



საქართველოს ეროვნული ბანკი
National Bank of Georgia

SUPERVISORY STRATEGY

2020-2022

2022 EDITION

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In 2022 too, the National Bank publishes the 2022 edition of the 2020-2022 strategy and together with the report on the implementation of the priorities and changes determined by the previous strategy, presents the key objectives and changes to the supervisory priorities planned for the next 12-18 months.

Similar to 2021, the supervisory priorities defined by the National Bank's 2020-2022 strategy remain unchanged in 2022. Namely, the National Bank will carry out its activities taking into account the following supervisory priorities:

1. Strengthening the corporate culture that encourages leadership and initiatives;
2. Strengthening the cooperation with the stakeholders;
3. Facilitation of stable functioning of the financial sector;
4. Approximation to international standards;
5. Development of the ecosystems for sustainable financial technologies.

However, in addition to the above-mentioned priorities, I will focus on the complex processes taking place in the world and in Georgia, which undoubtedly had a huge impact on the activities and agendas of both the National Bank and the entities supervised by the National Bank.

In the wake of the global crisis caused by Covid-19 pandemic, the world has faced unprecedented challenges in terms of health, economic and financial stability. Therefore, the unprecedented challenges demanded unprecedented and bold measures to mitigate the negative effects of the COVID-19 pandemic on the country's financial sector and stimulate the country's economy. A global shock such as pandemic reminds us that permanent readiness for crisis is vital. Thanks to the proactive and consistent measures taken in the pre-crisis period, the financial sector of Georgia met the shock caused by the pandemic well-prepared and maintained its stability.

In response to the crisis caused by COVID-19, the National Bank of Georgia implemented a number of extraordinary measures.

In order to deal with the current challenges of the economy, along with working on supervisory measures, the National Bank pays great attention to long-term policies that will promote the

inclusive and sustainable growth of the economy. Initiatives in the field of financial technologies remain one of the priorities on the agenda.

The National Bank remains committed to the principles of transparency. It is important that the National Bank presented the published strategy document to representatives of the financial sector, representatives of the banking association and experts in the field of economy and heard their opinions and assessments¹. In addition to the publication of the strategy document, we have decided that an informative event regarding the strategy document will be held annually, which will facilitate the availability of information on the supervisory priorities and plans of the National Bank and will increase predictability of the future plans of the National Bank for the sector.

During last year, the National Bank actively continued to work on the implementation of strategic priorities and planned changes defined by the document. A brief report on the implementation of measures provided for by the strategy is included in this document, and more specific information about the activities and indicators of the National Bank will be reviewed in detail in the 2021 Annual Report.



Koba Gvenetadze

Governor of the National Bank

¹ See details about following event on webpage of NBG ([link](#)) 4

MANDATE, MISSION AND VISION



Mandate

In terms of the supervision of the financial sector, the objective of the National Bank of Georgia, defined by law, is to facilitate the financial stability and transparency of the financial sector and protect the rights of consumers and investors.



Mission

Facilitation of a sustainable and healthy development of the financial sector, which is open to qualified investors, where a competitive environment is ensured and the interests of consumers are protected.



Vision

The National Bank of Georgia is an independent and competent supervisor of the financial sector, which has trust of the society, well-deserved respect among the stakeholders and a working environment that is oriented at employee development.

RISK APPETITE STATEMENT

In order to fulfill the mandate, considering the mission and vision, the National Bank supervises the activities of financial sector representatives, lending entities, credit information bureau, facilitates the stable and efficient functioning of the financial system, the establishment of a competitive environment, the control of systemic risk and the reduction of risks.

A prudential supervisory regime is oriented at sustainable functioning of the financial system. This does not imply inevitable avoidance of bankruptcy of all institutions in the financial system. Instead, it aims at timely identification of risks and threats of the bankruptcy and maximum mitigation of negative effects on stable functioning of the financial system as a whole, by taking appropriate measures.

PERFORMANCE INDICATORS

The work of the NBG can be measured through the following indicators:

1. The ratio of losses of depositors and creditors of the financial sector to the total amount of deposits and credits;
2. The ratio of number and assets of bankrupt supervised institutions to the total number and assets of all supervised institutions, respectively.
3. Apart from the above-mentioned quantitative criteria, the implementation of the mandate of the NBG can also be measured by qualitative factors, such as assessments of the reforms related to the financial sector by the international organizations² and the international rating agencies³.

THE SUPERVISORY REGIME AND PRINCIPLES

To fulfill the supervisory mandate and strategy, the National Bank supervises and regulates the financial sector upholding the following principles of the **risk-based supervision**:

- **Concentration on material risks** - Proportional focus, in particular, focusing 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 (Considering the relevant sequence determined by law).
- **Forward-looking approach** - Identification of threats and problems of the financial sector at an early stage and timely use of appropriate corrective measures to eliminate them.
- **Dialogue with the regulated financial institutions** - This enables the supervisor to become familiar with the internal culture of the financial institutions, its strategy and incentives; it also supports the strengthening of the internal control mechanisms by the supervisory board and the directorate and sophistication of the risk management.
- **Coordination of micro and macro-prudential supervision** - Taking into account ongoing systemic risks of the financial sector, the measures taken to mitigate these risks, the business and credit cycles and other factors of macroprudential policy, while conducting the micro-prudential analysis.

² For example, the assessment program of the financial sector, which is conducted by joint mission of the International Monetary Fund (IMF) and the World Bank (WB)

³ For example, the assessment reports of Fitch, Moody's, Standard and Poor's regarding the reforms performed by the National Bank of Georgia

- **Consistency, compliance and compatibility** - Ensuring the compliance between the stated requirements for financial institutions, the use of consistent requirements and approaches in the decision-making process towards the financial institutions that share the same characteristics, and proportional response to the risks.
- **Effective use of internal resources** - Risk-based supervisory processes and principles-based regulation imply the most effective allocation of supervisory resources and instead of engaging in the passive assessment process of regulatory compliance, focusing on the risks and the practical mitigation techniques.

VISION REGARDING INNOVATIONS

The rapid development of financial innovations and the efforts to reduce the risks may often contradict each other. The vision of the National Bank of Georgia regarding the financial stability implies a constant care for the improvement of optimal balance between the development of the financial market and risks. To fulfill this vision, the National Bank of Georgia is guided by the following principles:

- **Technological neutrality towards risks** - Supervisory approach towards the risks is technologically impartial. To the National Bank of Georgia, it is important to assess the impact of a certain decision on the stability of financial system, regardless of the type of technological mean. The same supervisory requirement applies to the same risk, irrespective of the technological processes on which the business model of the financial institution is based.
- **Open regulation** - Supervisory approach is open to the new ideas and initiatives, which serve for the purpose of financial market development and at the same time, do not increase the risk to financial stability and financial system. Anyone, whose innovative idea is hindered by the NBG's supervisory technique, can present evidence, based on international practice and local facts. To facilitate this, the National Bank of Georgia uses the following methods: a dialogue with the financial institutions, open public consultations regarding new regulations, the financial innovations office and regulatory sandbox.
- **Study of unknown risks** - The risk of new financial technologies and its potential impact are usually unknown, especially at the inception phase. The risk-oriented approach does not allow the usage of such technologies. To identify the risk, the National Bank of Georgia can use regulatory sandbox. This implies conduct of various tests by the financial institutions

in the environment controlled by the NBG and the discussion of the results with the supervisor. The regulatory sandbox is primarily oriented at the identification of systemic risks.

