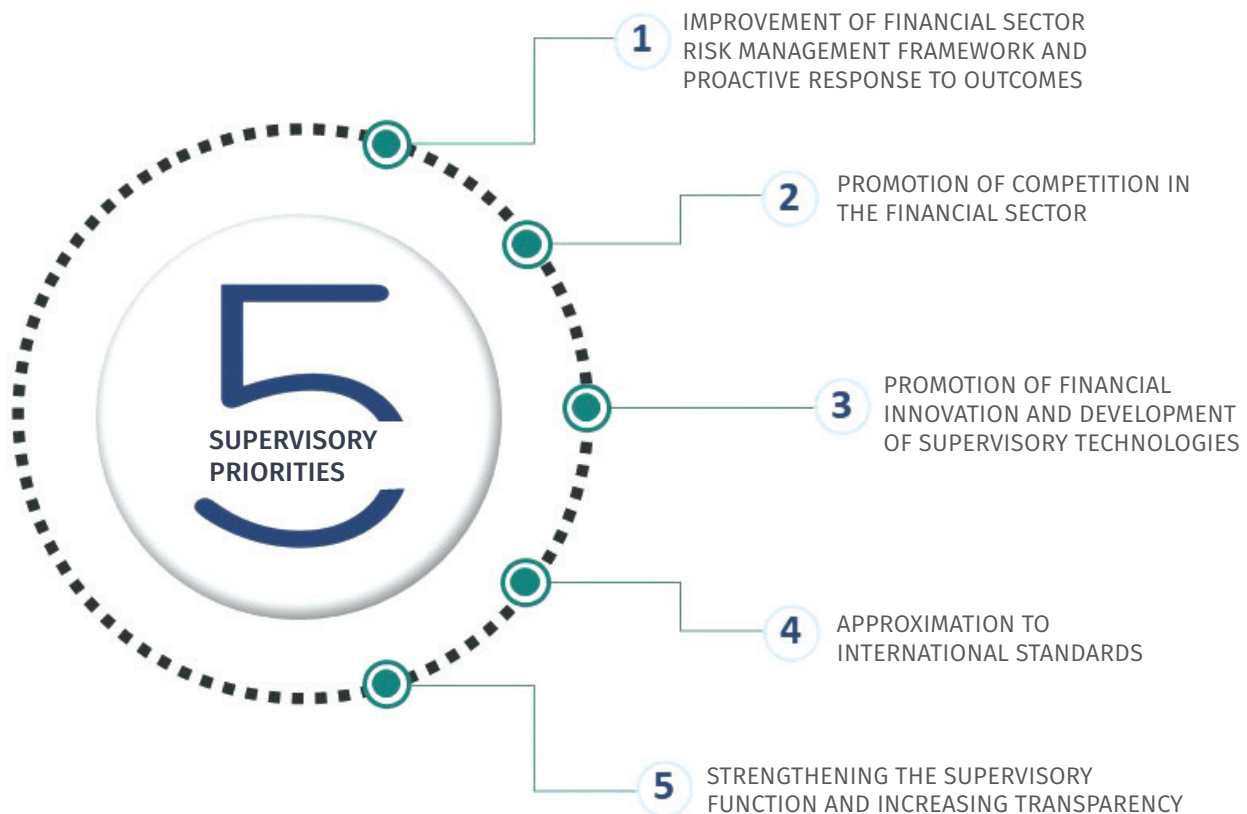


PERIODICITY AND FORMAT OF UPDATING THE STRATEGY

The Supervisory Strategy document is updated annually with the relevant year's edition. This update does not necessarily imply an annual change in supervisory priorities, but rather the potential adjustment of activities outlined in the action plan and their implementation deadlines. This adaptation aims to effectively fulfill the supervisory mandate and mission by addressing current challenges in the operational environment and mitigating risks associated with strategy execution. Some activities may be modified, added, or deemed irrelevant based on ongoing assessments.

SUPERVISORY PRIORITIES FOR 2023-2025

As in 2023, in 2024, the activities of the National Bank of Georgia within the framework of the supervisory strategy document will continue to be based on the same priorities.



Improvement of financial sector risk management framework and proactive response to outcomes

A priority for the National Bank will be to enhance the risk assessment of the financial sector and proactively respond to identified risks. The National Bank of Georgia plans to achieve this priority through the following activities:

- Refining risk assessment systems pertaining to non-financial risks in the financial sector, such as cybersecurity, climate change, information technology, and model usage, and developing corresponding supervisory policies, including:
 - Developing climate change risk scenarios and stress-test frameworks;
 - Implementing a guide for cloud computing models;¹⁴
 - Updating regulations on operational risk management for commercial banks;
 - Establishing requirements for operational and cyber risk stress-tests for commercial banks.

14. In this activity, the development and implementation of [guidelines for the use of cloud outsourcing services by financial organizations](#) should be considered.

- Development and implementation of policies and procedures, guided by risk-based supervision principles, to monitor practices and compliance with legislative and regulatory frameworks in consumer rights protection within the financial sector;
- Promotion of gender diversity in the financial sector to enhance risk management quality;
- Evaluation of capital, liquidity, and organizational risk management frameworks within banks' Internal Capital Adequacy Assessment Program (ICAAP) and Internal Liquidity Adequacy Assessment Program (ILAAP). integrating ICAAP assessments into capital adequacy requirements;
- Assessment of financial sector resilience to external shocks through stress-tests and integration of results into frameworks to enhance sector resilience;
- Conducting the 2022 round of stress-tests for commercial banks and analyzing results.
- Organizing preparatory works for the 2025 round of stress-tests for commercial banks, conducting the round of stress-tests and analyzing the results;
- Development of operational risk, cybersecurity, and corporate governance requirements for micro-finance organizations based on risk assessment;
- Evaluation of information gaps and corporate governance across different areas of commercial banks (e.g. corporate banking, investment banking, insurance) and integration of identified risks into strategies and supervisory vision;
- Enhancing direct and effective communication with commercial banks' senior management and supervisory boards regarding risk-based supervision, identified risks, supervisory measures, and key issues;
- Implementing risk-based supervision principles proportionally across other supervised entities, similar to commercial banks;
- Conduct qualitative evaluations of risk management and internal control functions (including internal audit) at commercial banks and implement necessary measures to address identified gaps and weaknesses;
- Proactively evaluate recovery plans developed by commercial banks and ensure effective communication;
- Enhance guidelines on financing for real estate developer companies and principles for issuing mortgage loans for unfinished/under construction real estate;¹⁵
- Refine standards for managing conflicts of interest;
- Develop regulations for credit risk management and establish fundamental principles;
- Draft special insolvency or bankruptcy legislation tailored for microfinance organizations;
- Introduce a temporary administration regime for microfinance organizations through legislative amendments;
- Establishing data quality management requirements for commercial banks;
- Updating the stress-tests manual to incorporate changes resulting from the transition to the IFRS Standard;¹⁶
- Determining the updated requirements of the cybersecurity management framework.¹⁷

15. The relevant document is available at the [link](#).

16. This activity has been added to the Supervisory Strategy Action Plan to enhance sector foresight.

17. This activity has been added to the Supervisory Strategy Action Plan to enhance sector foresight.

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Improvement of financial sector risk management framework and proactive response to outcomes	Development of climate change risk scenarios and stress test framework						
	Introduction of the cloud computing model manual						
	Update of Regulation on Operational Risk Management by Commercial Banks						
	Establishing operational and cyber risk stress-test requirements for commercial banks						
	ILAAP Assessments of Commercial Banks						
	ICAAP Assessments of Commercial Banks						
	Develop a risk-based supervisory strategy for consumer protection						
	Conducting the 2022 Stress Test Round of Commercial Banks and Analysis of Results						
	Preparation, Conduct and Analysis of Results for the 2025 Stress Test Round of Commercial Banks						
	Development of operational risks, cybersecurity and corporate governance requirements for microfinance organizations						
	Further improvement of the guideline on the principles of disbursement of mortgages for the financing of real estate development companies and the purchase of unfinished/ under construction real estate						
	Enhancing Conflict of Interest Management Standards						
	Developing a Credit Risk Management Regulation and Defining Basic Principles						
	Development of special insolvency/bankruptcy legislation for microfinance organizations						
	Introduction of temporary administration regime through legislative changes for microfinance organizations						
	Setting up data quality management requirements for commercial banks						
	Updating the stress-test manual to reflect changes made to the IFRS standard						
	Determining the updated requirements of the cybersecurity management framework						

Promotion of competition in the financial sector

To promote competition in the financial sector, the priorities include work on relevant supervisory policies, market monitoring and improvement of enforcement mechanisms, as well as conducting studies and considering their results in supervisory decision-making processes. The National Bank of Georgia plans to accomplish this goal with the following actions:

- Development of the supervisory framework for Microbanks - a new type of financial institution;
- Bringing the entities implementing factoring operations and leasing companies under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework for this purpose;
- Updating the principles of digital bank licensing and developing the relevant regulatory framework;
- Further upgrade and development of competition policy for the effective implementation of policies in practice;
- Improving the regulatory framework for currency exchange units:
 - Developing a regulatory framework for non-cash currency exchange units;
 - Additional upgrade of operational requirements for currency exchange units;
 - Analysis of the results of the latest changes and, based on the needs identified, amending the regulations on imposing fines on currency exchange units.
- Monitoring of the financial sector market(s), including the study of issues and practices related to combined financial products, and developing appropriate responses to promote competition, including compliance with the Code of Ethics of the financial sector;
- Improvement of the market analysis and concentration reporting framework, and working on enforcement mechanisms in practice;
- Initiation of simplified impact assessments for the introduction of new legal initiatives and/or acts for the financial sector to analyze the expected impact of the new initiatives/acts on competition in the concerned financial markets;
- Development of an independent institutional function to investigate abuse of dominant position and agreements that restrict competition in the sectors regulated by the National Bank as well as the development of concentration control. Aiming to minimize conflicts and overlaps in terms of competencies;¹⁸
- Expand cooperation with institutions across the country, including the Georgian Competition and Consumer Agency, Regulatory agencies, Personal Data Protection Service, Ministries, the Parliament, and others, to effectively implement the competition policy;
- Review international practices of competition law enforcement in the financial sector and develop a guiding document;¹⁹
- Facilitate access for small players to expensive infrastructure and rich data;
- Encourage the emergence of new players in the market;
- Facilitate monitoring and enforcement processes for consumer rights protection law, including by amending regulations on imposing fines and relevant acts on consumer rights protection;
- Implement risk-based supervision for consumer rights protection, which will contribute to the correct assessment of market behavior and proper analysis of information regarding competition;

18. In this case, the wording of the activity was modified to better reflect the essence of the activity.

19. This activity has been added to the Supervisory Strategy Action Plan to enhance sector foresight.

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of competition in the financial sector	Development of a supervisory framework for microbanks						
	Bringing the entities implementing factoring operations under the regulation of the National Bank of Georgia and developing the relevant supervisory framework						
	Bringing leasing companies under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework						
	Updating the principles of digital bank licensing and developing the relevant regulatory framework						
	Refine regulatory framework for currency exchange unites						
	Refine Market Analysis and Concentration Reporting Framework						
	Initiation of simplified impact assessment for the introduction of new legal initiatives and/or acts						
	Develop institutional capacity to conduct merger analysis/antitrust investigations/competition advocacy within the NBG as a separate function						
	Review of International Practices for the Enforcement of Competition Law in the Financial Sector and Development of Guide Document						
	Amendment to the rule "on protection of consumer rights by financial organizations while providing services"						
	Amendments to the rules on the imposition of fines on commercial banks, microfinance organizations and loan issuing entities						

Promotion of financial innovation and development of supervisory technologies

Promoting the development of financial technologies and innovations, advancing the digitization of supervisory processes and services, and developing relevant supervisory technologies are priorities. The National Bank of Georgia plans to achieve this priority through the following activities:

- To improve the effectiveness of supervision, the National Bank of Georgia will promote the digitization of supervisory processes and services and develop appropriate supervisory technologies;
- Development and promotion of Open Banking:
 - Promoting the use of open banking services for non-banking institutions, including fintech companies, to provide innovative services to financial sector users and improve the competitive environment;
 - Dynamic standardization of financial information and services in the electronic space;
 - Continuous development of the Open Banking framework, which involves sharing more financial information;
 - Identifying, prioritizing, and supporting practical, value-added products and services in the realm of Open Finance;
 - Developing an appropriate supervisory plan to facilitate the transition to Open Finance.²⁰
- Developing guidelines for the advancement of financial technologies and creating a national financial inclusion strategy;
- Developing open supervisory approaches:
 - Enhancing the principles of open regulation;
 - Expanding the role of the Office of Financial Innovations as the primary communication channel with the financial innovation community;
 - Lowering entry barriers for entities with innovative business models to enter the financial market.
- Promoting digital banking:
 - Leveraging technological capabilities to increase access to financial services and encouraging the growth of digital banking channels;
 - Supporting the development of a modular banking model;
 - Establishing cybersecurity requirements for digital banks and integrating them into the licensing process;²¹
 - Sustainable development of cloud architecture data storage and processing.
- Refining and expanding the regulatory sandbox, which includes extending its scope to investigate unknown risks, including non-regulated entities; Enhancing the risk testing framework for various technologies; Establishing a Targeted Sandbox for priority services/licenses for the NBG as needed;
- Facilitating the development of data analysis and supervisory technologies (SupTech) within the National Bank of Georgia, which includes: developing the credit register and improving data quality; optimizing supervisory forms, utilizing Big Data modeling in the supervisory process, transitioning supervisory information to the XBRL (Extensible Business Reporting Language) data exchange standard, developing risk analytical dashboards;

20. In this case, the wording of the activity was modified to better reflect its essence.

21. In this case, the wording of the activity was modified to better reflect its essence.

- Developing models:
 - Promoting data processing to improve access to finance, and developing machine learning and artificial intelligence models, especially for the retail sector;
 - Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models, and developing relevant guidelines;
 - Developing principles for the ethical use of models;
 - Monitoring international practices to develop principles of model complexity and explainability, and refining/tightening these principles as needed;
 - Analyzing and identifying issues needed to improve the qualitative indicators, comparability, and compatibility of models for IFRS 9 purposes;²²
 - Determining supervisory segment indicators for IFRS models using credit register data.²³
- Initiating the pilot phase of the central bank's digital currency CBDC:
 - Launching a pilot program in collaboration with a technology partner selected by the NBG, testing practical use cases identified by the NBG;
 - Implementing the digital currency in a real environment based on the insights gained from the pilot program;
 - Examining potential risks associated with digital currency after its implementation in pilot and real environments, and developing risk mitigation strategies;
 - Coordinating and effectively integrating all parties involved in the Digital GEL project.
- Promoting financial innovations and studying business models and international practices for supervisory technology development: Conducting research on Distributed Ledger Technology (DLT), crypto assets, stablecoins, smart contracts, and identifying technology/asset risks and establishing an appropriate supervisory framework; Fostering close partnerships with relevant parties and raising public awareness about financial technologies;²⁴
- Encouraging the adoption of "embedded finance" to increase competition in the country's financial market;²⁵
- Investigating and identifying approaches for sustainable development of cloud architecture data storage and processing;
- Researching privacy-enhancing technologies and developing specific principles;²⁶
- Deepening research in artificial intelligence (AI) and generative AI, developing principles, and promoting the introduction and use of AI by the NBG;²⁷
- Establishing regional cooperation and developing a joint fintech action plan;
- Positioning Georgia as a regional/Black Sea fintech hub.

22. In this case, the wording of the activity was modified to better reflect its essence.

23. During the model development process, a particular activity was deemed irrelevant and subsequently removed from the action plan. As we initiated the monitoring of commercial banks' IFRS 9 models, there was a request for the banks to create statistical models for calculating Expected Credit Losses (ECL). These models, developed using internal logic and assumptions, would be utilized for internal purposes and aligned with the requirements set by the National Bank of Georgia. The objective of the aforementioned process was to assess and provide commercial banks with benchmark indicators for the sub-components of Expected Credit Losses (ECL) in IFRS 9 models, based on the available data. At present, commercial banks have developed and implemented their own internal IFRS 9 models. The current goal of the NBG is to monitor these internal bank models and offer recommendations or guidance as needed.

24. The wording of the activity was modified to better reflect its essence.

25. This is a continuous process, which the NBG implements by strengthening the directions of Open Banking and Open Finance, as well as active meetings with regulated and non-regulated entities and raising awareness.