The importance of the above-mentioned approach and principles particularly increases as a result of the events that followed the COVID-19 pandemic. Their implementation will ensure the development of the remote channels, which respond to the challenges of the COVID-19 and allow safe delivery of financial services. It is noteworthy that the National Bank intensively cooperates with the representatives of the sector and experts in the field of financial innovation and technology development processes.

Values

In the process of fulfilling the supervisory mandate and the strategy, each supervisor adheres to the following values:

Professionalism

Thorough understanding of the field and aspiration to grow

- Execution of duties and responsibilities on a high quality;
- Decision-making based on complete and thorough analysis;
- Respect towards made decision and its execution;
- Achievement of timely and proactive results; Also, ensuring that the benefits received as a result of a certain decision exceed the costs incurred.

Integrity

Compliance with the accepted social, ethical and professional standards

- A balanced and fair use of power;
- Impartiality in the process of decision-making and while on duty;
- Preservation of confidentiality.

Cooperation

The skills to establish trustworthy and reliable relationship with the stakeholders

- Respect and appreciation towards the opinion of others both within the National Bank of Georgia and outside;
- Helping the colleagues and cooperation with them in an effort to help them make healthy decisions and deliver successful results.

Teamwork

Work towards the common goals

- Coordinated definition of team objectives and recognition of team's achievement in accomplishing common goals;
- Mobilization of resources around the common objectives and orientation on the results of common work;
- Effective work in a team, trust among the team members and encouragement during the working.

Transparency

Openness towards the regulated entities, other stakeholders and the public while respecting the confidentiality principles defined by law

- Receipt and processing of the evaluations and remarks and execution of respective corrective actions;
- Providing any stakeholder with the access to public information according to the legally defined rule.

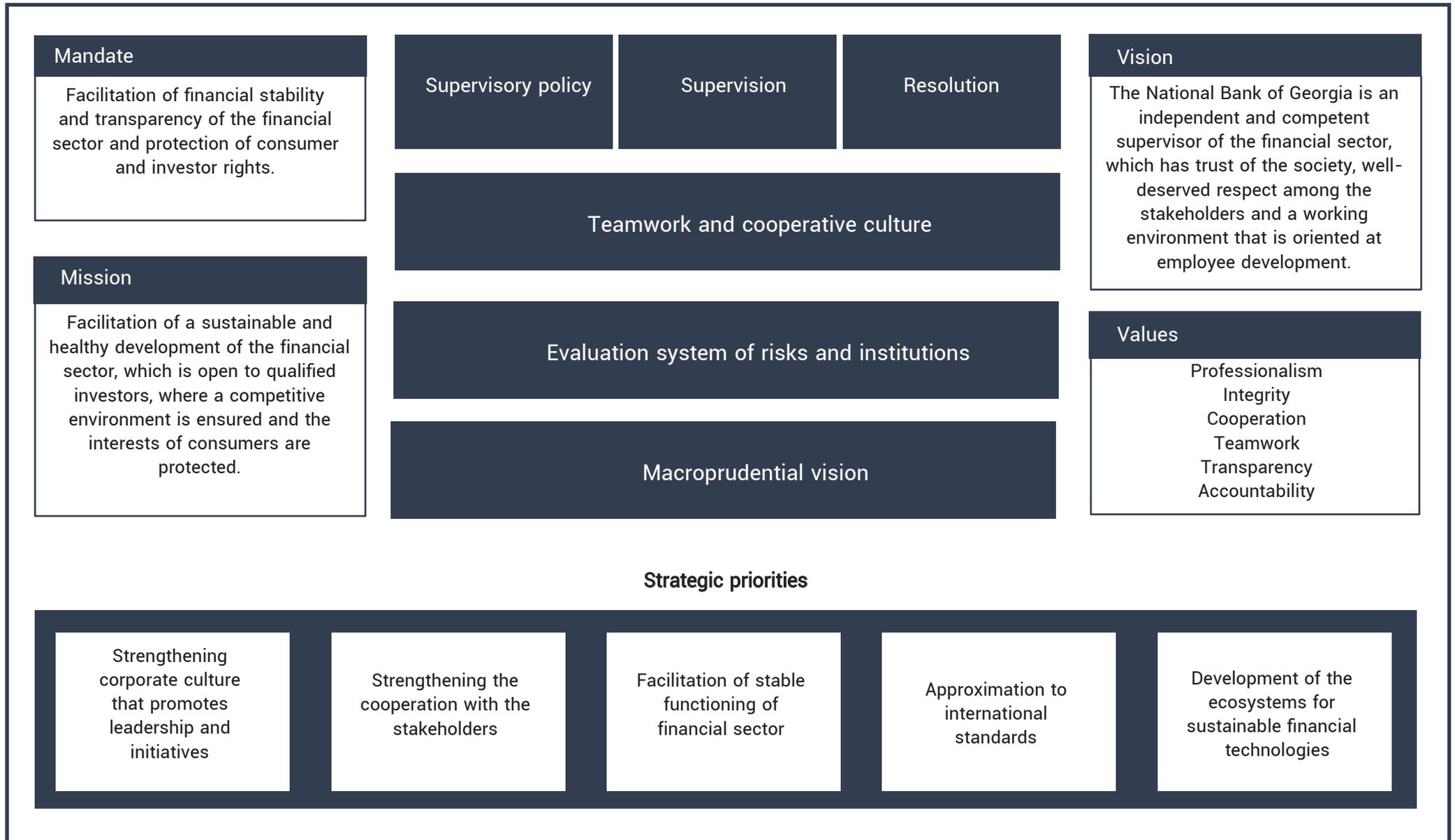
Accountability

Responsibility for one's own decisions and the results

- Making similar decisions when complex decisions and actions need to be taken;
- Upholding equal or a higher standard than required for regulated entities;
- Openness to criticism and rapid response to the flaws discovered in own activities.

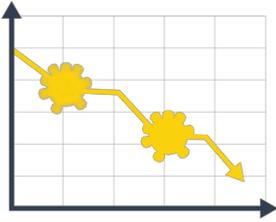
OPERATING MODEL

Operational model of supervisory function



New challenges of operational environment

The following new tendencies and challenges characterize the operational environment and influence the financial sector, as well as the supervisory strategy.