26. This activity has been added to the Supervisory Strategy Action Plan to provide foresight for the sector.

27. This activity has been added to the Supervisory Strategy Action Plan to provide foresight for the sector.

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of financial innovation and development of supervisory technologies	Development of a supervisory plan for the purposes of transition to Open Finance						
	Develop a guide to developing a fintech development and national financial inclusion strategy						
	Identify cybersecurity requirements for digital banks and consider them in the licensing process						
	Development of a regulatory sandbox						
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models						
	Analysis/study and identification of issues needed to improve the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9						
	Starting a pilot program with the NBG's selected technology partner and testing practical examples of added value						
	Conducting surveys, analyzing practices and identifying the best approaches to determine the supervisory framework for DLT technology, stable coins and smart contracts						
	Encouraging the use of embedded - "built-in" finance						
	Research and identify approaches to sustainable development of cloud architecture for data storage and processing						
	Researching regulations on privacy enhancing technologies and developing some principles						
	Enhancing research in the field of artificial intelligence (AI) and research activities in the field of Generative AI, developing principles, facilitating NBG's implementation of the use of Artificial Intelligence						

Approximation to International Standards

To ensure the stable and effective functioning of the financial system, the National Bank of Georgia has made it a priority to align with advanced international standards and meet its commitments or recommendations. The NBG aims to achieve this priority through the following activities:

- Enhancing the existing prudential regulation, including the development of risk-based approaches for protecting the rights of consumers in the financial sector. This will effectively address emerging challenges and promote innovations within the financial system;
- Monitoring the implementation of the transition to IFRS project, if necessary, updating/reflecting changes in supervisory policies, ensuring compliance with the European Financial Reporting Framework;²⁸
- Monitoring relevant standards to dynamically align with the directives and related standards set by the Association Agreement;
- Developing environmental, social, and governance (ESG) risk management guidelines;
- Preparing a new guide/action plan for sustainable finance;
- Enhancing transparency and reporting on environmental, social, and governance (ESG) issues and establishing best practices in the financial sector;
- Conducting relevant studies and determining the requirement for introducing the Minimum Requirement for Eligible Liabilities and Own Funds (MREL);
- Developing a framework for supervisory measures, early intervention, and a consistent process for revoking banking licenses for commercial banks;
- Continuously monitoring and improving regulatory capital standards:
 - Defining and assessing the methodology for foreseeable dividends and charges to be included in CET1 capital. Also, explaining the principle of including annual and interim profits in the CET1 capital;
 - Introducing the concept and calculation method of Maximum Distributable Amount (MDA), which includes limiting the implementation of specific payments with a volume higher than MDA in case of violation of the combined buffer;
- Aligning risk positions with Basel III standards and the requirements of Regulation 575/2013 of the European Parliament and Council of June 26, 2013:
 - Updating the standardized approach to credit risk weighting;
 - Introducing and implementing a new methodology for assets weighted according to market risk;
 - Introducing and implementing an additional methodology for credit risk related to the counterparty;
 - Updating the banking book interest rate risk management provision framework;²⁹

28. This activity has been modified within the Supervisory Strategy Action Plan to better reflect the essence of the planned activity.

29. This activity has been added to the Supervisory Strategy Action Plan to provide foresight for the sector.

- Establishing prudential requirements at the consolidated level;³⁰
- Updating/refining instructions related to liquidity (LCR, NSFR);³¹
- Establishing a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures;
- Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate;³²
- Development of a framework for supplementary supervision of financial conglomerates;
- Implementation of amendments in relevant legislative acts and development of relevant by-laws to create ex-ante resolution fund;³³
- Conducting research and implementing changes in relevant legislation and by-laws for full compliance with the BRRD Directive.³⁴

30. The mentioned activity was modified within the framework of the action plan of the supervisory strategy. Due to the complexity of the issue, until the end of 2025 the National Bank plans research and methodological activities in order to define supervisory approaches and develop a regulatory framework, therefore, the implementation of the developed framework shall be followed after 2025.

31. This activity has been modified within the Supervisory Strategy Action Plan to better reflect the essence of the planned activity.

32. This activity has been modified within the Supervisory Strategy Action Plan to better reflect the essence of the planned activity.

33. This activity has been added to the Supervisory Strategy Action Plan to provide foresight for the sector.

34. This activity has been added to the Supervisory Strategy Action Plan to provide foresight for the sector.

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Approximation to international standards	Development of ESG Risk Management Guidelines	■	■				
	Preparation of a new Sustainable Finance Guide/Action Plan	■	■	■	■		
	Improve transparency reports related to ESG and establish advanced practices in finance	■	■	■	■	■	■
	Conducting relevant studies on the introduction of MREL and determining the requirement	■	■				
	Development of a framework for using certain grounds for supervisory measures, application of early intervention measure and revocation of a banking license for a commercial bank	■	■				
	Adoption of capital elements and deductions	■	■	■	■	■	■
	Adoption of concept of Maximum Distributable Amount	■	■	■	■	■	■
	Renewal of a standardized approach to credit risk weighting	■	■	■	■	■	■
	Introduction and implementation of a new methodology for assets weighted according to market risk	■	■	■	■	■	■
	Introduction and implementation of additional methodology for counterparty-related credit risk	■	■	■	■		
	Updating the Banking Book Interest Risk Management Regulatory Framework			■	■		
	Working on drafting a regulation on a consolidated supervision framework	■	■	■	■	■	■
	Update/refine liquidity (LCR, NSFR) related instructions	■	■	■	■	■	■
	Establishment of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures	■	■				
	Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate	■	■	■	■		
	Developing a framework for supplementary supervision of financial conglomerates	■	■				
	Implementation of amendments to the relevant legislative acts to establish the Ex-ante Resolution Fund and elaboration of relevant bylaws	■	■	■	■		
	Conducting the study and making amendments to the relevant legislative acts and bylaws for full compliance with the BRRD Directive			■	■	■	■

Strengthening the supervisory function of the National Bank and increasing transparency

To achieve the highest efficiency and synergy of the supervisory function, the National Bank of Georgia has made it a priority to enhance its organizational and institutional standards and practices. The National Bank aims to accomplish this priority through the following activities:

- Strengthening the corporate culture in the NBG, offering a diverse, equal and inclusive environment for employees, providing a work environment based on professional and motivated employee teamwork, including work on improving a hybrid work mode;
- Strengthening governance in the supervisory decision-making process, increasing the roles of employees involved, improving the accountability framework, and optimizing the process;
- Maximum institutionalization of supervisory practices;
- Ensuring the maximum involvement of all responsible departments in creating and reviewing working groups to address challenges identified in the supervision process and encouraging joint decision-making;
- Improving the practice of publishing the supervisory strategy, presenting it to sector representatives and industry experts;
- Implementing a framework for receiving comments and publicizing received comments regarding supervisory policy documents and initiatives;
- Ensuring complete and effective implementation and enforcement of developed regulations and policies;
- Attracting professionals and developing a long-term development plan for them;
- Strengthening internal communications and increasing employee engagement;
- Encouraging a culture of cooperation, information exchange, internal trainings, and coaching;
- Promoting the onboarding and adaptation process for new employees within the organization;
- Improving the employee performance evaluation and feedback system, including piloting the 360-degree feedback system;
- Developing an HR strategy document;³⁵

Activities outlined within this priority demand ongoing efforts, and the National Bank of Georgia is committed to continually enhancing its supervisory function and increasing transparency in the years to come.

³⁵. In this case, the wording of the activity was modified to better reflect the essence of the activity.

01.01.2023

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Strengthening the supervisory function of the National Bank and increasing transparency	Simplify the supervisory decision-making process and develop appropriate policies and procedures						
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback						
	Improvement of the feedback system, run the 360-degree feedback system in pilot mode						
	Development of HR Strategy Document						

ACTION PLAN

In line with the previous strategy, the standards and regulations set by the action plan are largely incorporated into the National Bank's existing supervisory framework. However, as international best practices and standards evolve and global and local trends change, the National Bank of Georgia is continuously updating, refining, and enhancing its regulatory framework, supervisory resources, technologies, and approaches related to supervision³⁶.

Priority	Activity	ACTION PLAN					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Improvement of financial sector risk management framework and proactive response to outcomes	Development of climate change risk scenarios and stress test framework						
	Introduction of the cloud computing model manual						
	Update of Regulation on Operational Risk Management by Commercial Banks						
	Establishing operational and cyber risk stress-test requirements for commercial banks						
	ILAAP Assessments of Commercial Banks						
	ICAAP Assessments of Commercial Banks						
	Develop a risk-based supervisory strategy for consumer protection						
	Conducting the 2022 Stress Test Round of Commercial Banks and Analysis of Results						
	Preparation, Conduct and Analysis of Results for the 2025 Stress Test Round of Commercial Banks						
	Development of operational risks, cybersecurity and corporate governance requirements for microfinance organizations						
	Further improvement of the guideline on the principles of disbursement of mortgages for the financing of real estate development companies and the purchase of unfinished/under construction real estate						
	Enhancing Conflict of Interest Management Standards						
	Developing a Credit Risk Management Regulation and Defining Basic Principles						
	Development of special insolvency/bankruptcy legislation for microfinance organizations						
	Introduction of temporary administration regime through legislative changes for microfinance organizations						
	Setting up data quality management requirements for commercial banks						
	Updating the stress-test manual to reflect changes made to the IFRS standard						
	Determining the updated requirements of the cybersecurity management framework						

01.01.2023

36. It is not possible for the NBG to accurately determine the deadlines for the activities that involve or depend on legislative changes.