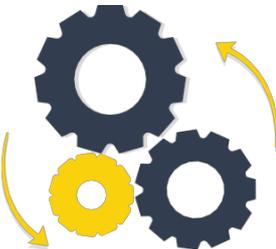
Coronavirus

- Negative impact of Coronavirus on the economy;
- Reduced risk appetite of financial institutions on lending;
- Potential increase of non-performing loans;
- Increased importance of the use of remote channels.



Non-financial risks

- Higher expectations towards the financial institutions on corporate social responsibility;
- Increase of environmental, social and governance (ESG) risks, including the risks related to the gender equality and climate change;
- Increased dependency on information technologies and higher risks of cybersecurity.



Changes in the industry

- Decline in profitability margin and expected modifications in business models;
- Increased use of innovations by financial institutions, vis-a-vis increased competition;
- Increased use of financial, supervisory and regulatory technologies as well as of artificial intelligence, changes in the roles of financial intermediation, development of instant electronic payments and central bank digital currencies (CBDC).



Political environment

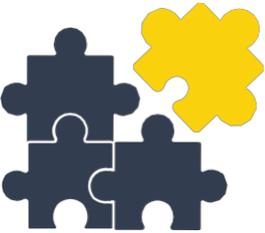
- Influence of political volatility on the activities of financial institutions and on the future strategy of the National Bank of Georgia;
- Necessity of closer cooperation with the government and the parliament, while maintaining the principle of independence.



Globalization

- Expansion strategies of the financial institutions and banking groups outside of the country;
- Approximation processes towards the directives defined by the Association Agreement and towards the standards of Basel Committee;
- Membership of Basel Consultative Group, the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) and other organizations;
- Need for approximation towards the international financial reporting standards (IFRS);
- Perspectives for entering the market of advanced and reliable foreign financial institutions;
- Perspectives for the issuance of virtual currency by the National Bank.

Cooperational culture



- Higher expectations and necessity of synergy and information sharing culture;
- Need for deeper cooperation with various state institutions, including the Georgian National Competition Agency, the State Inspector's Service, the auditors, the ministries, the parliament, etc.
- Closer cooperation with organizations outside the country: Signing memorandum with the supervisory bodies of various countries, membership of international groups.

STRATEGIC SUPERVISORY PRIORITIES OF THE NATIONAL BANK OF GEORGIA 2020-2022



Strategic Priorities

Strengthening Corporate Culture that Promotes Leadership and Initiatives

■ Strengthening the leadership culture and promotion of initiatives

- Promotion of new initiatives on every level of employees to explore the supervisory matters from various angles.
- Strengthening the leadership culture through the increase of duties and responsibilities of the employees. To this end, develop appropriate policies and procedures.
- Encouraging the culture of collaboration and information exchange, in-house training and coaching.

■ Strengthening the assessment of risk management

- Encouraging supervisors to identify risk and the practice of proposing solutions to problems from regulated entities.
- Strengthening the risk management assessment in parallel to the regulatory compliance examination of the regulated entities.

■ Increase rights and accountability of supervisors

- Maximizing the role of supervisor, responsibilities and accountability in the process of communication with regulated entities, including senior management of entities, supervisory board, independent board members and committees.
- Promotion of working groups and joint decision-making in response to the challenges identified in the process of supervision.

■ Ensuring a fair system of evaluation of the employee performance

- Implementation of employee evaluation system, which involves the evaluation of the employees by the managers as well as of the managers by the employees.
- Strengthening the culture of employee motivation, promotion and recognition on every level of work.

■ Acquiring and maintaining talent

- Implementation of the recruitment program of the employees, who are oriented at growth and development.
- Ensuring professional satisfaction of the existing employees and their maintenance.
- Increasing the opportunities for participating in the educational programs necessary for the improvement of relevant skills.

STRATEGIC PRIORITIES

Strengthening the Cooperation with the Stakeholders

■ Improvement of communication channels

- Increase of publicity regarding the supervision, including the improvement of publishing legal drafts of normative acts related to the supervision and the enhancement of consulting practices.
- Improvement of the official website of the National Bank of Georgia.
- Implementation of the practice of publishing supervisory strategy.
- Participation in public expert forums and discussions.
- Publishing the research and analytical reports.

■ Improvement of cooperation framework at the National Bank of Georgia to achieve synergies

- With the rise of complexity of the financial sector, the enhancement of information sharing practice between the structural units of the National Bank of Georgia (Banking and Non-Banking, Capital Market and Payment Systems Supervision, Specialized Risks Department, Supervisory Policy Department, Money Laundering Inspection and Supervision, Financial Stability, etc.).
- Adoption and sophistication of internal policy and procedures regarding the information sharing practices.
- Formalization of supervisory evaluations and decision-making processes, which includes approving supervisory plans, defining the roles of the Financial Sector Committee and other entities involved.
- Updating the General Risk Assessment Program (GRAPE) document, which includes updating the guideline as well as formalizing the evaluation processes and developing an internal procedure, which determines the progress of the process in detail, the structural units involved and terms, and the decision-making processes.
- Ensuring effective organizational structure in order to achieve maximum synergies.

■ Intensifying communication with stakeholders

- Enhancing direct communication with the supervised entities and stakeholders, external audit companies, public institutions, supervisors of other countries and international organizations.
- Deepening the cooperation with the state institutions (including the Georgian National Competition Agency, the State Inspector's Service, the auditors, the ministries, the parliament and others), involving the signing of memorandums with the relevant authorities.
- Ensuring an easy access to the information for the individuals seeking registration or license at the National Bank of Georgia.

STRATEGIC PRIORITIES

Facilitation of Stable Functioning of Financial Sector

■ Institutionalization of supervisory practice

- Similar to the commercial banks, proportional shift of the supervisory regime of other supervised entities to the risk-based principles.
- Proportional distribution of risk assessment practices and supervisory policy of commercial banks to the other supervised entities.
- Enhancement of internal policies and procedures of the National Bank of Georgia in compliance with the risk-based supervision and principles-based regulation, namely, update of the General Risk Assessment Programme (GRAPE) manual and development of the General Risk Assessment Programme (GRAPE) procedure, determining detailed course of the process, structural units involved, deadlines and decision-making process.
- Strengthening the governance in supervisory decision-making process, increasing the role of employees involved in the process, enhancement of the accountability framework and process optimization.
- Improvement of supervisory information processing processes and tools.
- Preparation of the sectoral research.

■ Improving regulatory capital standards for commercial banks

- Increasing the quality of supervisory capital and improving capital-related standards:
 - *Increasing the quality of regulatory capital of commercial banks, considering the economic cycles and the financial stress.*
 - *Improvement of the criteria for capital instruments to strengthen their loss absorbing function.*
- Update risk-weighted asset approaches, including updating the standardized approach to credit risk weighting, introduction of additional methodologies for operational risk weighted assets, market risk weighted assets and counterparty credit risk.⁴
- Introduction of a sectoral countercyclical capital buffer for unhedged borrowers.
- Updating the stress test manual according to the updated reserve rule and develop operational stress test requirements.