Promotion of competition in the financial sector	Development of a supervisory framework for microbanks	■					
	Bringing the entities implementing factoring operations under the regulation of the National Bank of Georgia and developing the relevant supervisory framework	■	■	■	■	■	
	Bringing leasing companies under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework	■	■	■	■	■	■
	Updating the principles of digital bank licensing and developing the relevant regulatory framework	■	■	■	■	■	
	Refine regulatory framework for currency exchange unites	■	■	■	■	■	
	Refine Market Analysis and Concentration Reporting Framework	■	■	■	■		
	Initiation of simplified impact assessment for the introduction of new legal initiatives and/or acts		■	■	■	■	
	Develop institutional capacity to conduct merger analysis/antitrust investigations/competition advocacy within the NBG as a separate function		■	■	■	■	
	Review of International Practices for the Enforcement of Competition Law in the Financial Sector and Development of Guide Document			■	■		
	Amendment to the rule "on protection of consumer rights by financial organizations while providing services"	■	■	■			
	Amendments to the rules on the imposition of fines on commercial banks, microfinance organizations and loan issuing entities	■	■	■			
Promotion of financial innovation and development of supervisory technologies	Development of a supervisory plan for the purposes of transition to Open Finance	■	■				
	Develop a guide to developing a fintech development and national financial inclusion strategy	■	■	■	■		
	Identify cybersecurity requirements for digital banks and consider them in the licensing process	■	■				
	Development of a regulatory sandbox	■	■	■	■	■	■
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models	■	■	■	■		
	Analysis/study and identification of issues needed to improve the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9	■	■	■	■		
	Starting a pilot program with the NBG's selected technology partner and testing practical examples of added value	■	■	■	■		
	Conducting surveys, analyzing practices and identifying the best approaches to determine the supervisory framework for DLT technology, stable coins and smart contracts	■	■	■	■	■	■
	Encouraging the use of embedded - "built-in" finance	■	■	■	■		
	Research and identify approaches to sustainable development of cloud architecture for data storage and processing	■	■	■	■		
	Researching regulations on privacy enhancing technologies and developing some principles						
	Enhancing research in the field of artificial intelligence (AI) and research activities in the field of Generative AI, developing principles, facilitating NBG's implementation of the use of Artificial Intelligence			■	■	■	■

Approximation to international standards	Development of ESG Risk Management Guidelines							
	Preparation of a new Sustainable Finance Guide/Action Plan							
	Improve transparency reports related to ESG and establish advanced practices in finance							
	Conducting relevant studies on the introduction of MREL and determining the requirement							
	Development of a framework for using certain grounds for supervisory measures, application of early intervention measure and revocation of a banking license for a commercial bank							
	Adoption of capital elements and deductions							
	Adoption of concept of Maximum Distributable Amount							
	Renewal of a standardized approach to credit risk weighting							
	Introduction and implementation of a new methodology for assets weighted according to market risk							
	Introduction and implementation of additional methodology for counterparty-related credit risk							
	Updating the Banking Book Interest Risk Management Regulatory Framework							
	Working on drafting a regulation on a consolidated supervision framework							
	Update/refine liquidity (LCR, NSFR) related instructions							
	Establishment of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures							
	Change in the framework of Pillar 2 - cancellation of the norm reflecting the possible reduction of the total capital requirement determined within the framework of Pillar 2 as a result of the annual devaluation of the exchange rate							
	Developing a framework for supplementary supervision of financial conglomerates							
	Implementation of amendments to the relevant legislative acts to establish the Ex-ante Resolution Fund and elaboration of relevant bylaws							
	Conducting the study and making amendments to the relevant legislative acts and bylaws for full compliance with the BRRD Directive							
Strengthening the supervisory function of the National Bank and increasing transparency	Simplify the supervisory decision-making process and develop appropriate policies and procedures							
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback							
	Improvement of the feedback system, run the 360-degree feedback system in pilot mode							
	Development of HR Strategy Document							

MILESTONES OF 2023 AND STRATEGY IMPLEMENTATION REPORT

In 2023, the NBG, in accordance with the Action Plan defined by the Supervisory Strategy, focused on several important projects and reforms. A brief overview of these activities is provided below, and more detailed information about the NBG's work in 2023 can be found in its 2023 annual report³⁷.

Improving the risk management framework of the financial sector and proactively responding to the results

- In 2023, the NBG, with the financial support of the European Investment Bank (EIB) and the involvement of international experts, continued developing the framework for the analysis of climate scenarios. The NBG relies on NGFS climate scenarios to create climate scenarios for Georgia. This framework also includes the analysis of the vulnerability of commercial banks under different scenarios. The framework for stress tests is planned to be developed by the end of the first half of 2024. The results of the bank vulnerability analysis will be used in the climate stress-test.
- The National Bank of Georgia closely monitors current technological innovations in the financial sector, which are associated with cyber and information security challenges. The increased use of cloud outsourcing services led to the development and approval of the requirements for the use of cloud outsourcing services by financial organizations in the form of a decree. In recent years, the financial sector, especially banking institutions, have actively started using cloud outsourcing services. From August 1, 2023, the NBG Governor's decree came into force, approving the "[Guidelines for the use of cloud outsourcing services by financial organizations](#)." The mentioned guideline represents the requirements of a preventive nature, the timely fulfillment of which will contribute to the management of challenges/risks related to the cloud environment by the supervisory entities. The guideline imposes several requirements on financial organizations related to the preliminary assessment of cloud outsourcing service providers, as well as the assessment of critical and/or important functions, the assessment of cyber and information security risks, the acquisition of appropriate industry credentials, the exercise of audit and supervision rights, monitoring, and exit strategy.
- An amendment was made to the "[Regulation on Operational Risk Management by Commercial Banks](#)", which aimed to bring risk management in commercial banks closer to international best practices, including the "Principles related to operational risk management" developed by the Basel Committee and EBA recommendations. Within the framework of the amendment, outsourcing was defined, and it was specified in what cases the process should be considered critical and/or significant. Also, the record of the National Bank of Georgia issuing a certificate to commercial banks on the initiation of an outsourcing relationship was canceled, and accordingly, commercial banks have only the obligation to notify the NBG about outsourcing processes, related products, and systems.

37. The annual reports of the National Bank of Georgia can be viewed on the website of the National Bank, corresponding [link](#).

- In 2023, expanding operational risk forecasting tools remained a priority. In this context, operational risk stress-tests were studied and researched to determine the expected impact of negative scenarios on an organization's capital and financial condition and to mitigate it. Greater emphasis was placed on recording and refining historical data of losses from potential or actual operational risks, conducting cause-effect analyses of operational risk events, and assessing systemic impact. The issue of stress tests was also investigated in terms of cybersecurity risks, with work continuing on cyber resilience stress tests. The NBG plans to incorporate the results of the analysis into the requirements during 2025.
- To ensure the protection of consumers' rights, the National Bank of Georgia is working in various areas, including responding to consumer inquiries, improving the existing regulatory framework, and monitoring its implementation by financial organizations. To proactively identify existing risks related to the protection of consumers' and investors' rights and to plan and implement appropriate preventive measures, it was decided to implement a risk-based supervision function for representatives of the financial sector, credit information bureaus, and loan issuing entities. Supervision of market behavior involves monitoring various indicators to detect and prevent possible risks related to consumer rights protection and studying and analyzing market practices of financial organizations that may not be covered by the existing legal framework. If necessary, based on the relevant findings, appropriate recommendations and guidelines will be developed, and the regulatory framework will be refined. This approach also entails allocating more supervisory resources towards systemically important and/or potentially risky financial organizations and/or products in the area of consumer rights protection.
- It is worth noting that to improve gender diversity in the supervisory boards and directorates of commercial banks, the ["Corporate Governance Code of Commercial Banks"](#) was amended on August 24, 2022. This amendment further tightened the requirement for gender diversity. Specifically, banks were obliged to have a share of the opposite sex in their supervisory boards of at least 33 percent by June 1, 2023, and at least 40 percent by June 1, 2025. In 2023, the verification and monitoring of banks' compliance with this obligation were in progress. It should be noted that the requirement for gender diversification in the Code first appeared in 2018 (at least 20 percent of the supervisory board should be composed of female representatives), as a result of which, as of December 2023, the share of female representatives in the boards is 35 percent, exceeding the established requirement. The National Bank of Georgia continues to research and analyze best practices in this area to define future requirements.
- As part of the Internal Liquidity Adequacy Assessment Programs (ILAAP), the NBG reviews the information/materials provided by the banking sector. The process is ongoing, with plans to complete the assessment and analyze the relevant results during 2024.
- The National Bank of Georgia has started studying and analyzing commercial bank data within the framework of the banks' Internal Capital Assessment Program. Completion of the assessment and, based on the analysis of the results, determination of the approach to integrating capital adequacy requirements into the framework is planned by the NBG in 2024-2025.
- The development of a risk-based supervisory strategy for consumer protection has been initiated. The process is planned to be completed by the end of 2024. The extension of the deadline for the performance of the activity was caused by the structural changes implemented in the Department

of Consumer Rights Protection.