■ Developing elements of recovery and resolution framework

- Analyzing the first recovery plans developed by commercial banks and communication of relevant comments with the sector.
- Further development of the first resolution plans in the area of operational side.
- Working on the recommendations received within the framework of the joint mission of the International Monetary Fund and the World Bank (FSAP).
- Developing and researching the best international approaches to the resolution framework.
- Strengthening the cooperation with the stakeholders in the recovery and resolution processes (banks, rating agencies, Interagency Committee for Financial Stability, the investors and others).

⁴ The mentioned change and its execution terms will be presented within the framework of the 2023-2025 strategy

■ Facilitation of corporate governance and effective functioning of risk management

- Strengthening the roles of independent members of the supervisory boards and improvement of the assessment practices for their independence.
- Refinement of conflict-of-interest issues.
- Facilitation the improvement of the risk management in the supervised entities, strengthening the internal auditors and elaboration of cooperation framework with them.
- For the purpose of improving the credit risk management of commercial banks:
 - *Defining the credit risk management regulations and basic principles.*
 - *In accordance with the updated Regulation on the Concentration of Credits and Large Exposures, develop and implement policies to identify groups of interconnected borrowers.*
 - *Update of unhedged currency induced credit risk buffer (CICR) hedging guidelines and reporting*
 - *Improving and publicizing the guideline of the developers and existing real estate under the construction process.*
- For the purpose of improving operational and cyber-risk management:
 - *Establish an operational and cyber-risk information analysis and sharing center.*
 - *Determining the supervisory principles of the Cloud Computing model.*
 - *Defining detailed business continuity management requirements.*
- Establishing data quality management requirements for commercial banks.

■ Strengthening the standards of non-financial risk management

- Taking into account the Environmental, Social and Governance (ESG) standards, including the consideration of standards related to climate change risk management and other corporate social responsibility (CSR) in supervisory processes, including the Corporate Governance Code and assessment.
- Supporting the awareness-raising regarding the non-financial risks both within the National Bank of Georgia and in the supervised entities.
- Adoption of a Code of Ethics on debt/credit collection by financial institutions.

■ Improving and developing the supervisory framework of non-banking institutions

- Introduction of a new type of financial institution - micro-banks supervisory framework.
- Putting factoring entities and leasing companies under the regulation of the National Bank and developing an appropriate supervisory framework for this purpose. Collaborate with public agencies to establish a unified electronic database and trading platform for factoring operations.
- Introduce the framework of the temporary administration regime for microfinance organizations.
- Develop special legislation on insolvency and bankruptcy for microfinance organizations.
- Develop operational risk, cybersecurity and corporate governance requirements for microfinance organizations.
- Improving the regulatory framework for currency exchange points. Develop a regulatory framework for non-cash currency exchange points.

STRATEGIC PRIORITIES

Approximation to International Standards⁵

■ Approximation to the directives defined by the Association Agreement⁶

- Directive and regulation on the activities of the credit institutions and capital adequacy,⁷ including:
 - *Improving the suitability criteria for administrators and shareholders;*
 - *Improving the framework for banking licensing and acquisition of a significant share in a commercial bank;*
 - *Adopting the consolidated supervision rule.*
- Directive regarding the supplementary supervision of the financial conglomerates.
- Directives regarding consumer credit and distance marketing.

■ Transition of local accounting standards to the international accounting and financial reporting standards

- Introducing reporting forms based on international financial accounting standards for commercial banks in cooperation with commercial banks.
- Collaborating with external auditors on the basis of an effective communication framework and facilitating/ensuring their independence.
- Updating the asset classification and provisioning rules (improving compliance with IFRS) and executing relevant work (including quantitative evaluation (QIS)).
- Observation of parallel reporting with the National Bank during 2022, which implies the continuation of reporting according to local accounting standards according to existing principles and the adoption of additional reporting forms based on IFRS standards.
- Monitoring and facilitation of implementation of IFRS 9-based supervisory provisioning methodology, including Quantitative Impact Assessment (QIS).
- Development of prudential filters for supervisory ratios.

■ Implementation of standards set by the Basel Committee on Banking Supervision

- High compliance with the main principles of effective banking supervision and implementation of the recommendations developed by the FSAP mission.
- Ensuring the compliance with the recommendations of the Basel Committee regarding the capital adequacy standards.
- Proportional⁸ adoption of other standards set by the Basel Committee.

⁵ Convergence with the standards listed in the mentioned priority implies taking into account the country's context, proportionality and relevance in the process of their introduction.

⁶ The document does not cover issues related to the supervision of securities market representatives and payment service providers. Accordingly, the document does not contain directives and regulations related to the above-mentioned issues.

⁷ See aspects of improvement of supervisory capital standards in the strategic priority of promoting the sustainable functioning of the financial sector.

⁸ The majority of the Basel standards apply to globally systemic banks, however, it defines the principle of proportionality, which implies the adjustment of the said standards to smaller and less complex banks.

■ Refinement and development of competition implementation and promotion policies

- Develop and issue by-laws related to competition implementation standards issued on the basis of competition law issued to commercial banks, which include the following standards:
 - *Rule and procedures on market analysis and submitting and reviewing concentration notifications.*
 - *Rule on investigation of a possible violation of competition, procedure for submitting and reviewing a complaint / application.*
- Strengthening the monitoring of issues related, but not limited to the cross sales within the banking groups, transactions between the group members and other issues related to the conflicts of interest.
- Refine and develop competition promotion policies, including by refining and developing elements of the sustainable financial technology ecosystem (see Objectives of strategic priority for the development of the ecosystem of sustainable financial technologies).

STRATEGIC PRIORITIES

Development of the Ecosystems for Sustainable Financial Technologies

■ Open supervisory approaches

- Development of the principles of open regulation and the readiness for their testing in a controlled environment.
- Extension of the risk-oriented principles to new technologies.
- Development of the Financial Innovation Office as the main channel of communication with the financial innovators community.
- Lightening the entry barriers to the financial market for the entities with innovative business models.
- Support for consolidation and development of financial innovators community.
- Cooperation and information sharing with the progressive supervisory community.

■ Development of open banking

- Promote the opportunities to integrate the services of various financial institutions based on the needs of consumers of the financial sector. Increase the opportunities for the use and control of personal financial data by the consumers.
- Support the use of Open Application Programming Interface (Open API) within the banking as well as outside of it.
- Dynamic standardization of financial information and services in the electronic space.
- Development of machine-readable data.

■ Development of digital banking

- The use of technological capabilities to increase the access to financial services and support for the development of digital banking channels.
- Elaboration of the licensing framework for a digital bank.
- Facilitate the provision of banking services through electronic channels.
- Sustainable development of cloud architecture data storage and processing.
- Development of a modular banking model.
- Development of a cybersecurity framework for digital bank.

■ Regulatory sandbox

- Create a controlled environment for exploring unknown risks and use a regulation laboratory, including for unregulated entities.
- Development of a risk examination framework for various technologies.
- The analysis of the experiment results and upon necessity, reflection of them in the supervisory framework.

- Collaborate with supervisors of different countries as the part of an initiative to establish a global regulatory sandbox.
- Expand the area of application of the regulatory sandbox.

■ Support for the development of data analysis and SupTech at the National Bank

- Facilitation of the enhancement of data analysis, including through the SupTech instruments.
- Development of a credit register. Improve data quality and use for the optimization of the supervisory forms.
- Modeling of BigData and its use in the supervisory processes.
- Transfer supervisory information to the XBRL (Extensible Business Reporting Language) data exchange standard.
- Development of risk analytics tables (so-called dashboards).

■ Development of models

- Facilitate data processing to improve access to finance, development of machine learning and artificial intelligence models, especially for the retail sector.
- Creation of a supervisory framework for a sustainable development of statistical and artificial intelligence models.
- Develop principles for ethical use of models.
- Creation of a favorable ground for productive use of models, including through the increase of data quality and the development of open banking.
- Improving the quality, comparability and compatibility of models for IFRS 9 purposes. Determination of supervisory segmentation indicators for IFRS models through credit registry data.

■ Modernization of payment systems

- Central Bank Digital Currency:
 - *In the context of the development of digital technologies, financial products and their channels of delivery to consumers require rethinking, which often necessitates radical changes. The development of private tokenized currency in recent years underscores the need for further development of existing cash and noncash technologies. The digital currency of the Central Bank is one of the modern candidates for the evolution of the ancient technology of money.*
 - *Given the peculiarities of the local market, explore the possibilities of introducing different technologies of digital currency of the Central Bank.*
 - *Establish central bank digital currency requirements and initiate public discussion. Start consulting with international donor organizations and technology firms.*
 - *To study the possible risks of the digital currency of the Central Bank, to develop mitigation measures. Exploring the possibility of using a regulation laboratory tool in the implementation process.*

- Introduction of instant payment system:
 - *Establishing a new, instant and continuous (24/7) payment system to strengthen the innovative ecosystem in the financial sector;*
 - *Payment system infrastructure, which, on the one hand, will help strengthen assistance programs for small enterprises, and, on the other hand, will increase access to cash for these enterprises.*
- Exploring the potential of payment systems integration with Europe and other partner countries.

RISKS RELATED TO THE FULFILLMENT OF THE SUPERVISORY STRATEGY

Along with the preparation of a supervisory strategy, it is important to identify those risks, which may hinder the implementation of the strategy or require modification. The following risks are of particular importance:

- The changes in the priorities, which became necessary due to the force majeure situations or unexpected external factors, which were not covered in the supervisory strategy;
- The risks related to the acquisition and maintenance of necessary human resources to implement the strategy;
- The flaws in the infrastructure (building and technologies, including the security, access to confidential information) or the lack of it at the National Bank of Georgia, which interrupts the processes at the NBG.

The tendencies, the challenges⁹ and the above-mentioned risks characterizing the dynamic operational environment of the National Bank of Georgia, may influence the priorities defined by this document, the planned changes and the timeline of their implementation. To effectively respond to these challenges and effectively fulfill supervisory mandate, the National Bank of Georgia keeps the right to adapt these priorities and/or their implementation timeline.

⁹ see p.10, New challenges of the operating environment

THE FREQUENCY OF THE STRATEGY RENEWAL

The supervisory strategy document will be updated annually. This does not imply changing the supervisory priorities on a yearly basis but instead the possible modification of the timeline to effectively fulfill the supervisory mandate and the mission.