- In 2023, following the instructions of the NBG, commercial banks conducted a supervisory stress-test (2022 round), the results of which were analyzed by the NBG.
- In addition to stress-tests, the NBG will evaluate and study the potential effects of external shocks on the banking sector in a more systematic way. For example, the 2023 International Monetary Fund report on safeguarding financial stability in the face of high inflation and geopolitical risks mentions that non-traditional risks, such as cyber risk, are rising amid geopolitical tensions that threaten financial stability. One of the most important issues in Georgia's financial sector in 2023 was the proper management of risks coming from third parties. Extraordinary supervisory instructions and warnings were issued by the Cyber Risk Supervision Team of the NBG, aiming to require commercial banks to take additional measures and gain assurance in the cyber and information security of third parties.
- In 2023, the National Bank of Georgia started assessing/determining the risks of microfinance organizations, based on which the requirements related to operational risks, cybersecurity, and corporate governance will be developed for them. The work on incorporating these issues into the regulatory framework has already begun.
- During 2023, the NBG actively monitored the process of implementing the Corporate Governance Code in commercial banks' practices. In particular, the inspection/monitoring of the performed functions and duties of the Supervisory Board, the number of independent members, and the composition of the committees were in progress. As a result of consultations with commercial banks, compliance of remuneration policies with the updated requirements of the Code was assessed. One of the requirements of the Corporate Governance Code is the evaluation of the Bank's Supervisory Board's activities. This evaluation includes both self-evaluation and periodic evaluation by an external evaluator. In terms of the evaluation of the bank's corporate governance by the NBG, the study of the conclusions of the said evaluation was activated, and at the same time, the study of the internal audit function, for the purpose of its independence and healthy functioning. These assessments are taken into account within the framework of the General Risk Assessment Program (GRAPE). The minutes of commercial banks' supervisory board and board committees are constantly monitored. In addition, in the supervisory process, in relation to some issues, as necessary, relevant employees of the National Bank of Georgia attend the meetings of the Supervisory Board or the Board's committees of commercial banks.
- In 2023, each participant in the banking sector prepared a recovery plan, which includes measures to be implemented by commercial banks to improve their financial situation, restore and maintain critical functions in the event of significant financial difficulties and/or disruption of critical functions. The National Bank of Georgia examined these documents from the perspective of each bank, considering regulatory rules and international best practices, and provided appropriate feedback. Commercial banks will update their recovery plans annually, and the NBG will evaluate them, integrating the evaluation document into the overall risk management framework of banks.
- Work on further improving the guideline on the principles of financing real estate developer companies and the principles of issuing mortgage loans for the purchase of unfinished/under-construction real estate has started, and the essential part of the methodology has already been prepared. The NBG continues to work on this issue.

- In October 2023, to align with international standards and improve control and management standards by commercial banks, the NBG made significant changes to the "Conflict of Interest Management Regulation." Banks were given 6 months to bring their policies/procedures into compliance with the requirements of the decree, and certain requirements became effective upon the decree's enactment. The changes addressed various issues in the statute. Significant changes were made to the definition of a related party, which includes the requirement to be identified on the list of related persons and, in some cases, to delay the existing list of related persons for a period of 12 months. Additionally, ownership of a significant share of the bank was determined as a criterion for recognition as a related party. Furthermore, general requirements related to collateral were included in the regulation, and the commercial bank was provided with a list of permissible collateral for creating a risk position with related parties and the evaluation of compliance of said collateral with the requirements of the regulation/documentation.
- Decree N284/04 of the Governor of the National Bank of Georgia, dated October 19, 2023, "on [Improving the Credit Risk Management Regulation](#)," was adopted. This regulation aims to ensure that a number of requirements for commercial banks, which are important for conducting an effective supervision process and are not considered by the National Bank of Georgia, are not left behind in the regulation. The decree also establishes the "[Regulation for Determining Risk Categories of Financial Instruments and Expected Credit Losses](#)." The regulation sets out the obligations of commercial banks and microbanks, the fulfillment of which ensures the assessment of the quality of financial instruments, along with the method of determining the risk categories of financial instruments and the expected credit loss. Commercial banks, microbanks, and branches of foreign banks/microbanks operating in Georgia have the obligation to fulfill the requirements stipulated by the decree.
- In order to develop special insolvency/bankruptcy legislation for microfinance organizations through legislative changes and to introduce a temporary administration regime, a legislative package was prepared by the NBG, which was sent to the counterpart agency for agreement and further initiation. As both issues are included in the framework of one legislative package, the NBG expects them to be adopted during 2024, accordingly, the deadlines stipulated by the action plan have been adjusted. The purpose of the legislative amendments is to expand the authority of the NBG to determine by legal act the issue of both liquidation and insolvency/bankruptcy of microfinance organizations and payment service providers, as well as the introduction and operation of the microfinance organization's temporary administration regime. The mentioned amendments give the NBG the sole authority to declare the microfinance organization and payment service provider insolvent and/or bankrupt, which will contribute to the timely and effective management of the process of meeting the demands of the creditors of the microfinance organization and payment service provider. The NBG will appoint the liquidator of the said supervisory entities, as well as the temporary administrator of the microfinance organization, and they will be accountable to the National Bank of Georgia. As a result of the approval of the draft law, the supervisory framework of the NBG in the direction of regulation and supervision of microfinance organizations and payment service providers will be strengthened.
- The NBG attaches great importance to the direction of data quality and accuracy risk protection in the banking sector. In this regard, the operational risk loss accounting and reporting guidelines

were published and entered into force. Additionally, the principles of effective risk data aggregation and risk reporting are under development. The NBG continuously assesses the accuracy, integrity, and quality of financial data in the banking sector. Within the framework of data quality management, attention is paid to the smoothness of business processes related to financial reporting, improvement of analytical tools, increasing the level of automation of reporting processes, and reducing the complexity of related information systems.

Promotion of Competition in the Financial Sector

- In 2023, the Parliament of Georgia adopted the Law of Georgia ["On the Activities of Microbanks"](#) and related draft laws. The purpose of this legislative package is to create a medium-sized, stable business model and a new financial institution with a high reputation in the financial sector. This aims to promote lending to entrepreneurial and agricultural activities, foster competition, and reduce interest margins on credit products. As a result of the adoption of the mentioned legislative package, microbanks were added to the list of supervisory entities of the National Bank of Georgia. In 2023, the National Bank of Georgia actively worked on the development of subordinate legal acts for microbanks. During this process, the NBG collaborated closely with the private and public sectors and managed the work process transparently, including using the format of public consultations. As a result, a regulatory framework for microbanks was developed, which addressed a number of important issues. These issues included licensing requirements, the suitability of administrators, and the conditions for acquiring a significant share (including suitability - fit and proper criteria). The framework was based on the existing regulation for commercial banks and corresponded to European and international standards.
- In 2023, with the involvement of the Ministry of Economy and Sustainable Development of Georgia, the National Bank of Georgia, the National Agency of the Public Registry, the Revenue Service, and various public and private entities, the Draft Law of Georgia "On Factoring" was developing. This draft law aims to provide access to an alternative, more flexible source of financing. The project is supported by both the EBRD and the International Finance Corporation (IFC). The draft law regulates factoring and reverse factoring, defines the principles of transaction registration, and outlines the activity of the factoring platform. It is planned to present the draft law to the government in 2024, followed by its initiation in the legislative body.
- Additionally, work is underway to bring leasing companies under the regulation of the National Bank of Georgia and to develop an appropriate supervisory framework.
- The National Bank of Georgia has also started working on updating the digital bank licensing principles and developing the regulatory framework.
- In terms of improving the regulatory framework for currency exchange units, several initiatives are in progress:
 - To develop a regulatory framework for cashless currency exchange, interested parties had the opportunity to present their concepts through the regulatory sandbox. Currently, within this framework, one company is being tested in a real environment. This company's service aims to offer users remote currency conversion via a website.
 - The [Governor of the National Bank of Georgia approved Decree No. 377/04 on December 25,](#)

2023, amending an earlier Decree of February 28, 2018, No. 37/04 ["On Approval of the Regulation for the Registration and Regulation of Currency Exchange Offices."](#) This decree aligns the requirements related to video surveillance systems with Resolution No. 101 of March 2, 2022, issued by the Government of Georgia. The resolution concerns the technical characteristics and operation of automatic photo and video equipment, as well as the list of buildings and structures where such equipment must be installed on the outer perimeter.