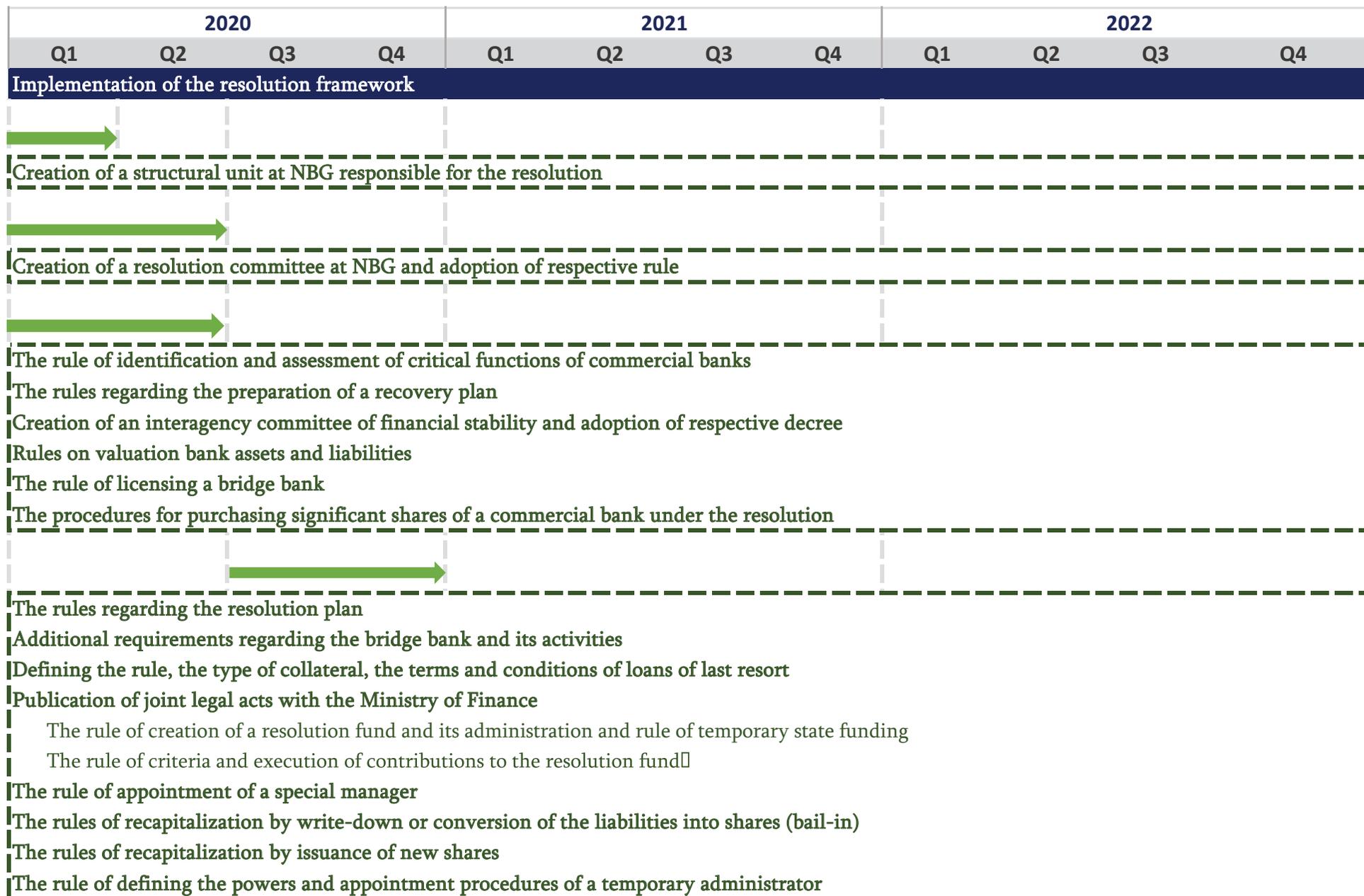
ROADMAP FOR PLANNED CHANGES

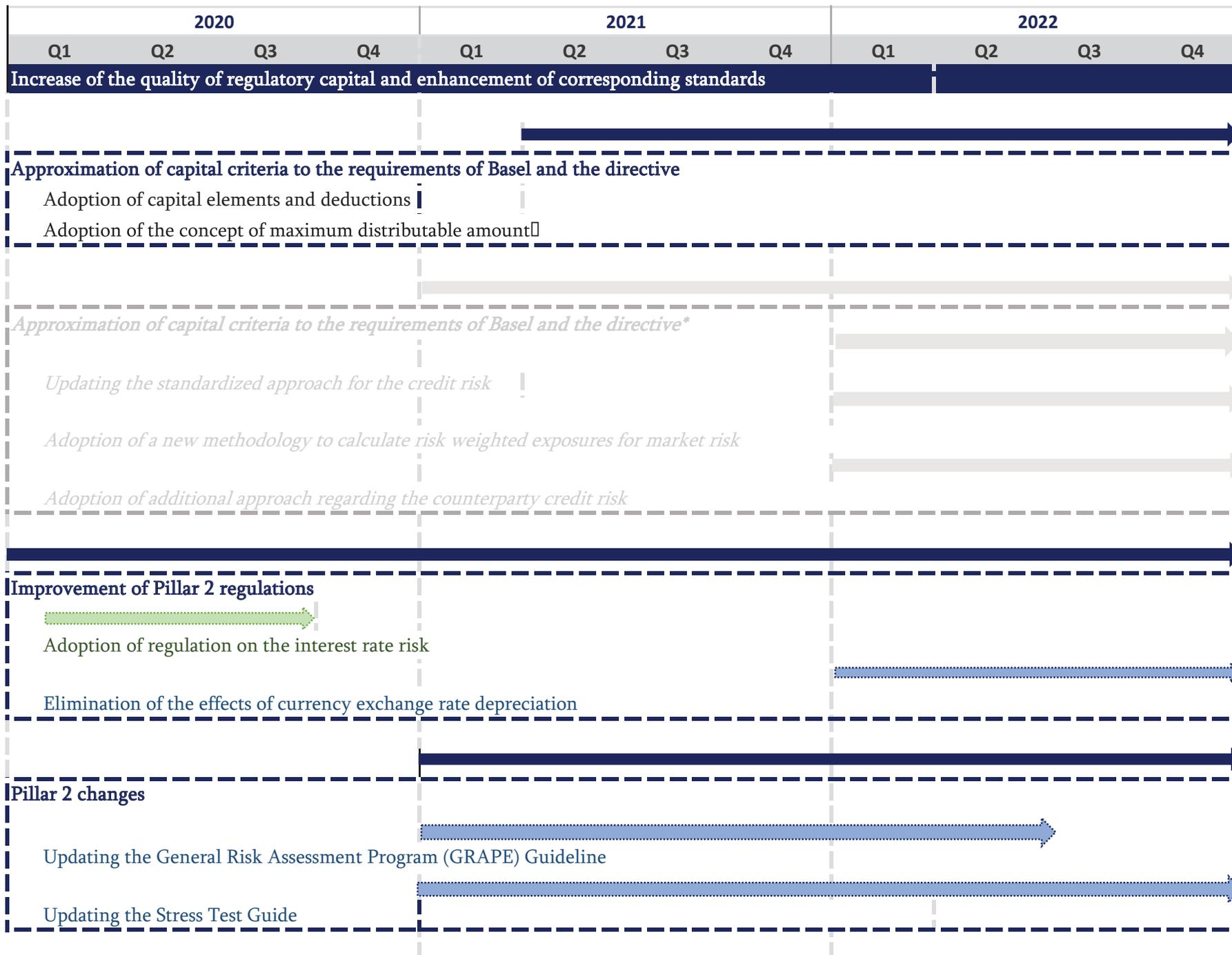
The standards and regulations set out in the Roadmap for planned changes are already largely covered by the National Bank's supervisory framework. However, in parallel with the constant refinement of international best practices and standards and changes in global and local trends, the National Bank is constantly updating and improving the regulatory framework related to supervision. The roadmap of these changes determines the directions of refinement and updates of the supervisory framework and the relevant deadlines.

The National Bank's supervisory priorities shall remain unchanged for 3 years (2020-2022). It should be noted that the annual strategy document puts particular emphasis on the key objectives and changes to the supervisory priorities planned for the next 12-18 months. On the one hand, it helps to proactively provide information on current priorities to stakeholders and, on the other hand, helps us to plan the work required by the National Bank to meet the priorities as effectively as possible.

Definition of marks used::

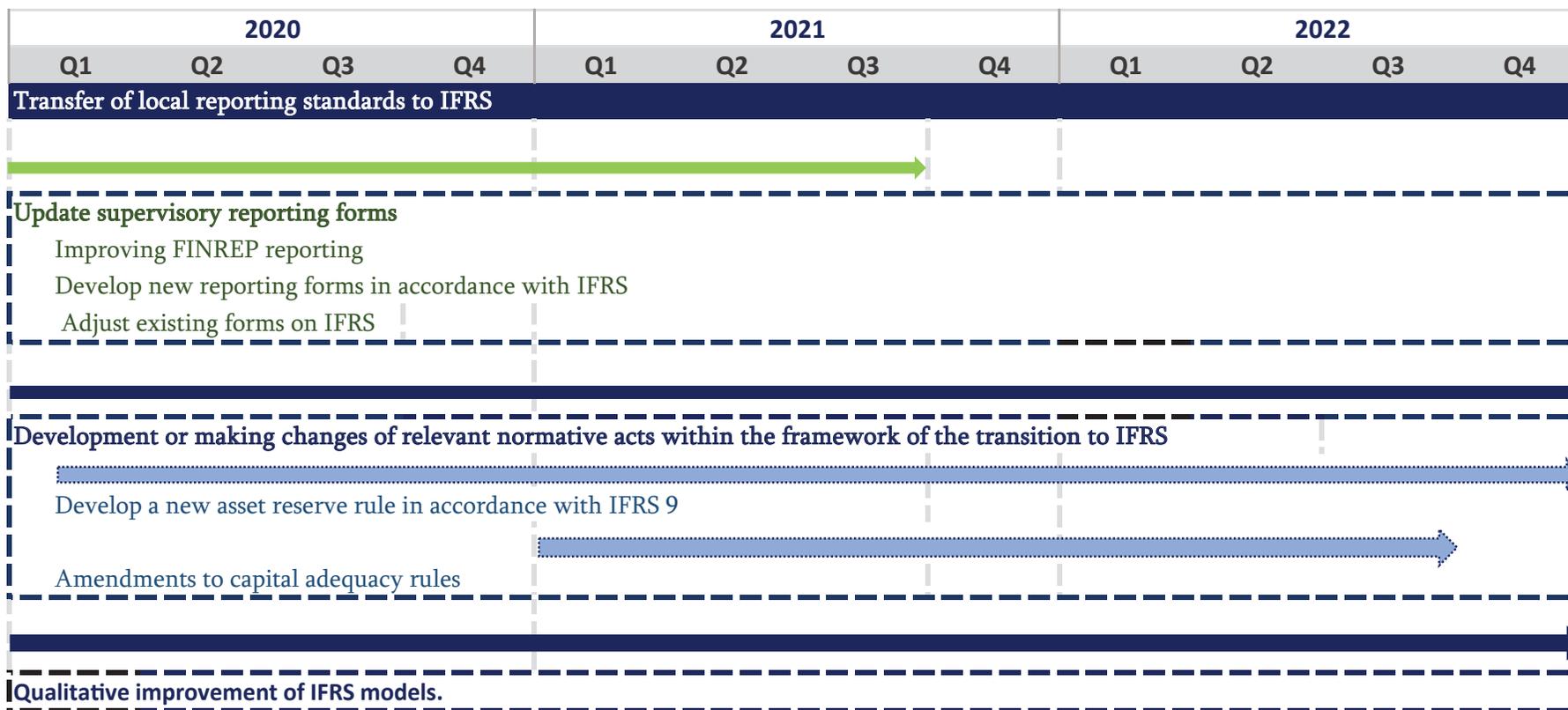
-  **Deadline for adoption of change**
-  The timeline of the adoption of subcomponents of the changes
-  **Adopted change**
-  The subcomponent obtained for the change