- To assess the need for changes in the regulations for determining monetary fines for currency exchange units, an evaluation and analysis of the relevant issues to the activities of supervisory entities are ongoing and will continue.
- In 2023, the National Bank of Georgia focused on amending the ["Regulations for Submission and Review of Notifications on Market Analysis and Concentration."](#) The current version of the regulation already outlines the procedure for submitting concentration notifications to the NBG. The proposed amendment aims to define other operations subject to the notification requirement and address related procedural issues for their evaluation. According to the draft amendment, the National Bank of Georgia will also examine operations in which one economic agent purchases another's assets, provided that the acquiring agent is a commercial bank or microbank and specific conditions are met concerning the balance sheet value of the assets involved in the operation. In this context, an economic agent's asset refers to a financial asset, such as a credit portfolio (excluding written-off credits) and other claims with loan-alike characteristics, which forms the basis of the agent's active business activity and generates income. Receiving notifications from the regulatory body regarding transactions related to the alienation of operational assets and their subsequent evaluation is a common practice both in Georgia and internationally. This is because such transactions may have a concentration-like effect as a result. In 2024, a public consultation on the draft regulation and its approval is planned.
- The National Bank of Georgia has initiated the development of a methodology for implementing a simplified assessment of regulatory impact (RIA). The creation of this methodology and the adoption of relevant practices for evaluating competition impact are among the recommendations received under the FSAP program. Notably, the scope of the mentioned methodology, at the NBG's initiative, extends beyond just assessing competition-related impact. Due to the complexity of the issue, the RIA methodology is planned to be adopted throughout the NBG in the first half of 2025.
- To implement competition policy in the financial sector, identify competition violations, and control concentrations, structural changes were made within the NBG, leading to the development of an independent institutional function for competition protection. Specifically, in 2023, a new structural unit, the Competition Division, was established within the Legal Department. The creation of the Competition Division was based on the fact that, according to Article 478 of the Organic Law of Georgia "On the National Bank of Georgia," the NBG conducts competition policy in the financial sector. In particular, the NBG considers complaints/statements about potential competition violations and notifications about concentration by financial sector representatives. In this process, the NBG follows the Law of Georgia "On Competition" and the procedures approved by it, namely: [Decree of the Governor of the National Bank of Georgia No. 67/04, dated May 28, 2021. on approval of the procedure for investigation, submission, and review of complaints/statements related to possible competition violations](#) and [Decree of the Governor of the National Bank of Georgia](#)

[No. 68/04, dated May 28, 2021 on approval of the procedure for submission and review of market analysis and concentration notification.](#) These normative acts are based on the best international practices and recommendations from World Bank experts. Accordingly, the functions of the Competition Division are defined as: ensuring consideration of cases provided for by the Law of Georgia "On Competition, determining the need to apply other sanctions and/or supervisory measures along with monetary fines to competition violators, providing for consideration of concentration notifications, market monitoring of relevant products and/or services to assess the competitive environment.

- In 2023, efforts continued to improve the customer-friendly environment within the financial sector. A study and analysis of international best practices and sector challenges were conducted. As a result, certain changes were made to the ["Regulation on the Protection of Consumer Rights in the Provision of Services by Financial Organizations."](#) These changes include the prohibition of financial organizations from offering or advertising credit products or services to consumers whose source of payment is related to social assistance or pensions. This change aims to protect the socially vulnerable segment from making uninformed decisions by limiting the offering and advertising of high-risk credit products and services without the explicit consent of the customer. Additionally, in 2023, the National Bank of Georgia continued to work on other changes to the regulation to comply with the requirements of the Association Agreement between Georgia and the European Union. Based on this, the National Bank of Georgia published a draft of amendments to the aforementioned regulation, which aligns with the requirements of the European Union Directive and addresses sector challenges. Key aspects of the draft include: clarification of various concepts and terms, including "credit intermediary," "total amount of credit," and "deposit"; addition of the definition for "Internet/Mobile Bank;" obligation for financial organizations to verbally inform customers of important contract terms before providing a financial product, except when the product is offered through remote communication that excludes oral communication. In such cases, the information must be delivered to the client through other means; the right for customers to refuse the contract, both for remotely concluded contracts and for credit products. Financial organizations are obliged to cancel remotely concluded contracts and contracts secured by certain types of movable property within 14 days of signing the credit agreement, upon the customer's request and return of the corresponding amount. Exceptions to this right are also defined in the draft decree; mandatory inclusion of specific information in the contract header, such as the existence or non-existence of the right to refuse the contract. The draft of these changes was published on the website of the National Bank of Georgia for public consultation. Meetings were also held with representatives of the financial sector to discuss the draft. The approval and implementation of these changes are scheduled to take place from July 1, 2024.
- The National Bank of Georgia ensures the protection of consumer rights in the financial sphere, including monitoring the compliance of financial institutions with the specified requirements of the Law of Georgia "On Protection of Consumer Rights," within the scope of the powers defined by relevant legislation. Based on this mandate, relevant changes were prepared in 2023 regarding the regulation on determining, imposing, and enforcing monetary fines for commercial banks, microbanks, microfinance organizations, and lending entities operating in Georgia. These changes determine the appropriate monetary fines for non-compliance with the requirements established

by the aforementioned law. The implementation of these changes is scheduled for early 2024.

Encouraging Financial Innovation and Developing Supervisory Technologies

- The share of innovations and innovative organizations in the financial sector is increasing, bringing both new opportunities and new risks. The financial sector remains the most regulated sector of the economy worldwide, with an increasing trend in regulation. Consequently, the current supervisory framework is quite bulky, technical, and complex, especially for new financial startups. Against this background, encouraging innovators with fintech ideas and facilitating the transformation of these ideas into sustainable financial models is a significant challenge for financial sector regulators. In response to this challenge, the National Bank of Georgia is developing various supervisory approaches and promoting the creation of basic infrastructure for fintech activities.
- During 2023, active efforts were made to expand Open Banking services in Georgia and create opportunities for fintech companies to participate in Open Banking. Several new regulations were approved and implemented, including the "[Open Banking Inclusion Rule.](#)" Similar to the previous year, numerous meetings were held in 2023 with supervisory entities of the NBG and fintech companies to share information about the possibilities of Open Banking and its further development. In 2023, additional API services were introduced, such as: transfer initiation service for individuals and legal entities, remote identification implementation service using Open Banking, bulk payments service. For 2024, it is planned to add the following API services: a service for sharing information on deposits and loans, support for advanced payment initiation forms, a Request to Pay service. In July 2023, the National Bank of Georgia, in cooperation with the International Finance Corporation (IFC), launched the Open Banking Technical Sandbox project. The goal of this project is to promote the development of Open Banking, increase its usefulness for users, and provide an opportunity for testing Open Banking API services to startup and fintech companies interested in financial technologies. Participants in the technical sandbox included representatives from both financial and other sectors, as well as Georgian and foreign startup companies. The next stage in the development of Open Banking is the transition to Open Finance, which involves a much wider exchange of information. In 2024, along with commercial banks, other representatives of the financial sector and licensed fintech companies are planned to be included in the system. Additionally, consultations with representatives from other sectors have been initiated to explore their inclusion in Open Finance. This transition is expected to contribute to increasing the availability and variety of financial services for consumers.
- The National Bank of Georgia, in collaboration with the World Bank, is actively working on developing financial technologies and defining a guide for a national financial inclusion strategy. This document is scheduled for completion in 2024.
- The Financial Innovation Office serves as a communication bridge between the National Bank of Georgia and the community of financial technology innovators. Its mission is to promote responsible innovation in the financial sector and assist fintech organizations and startups in understanding the regulatory oversight approach of the National Bank of Georgia. In 2023, numerous important meetings were held within the framework of the Financial Innovation Office with individuals presenting innovative ideas.

- To develop a cybersecurity framework for digital banking, the National Bank of Georgia has formulated cybersecurity requirements distributed according to license stages. Applicants for a digital bank license are notified of their obligation to comply with these requirements and submit to the NBG.
- The Regulatory Sandbox is a crucial tool for promoting financial innovation, allowing the testing of innovative products or services in a real environment. In 2023, the innovative remote identification service of one entity participated in the testing stage within the regulatory laboratory. Additionally, three new projects were introduced to the regulatory laboratory for consideration at the end of the year: 1. Issuance of loans secured by cryptocurrencies, 2. Implementation of online currency conversion, 3. Credit Information Bureau – Platform. In 2023, the evaluation (mapping) of fintech business models developed globally was carried out, resulting in the identification of interesting fintech business models with significant additional benefits for end users. To promote the development of these business models, two targeted sandboxes were announced: 1. Online currency conversion, announced in June 2023. By the end of the year, the NBG received one application, and several companies' projects were at the preliminary discussion stage. 2. Escrow services by non-banking institutions, with applications available from January 2024. Interest in the escrow service is high, and the NBG continues to work on developing the regulatory laboratory to support this purpose.
- The National Bank of Georgia continues to employ the international standard XBRL (Extensible Business Reporting Language) for the exchange of supervisory reports, in line with best practices. The validity of reports presented in XBRL format is verified using the relevant taxonomy. This system allows banks to instantly view validation results via the portal before submitting data to the NBG, significantly improving data quality, reducing the probability of errors, and aligning with established best supervisory practices. For data processing and visualization, the NBG uses both its internally developed system and the leading Business Intelligence system, Tableau. Throughout 2023, these supervisory technologies were utilized to process data, create analytical dashboards for supervisory purposes, and share information with stakeholders. Additionally, a credit bureau and credit registry data processing system was established, enabling the creation of relevant analytical information boards through visualization.
- The National Bank of Georgia has initiated the study of international standards and practices to develop models. The use of various statistical models in decision-making processes within the financial sector is becoming increasingly widespread. These models are extensively utilized in lending, financial accounting, and risk management, particularly in the retail, micro, and small business sectors. Recently, there has been a notable increase in the adoption of models based on machine learning and artificial intelligence algorithms. While these advanced models enhance effectiveness, they also complicate the interpretation, analysis, and risk assessment of results. Given the current trends in the sector, there is a pressing need to develop a framework for the ethical use of these models. In response, the [regulation](#) now includes principles of ethics to be considered during the development, implementation, and use of models, as well as methods to mitigate potential unethical use. This change is primarily aimed at protecting users. A model built without ethical principles may unfairly classify certain groups of users and limit their rights. The second change involves expanding the risk-based approach by developing a methodology for ranking and group-

ing models according to risk. The third change ensures the transparency and interpretability of models by requiring entities to use statistical methods. This change will prevent the use of "black box" models and place the responsibility for model results on the model creator.