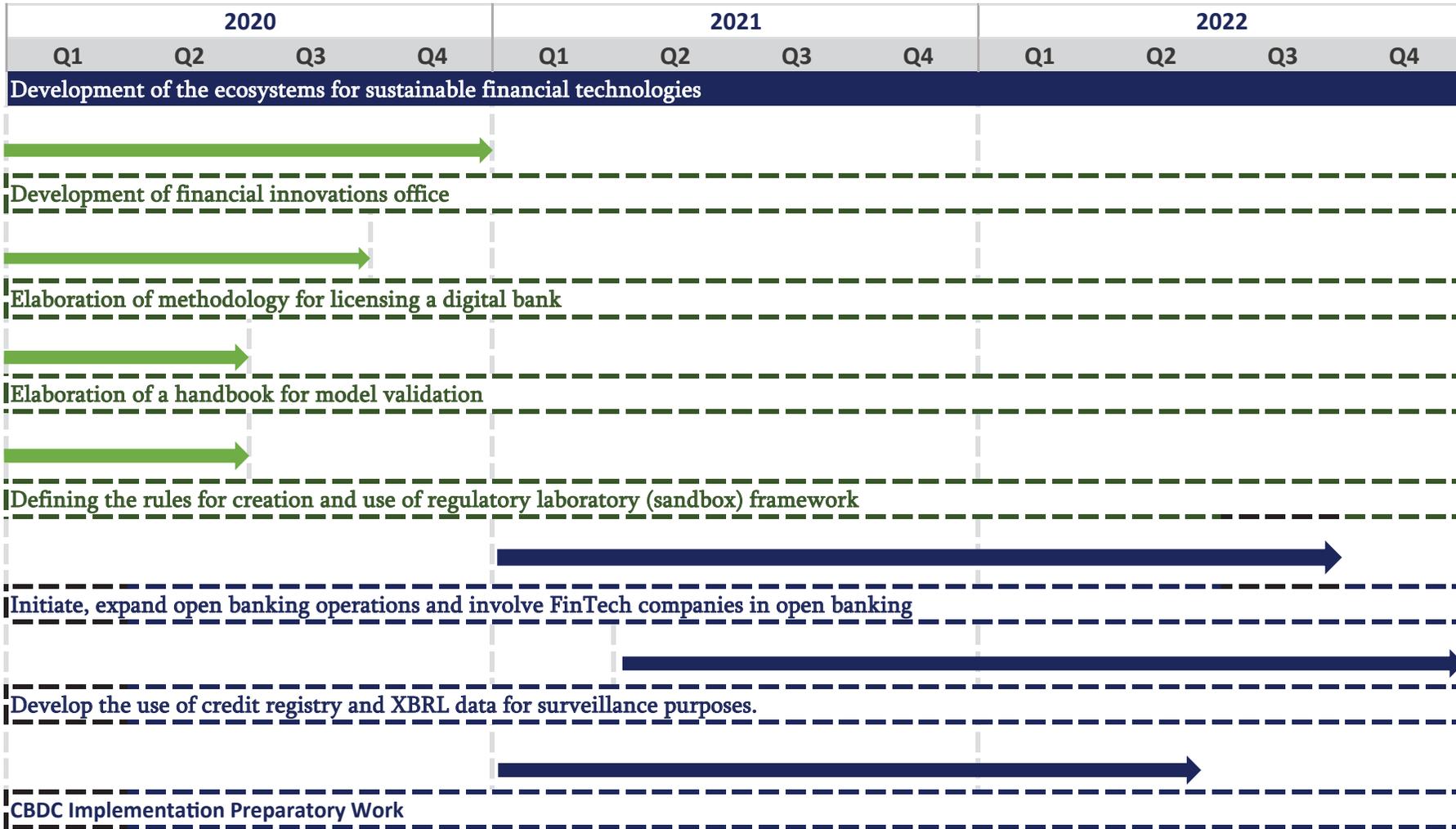




* The mentioned change and the deadlines for its implementation will be presented within the framework of the 2023-2025 strategy

2020				2021				2022			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Improving and developing the supervisory framework of non-banking institutions											
											
Development of a new type of non-banking institutions framework											
Development of a new financial institution - micro-bank framework and relevant regulatory basis□											
Putting the entities carrying out factoring operations under regulation and developing appropriate requirements											
Bringing leasing companies under regulation and developing relevant regulatory basis											
											
Improving the supervisory framework for microfinance organizations											
Introduce a temporary administration regime through legislative changes for microfinance organizations											
Develop special insolvency / bankruptcy legislation for microfinance organizations											
Develop operational risks and cybersecurity requirements for microfinance organizations											
Develop corporate governance requirements for microfinance organizations											
											
Improving the supervisory framework for currency exchange points											
Improving operating requirements for currency exchange points											
Making amendments to the rules for imposing fines on currency exchange point											
Developing a regulatory framework for non-cash currency exchange points											
											
Strengthening the supervisory and regulatory framework of lending entities □											





ANNEX:

2021 HIGHLIGHTS, REFORMS AND STRATEGY PERFORMANCE REPORT

The National Bank, according to the change plan determined by the strategy of the same year, implemented a number of important projects and reforms in 2021, which, in turn, echoed the set strategic priorities. More specifically, it included the areas listed below.