- With the introduction of the IFRS 9 standard by the NBG, financial institutions are implementing accounting models for expected credit losses. Due to the complexity of these models and their significant impact on the bank's financial situation, they carry high risk. In 2023, the analysis of these models and methodologies began, and feedback has already been provided to several banks. In 2024, the analysis will continue, aiming to identify and address any flaws that could cause model risk.
- In 2023, the National Bank of Georgia selected a technology company, Ripple, for a pilot project with limited access in a real environment. Ripple will collaborate with the NBG over the next year and a half to implement four test usage scenarios. These scenarios include payroll, tokenization of collectible coins, real estate purchases through smart contracts, and tokenization of capital market financial instruments. A two-phase implementation plan has been established with the technological partner. The first phase involves developing the project implementation plan, which includes defining the technology and design components for the usage scenarios and identifying/attracting relevant potential stakeholders. Additionally, clear KPIs and intermediate evaluation criteria will be prepared to assess the results obtained within the project.
- In 2023, the National Bank of Georgia, in cooperation with USAID, began research into smart contracts. The focus of this research is to determine the legal challenges and limitations of smart contracts in the Civil Code and other legal acts and to explore best practices globally. The research aims to create a comprehensive understanding of the challenges of smart contracts in banking, insurance, real estate, and other sectors. Additionally, the idea of smart contracts is a cornerstone of the digital GEL ecosystem initiated by the National Bank of Georgia. The ability to use these contracts is crucial for various fintech companies to offer innovative products to customers. Local and foreign experts, actively collaborating with the National Bank of Georgia with USAID's support, are conducting this research.

Approximation with International Standards

- The transition of commercial banks' supervisory reports to International Financial Reporting Standards (IFRS) was outlined in the 2020-2022 supervisory strategy. This transition has aligned the public and supervisory reporting of the banking sector with practices in Europe and other developed countries. As a result, commercial banks now adhere to supervisory norms using IFRS-based numbers and approaches. The corresponding changes to the regulatory framework took effect on January 1, 2023. However, during the first half of 2023, parallel reporting was maintained, requiring banks to submit reporting forms in both IFRS and local GAAP. Significant efforts by the banks improved the quality of reporting during this period, leading the NBG to decide to end parallel reporting. In December 2023, an amendment was made to the [Regulation on Disclosure of Information by Commercial Banks within the Framework of Pillar 3](#). This change aimed to enhance transparency and boost confidence in the risks faced by commercial banks and the adequacy of regulatory capital, alongside the transition to International Financial Accounting Standards. The amendment specified the frequency of information disclosure about the financial condition of

commercial banks by the NBG. Specifically, within thirty calendar days from the end of each reporting month, the NBG will publish balance sheet data, profit and loss information, key banking indicators, and consolidated statistical information in the form established by the NBG. From a technical standpoint, the support for fully converting supervisory reports to IFRS continued in 2023. The supervisory portal receives all mandatory supervisory reports from commercial banks, both in traditional and XBRL standards, including individual FinRep financial statements as established by the EBA in the EU.

- Within the framework of sustainable finance, the National Bank of Georgia developed [ESG Guidelines](#) in 2023. Additionally, in cooperation with the International Finance Corporation (IFC), the National Bank of Georgia completed the development of an ESG Scorecard for commercial banks. This scorecard assesses the ESG practices and approaches of commercial banks using the ESG risk scorecard methodology based on various ESG indicators. The sustainable finance activities are detailed in the [annual sustainable finance report](#).
- In 2023, the National Bank of Georgia actively implemented the measures defined by the [sustainable finance guide](#). This guide outlines all the possible measures planned by the National Bank until the end of 2023. Looking ahead, in 2024, the National Bank will develop a new sustainable financing guide that will combine the action plan and measures to be implemented over the next few years. Work on this initiative has already begun. The main objective of the guide is to create a reliable, predictable, and stable regulatory framework to prepare the market for the transition to sustainable finance.
- In accordance with the [Corporate Governance Code \(CG Code\)](#), banks disclosed ESG information using the National Bank template for the third time in 2023. The templates completed by financial institutions from 2021 to 2023 are published on the NBG's website. Banks will continue to make these reports annually, providing investors and other stakeholders with valuable ESG information.
- In May 2023, to promote financial stability, the National Bank of Georgia established the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemic banks. This regulation was recommended by the International Monetary Fund and the World Bank within the FSAP program conducted in Georgia in 2021. It is based on the European Bank Recovery and Resolution Directive (BRRD) framework. The MREL requirement aims to create a balance sheet structure that supports bank stability through recapitalization in stressed situations. MREL is a percentage that correlates the ratio of Eligible Liabilities and Capital Instruments to regulatory capital and total liabilities. This requirement ensures that systemically important commercial banks maintain the minimum volume of capital instruments and eligible liabilities necessary for a possible resolution regime, utilizing the write-off of liabilities or conversion resolution tool (Bail-in). According to the [National Bank of Georgia](#) decree, systemically important commercial banks have been set the following MREL rates for eligible liabilities and capital instruments: 10% from January 1, 2024; 15% from December 31, 2025; and 20% from December 31, 2027.
- In accordance with the recommendation of the FSAP and the commitment made within the framework of the letter of intent signed by the International Monetary Fund, the Government of Georgia, and the National Bank of Georgia in 2022, the National Bank of Georgia in 2023 approved the Supervisory Measures for Commercial Banks, the Use of Early Intervention Measures, and the Guideline on Explanation of Some Grounds for License Revocation. This document serves as an internal reference and outlines specific grounds for supervisory measures, the use of early intervention meas-

ures, and the revocation of banking licenses as defined by the Law of Georgia [“On the Activities of Commercial Banks.”](#) Additionally, it establishes the procedural rules related to these actions.

- In 2023, the NBG actively continued to monitor and refine the regulatory capital standards. Part of this activity has been completed, and work is still ongoing:
 - In 2023, the National Bank of Georgia continued aligning its capital adequacy standards with the regulations defined by the European Union. Specifically, changes to these regulations require commercial banks to deduct foreseeable dividends from undistributed profits before including them in the CET1 capital. Additionally, new criteria were added for classifying additional Tier1 and Tier2 capital instruments. These criteria now require that the instrument contract includes conditions for writing off or converting the obligations of the commercial bank for the purpose of recapitalization. Furthermore, the legislation governing the instrument agreement must provide for the possibility of using the resolution instrument to write off or convert the obligations of the commercial bank for the purpose of recapitalization in the event of the bank's resolution. A similar requirement, which will come into effect on April 1, 2024, has been defined for commercial banks concerning agreements containing such obligations. These agreements, which are fully or partially regulated by foreign legislation, must comply with the [Regulation on the Write-Off or Conversion of Obligations of a Commercial Bank for the Purpose of Recapitalization of a Commercial Bank in Resolution Mode.](#) This regulation was approved by the National Bank of Georgia Governor's Decree No. 241/04 on December 29, 2020.
 - The National Bank of Georgia is actively working on a project to amend the legal act concerning the principles of incorporating annual and interim profits into the CET1 capital.
 - In order to introduce the concept and calculation method of Maximum Distributable Amount (MDA), the National Bank of Georgia is engaged in a project to amend the relevant legal act.
- In order to further align risk positions with international standards, the NBG is conducting research in several areas for the enhancement of the regulatory framework:
 - One of the complex issues is updating the standardized approach to credit risk weighting. The NBG is progressively addressing specific issues based on practical needs, with a comprehensive revision of the entire framework planned to be completed by the end of 2025.
 - Work is currently in progress to introduce a new methodology for assets weighted according to market risk, as well as an additional methodology for credit risk related to the counterparty. Relevant projects have been prepared, and they are planned to be implemented within the time frame specified by the action plan.
- Starting from December 1, 2023, the National Bank of Georgia established the commission for reviewing disputes in the field of payment systems and payment services. The commission addresses dispute between payment service users and providers that pertain to rights and obligations arising from the [Organic Law of Georgia "On the National Bank of Georgia,"](#) [the Law of Georgia "On the Payment System and Payment Services,"](#) and related subordinate normative acts. The commission was fully staffed in 2023, and the legal framework regulating its activities was implemented through subordinate legislation.
- In order to fulfill its obligations under the [Association Agreement between Georgia, the European Union, and the European Atomic Energy Union and their member states](#), and to align with European Union law, particularly Directive 2002/87/EC of the European Parliament and the Council of December 16, 2002, the National Bank of Georgia, in cooperation with the State Insurance Supervi-

sion Service of Georgia, prepared the draft of [the Georgian law "On Supplementary Supervision of Regulated Entities in the Financial Conglomerate"](#) and related draft laws. The draft law was shared and discussed with the banking association and the banking sector, and it was adopted by the Parliament of Georgia in three readings in 2023. As a result, the National Bank of Georgia was granted the authority to exercise additional supervision over regulated entities included in the financial conglomerate. The National Bank continues to cooperate with relevant counterpart agencies to determine the need for and develop legal acts based on the law.

- In December 2023, the Parliament of Georgia approved legislative amendments related to the resolution fund, requiring commercial banks to make preliminary contributions/contributions to the fund (ex-ante fund) to reach the target set by law: 3% of insured deposits. Contributions will start from 2025, with an 8-year timeframe to reach the target (subject to change if the fund is used or the deposit insurance limit is increased). The contribution methodology is proportional to the share of commercial banks' assets in the system, taking into account their individual risk profiles. The ex-ante fund is administered by the National Bank of Georgia, which has the right to transfer the fund to the Deposit Insurance Agency for administration. In addition to advance contributions by commercial banks, the resolution fund accumulates financial funds necessary for receiving temporary state financing (the ex-post fund) and utilizes them according to established objectives. After the end of the resolution regime and in the case of financial support by the Ministry of Finance, state funds utilized through the resolution fund will be reimbursed by operating commercial banks under established conditions and proportionality determined by the National Bank of Georgia. In 2024, the National Bank of Georgia will continue working on developing the legislative framework.

Strengthening of NBG's Supervisory Function and Enhancing Transparency

- During 2023, the National Bank of Georgia operated a hybrid work regime, allowing employees to work remotely for a certain number of days per month according to their needs/desires.
- One of the main goals of the Human Resources Management and Development Department was to raise team spirit and strengthen internal communications. Accordingly, numerous remote and traditional events were planned and implemented in this direction.
- The NBG is actively working on simplifying the process of making supervisory decisions and developing appropriate policies and procedures. This includes recommendations received from international partners within the framework of the FSAP program, particularly regarding the benefits of regulating the delegation of authority in the supervisory direction. In 2022, certain recommendations were also adopted within the framework of IMF technical support to strengthen decision-making in supervisory processes. In 2023, work was underway to develop a decision-making regulation on the main issues of supervision of banking and non-banking institutions. The essential part of the draft regulation has been developed, integrating the received recommendations, the organizational structure/mandate of the NBG, and the operational environment. The draft regulation defines several levels of decision-making. The purpose of determining different levels of decision-making is to provide a balanced system of appropriate distribution of responsibility and decision-making, considering the complexity of the issue and its importance in the supervisory process. The regulation is expected to be approved in 2024.

- In response to the challenges identified in the supervision process, the maximum involvement of all responsible departments in the review processes and the "four eye" principle is an essential component of the NBG's activities. Joint decision-making is encouraged in the supervision process.
- At the stage of developing the supervisory strategy for 2023-2025, the NBG made the process more transparent by creating opportunities for stakeholder engagement. In particular, the published questionnaire and the primary document of the supervisory strategy, within the framework of communication with the sector, made it possible for interested parties to be involved in forming the supervisory priorities and strategy in general. The NBG plans to continue and further refine this practice during the development of the next three-year supervisory strategy.
- To promote transparency and public involvement, as in previous years, the NBG held public consultations during 2023, publishing numerous drafts of changes and regulations related to supervision on its website. The general public was given the opportunity to share comments and recommendations. In 2023, the NBG added a more formal character to the existing practice, aligning more closely with best international practices. The NBG approved the "Guidelines for policy development and implementation on important issues subject to the regulation of the National Bank of Georgia," which emphasizes the process of public consultations and consultations with the sector.
- In the process of developing legislative acts, the NBG developed and approved ["Guidelines for holding public consultations with the sector and interested parties"](#) with the involvement of the sector and considering the opinions received. The guidelines detail the process and timelines for conducting consultations. This makes the process of public consultations even more transparent. If a document developed by the NBG leads to a material change in the existing policy or significantly impacts the relevant sector and society, both draft legal acts and the opinions provided within the framework of the public consultation, as well as the summary document of the NBG's response to the presented views and comments, are made available.
- In 2023, the NBG continued to focus on the professional development of employees. To increase the efficiency of their professional activities, employees attended over two hundred trainings at institutions such as the Bundesbank of Germany, the Central Bank of Italy, the Central Bank of France, the National Bank of Poland, the Swiss Central Bank, the Czech National Bank, the Austrian National Bank, the Central Bank of Armenia, the Central Bank of Turkey, the Asian Development Bank, the World Bank, the International Monetary Fund (IMF), and central banks of other countries. In addition to these trainings, educational and introductory presentations are systematically carried out by various departments within the NBG, promoting knowledge sharing within the organization. In 2023, a relevant employee of the NBG completed certification courses in "International Financial Reporting Standards and International Accounting Standards" and "IFRS 9 - Financial Instruments." The National Bank of Georgia also promotes the professional development of employees in the banking sector, exemplified by the training sessions conducted in Tbilisi by experts from the Luxembourg research agency for the transfer of financial technologies.
- The assessment, selection, and orientation/adaptation of employees in the NBG are carried out through the SAP Success Factors system. The employee evaluation and feedback process is constantly analyzed, with a focus on further improvement. Additionally, in 2023, a 360-degree feedback system was launched in a pilot mode.
- To improve HR systems and introduce new systems in NBG, the HR strategy document of NBG is being developed and is planned to be completed in 2024.

GLOSSARY

ESG (Environmental, Social, Governance) - environmental, social and governance issues within the framework of sustainable finance.

XBRL (Extensible Business Reporting Language) - extensible business reporting language, an international standard for the exchange of supervisory reports.

Recovery plan - a plan developed by a commercial bank, which includes, among other elements, the measures to be implemented by the commercial bank to improve its financial situation in the event of significant financial difficulties.

Minimum Requirements for own funds and Eligible Liabilities (MREL) - the percentage of regulatory capital and total liabilities, imposed on commercial banks to effectively recapitalize the bank in the event of the resolution regime.

Macroprudential policy - policies and measures designed to prevent the accumulation of systemic risks, to reduce the probability of a crisis and facilitate the stable functioning of the entire financial system.

Modular banking model - a model of banking activity, according to which the banking infrastructure is presented by individual activities as modules independent of each other, the replacement of which is relatively less difficult.

Regulatory sandbox - a set of conditions and procedures designed for testing an innovative financial service and/or product in a testing environment.

Resolution - an alternative to liquidation, for whenever there are grounds for revoking a license of a commercial bank, which implies restructuring of the commercial bank by the regulator in a way not to jeopardize financial stability.

Risk-based supervision/principles - supervision regime/principles that involve directing greater supervisory resources towards more complex and/or risky institutions or transactions.

Risk analytics dashboards - a graphic representation of key business indicators, which simplifies the perception of complex data and allows its users to obtain information about business activities or specific processes with ease.

Risk position - balance sheet or off-balance sheet items on which a financial institution has a claim.

Regulatory capital - capital that is set for financial institutions at the request of the supervisor and serves to neutralize potential losses.

Grace period - a period during which the borrower does not pay the interest and commission charged on the loan.

Suptech instruments - supervisory technologies, which imply the use of innovative technology by supervisory authorities in the process of supervision.

IFRS - international financial reporting standards.

IFRS 9 - an international financial reporting standard that defines issues related to the recognition, derecognition, evaluation and impairment of financial assets and liabilities.

Financial Innovations Office - a means of communication between the National Bank of Georgia and fintech startups and technology companies interested in the financial sector, tasked to receive and give direct feedback on supervisory issues, promote responsible innovations in the financial sector, and help fintech organizations/startups to understand the regulations and supervisory approach of the National Bank of Georgia.

Financial Sector Assessment Program (FSAP) - a joint program of the International Monetary Fund (IMF) and the World Bank (WB), whose goal is to assess the stability of the country's financial sector, the quality of the regulatory and supervisory framework, and the ability to manage financial crisis.

Open banking - electronic instant exchange of information and services between different financial institutions using electronic technologies.

Principles of open regulation - consideration of changes in regulatory requirements, openness to dialogue with the industry, compatible with the stated risk appetite and supervisory principles of the National Bank of Georgia.

Digital banking - a business model of a bank that provides banking services through basic electronic channels and uses materially new and innovative financial technologies in the local market.

NGFS (Network for Greening the Financial System) - a network dedicated to "greening" the financial system.

IFC - International Finance Corporation.

FSAP - the Financial Sector Assessment Program of the International Monetary Fund and the World Bank.

EBA - European Banking Authority.


Contact Information

In case of questions regarding licensing, interested persons can contact the National Bank of Georgia at the following email address:

- For those interested in obtaining a banking activity license: BankingLicense@nbg.gov.ge
- For those interested in receiving a digital bank license, contact the Bank's Financial Innovation Office: InnovationOffice@nbg.gov.ge

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 <https://www.nbg.gov.ge>