Strengthening a culture of encouragement of leadership and initiative

- In 2021, discussions of various topical issues actively continued at the National Bank in the form of thematic working groups, which, among others, includes the working group created in connection with competition issues, the groups for researching the possibilities of the crowdfunding¹⁰ platform, and the groups for the transition of supervisory reports to International Financial Reporting Standards (IFRS).
- In order to encourage a culture of cooperation and information exchange, alongside with the sharing of systemic risk assessment results, the practice of quarterly reviews with supervisors continued in 2021.
- The practice of providing information in the form of a monthly newsletter to get supervisors acquainted with news, changes and trends in international supervisory practices, including strategy documents of reputable central banks, priorities and monthly news of international standard-setting organizations (e.g. Basel Committee, European Central Bank, etc.) was successfully continued in 2021 and proved to be an important and beneficial innovation for the respective supervisory functions.

Moreover, it is worth noting that the works and activities planned by the National Bank, which would promote employee engagement, leadership and other activities, have been delayed for some time due to the covid-19 pandemic and related restrictions. The focus of the National Bank during 2020 was more on maintaining existing practices, however, since 2021, the National Bank gradually continued to implement important improvements and initiatives, which, of course, will continue in the coming years.

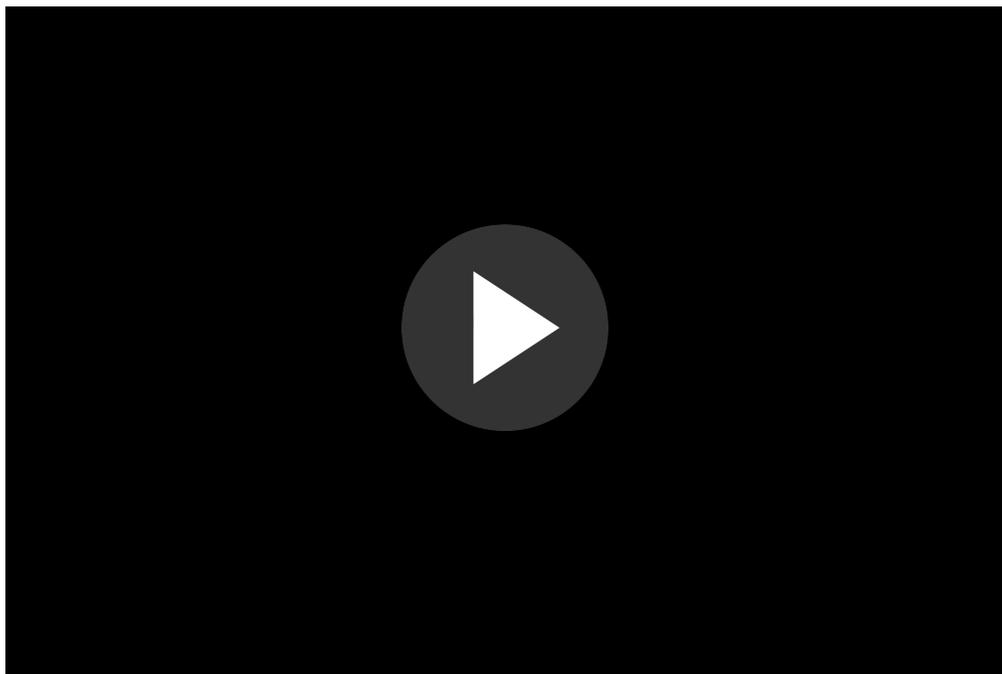
Strengthening the cooperation with stakeholders

- Together with the publication of the strategy, the National Bank introduced the practice of presenting the strategy document, namely, the National Bank presented the 2021 edition of the 2020-2022 Supervisory Strategy to representatives of the

¹⁰ So-called crowdfunding

financial sector and experts in the field of economy and introduced in detail the supervisory priorities and planned reforms of the National Bank.

The presentation is available here:



It should be noted that, in addition to the publication of the strategy document, the strategy's introductory events will have a regular character.

- In order to hold public consultations, a number of drafts of changes and regulations related to supervision were published on the website of the National Bank, on which the general public was given the opportunity to share comments and recommendations. It should be noted that the National Bank will continue to publish the drafts of normative acts in the future, along with updating the website, the mentioned process will be further improved and will be in line with the best international practices in this regard.
- During 2020-2021, the representatives of the supervisory area of the National Bank participated in public professional forums and discussions, including the Basel Consultative Group (BCG), the Group of Central and Eastern European Banking Supervisors (BSCEE), the International Monetary Fund (IMF) and the World Bank (WB) platforms. In addition, cooperation with the supervisors of the countries of the region was actively carried out at the initiative of both the National Bank and fellow supervisors, in order to share knowledge and experience. Among them was the global

fintech forum - Global Impact FinTech (GIFT), which is the largest, most diverse and inclusive fintech forum in the world, which brings together ecosystem leaders from 60 countries and which, among others, was held with the support of the National Bank of Georgia. Open and inclusive finance, global fintech ecosystems and policy frameworks, female leaders in fintech, etc. were reviewed within the framework of the forum. ([see press release](#)).

- It should be noted that during 2021, in order to achieve synergy, the practice of deepening internal cooperation and information exchange in the National Bank was improved. In particular, working groups were created in different directions. For example, in 2021, the study of competition issues and facts under the mandate of the National Bank was conducted in the format of working groups. Because the works of this format show high efficiency in most cases, the National Bank will continue to hold discussions of various directions and issues in the working group format in the future.
- Moreover, a forum was dedicated to the development of the fintech ecosystem in Georgia, which was hosted by the USAID Economic Security Program in partnership with the National Bank of Georgia and the Innovation and Technology Agency. Within the framework of the event, presentations and discussions were held on the findings of the program and the plans of the National Bank of Georgia, the development opportunities of the fintech sector and the offers of potential collaboration platforms. The purpose of the forum was to identify fintech opportunities in the country in order to promote the growth of the local market ([see press release](#)). It should also be noted that in 2021, the National Bank of Georgia was awarded two awards within the framework of the summer meetings of the prestigious international publication Central Banking - in the nominations of the best risk manager of the year and the most transparent central bank. The transparency nomination included three important components - education, transparency in dealing with stakeholders and communication through a variety of communication platforms ([see press release](#)).
- In order to effectively fulfill the supervisory mandate and strategic priorities during 2021, the National Bank cooperated with supervised entities, banking association, external auditors, public institutions, media, supervisors of other countries and international organizations.
- The cooperation with various public institutions within the country was increased, including with the Competition Agency, Communications Commission, with which the National Bank cooperates in a number of supervisory areas. An inter-agency cooperation memorandum was signed between the supervisory and regulatory agencies of Georgia in 2021, the purpose of which is cooperation on issues related to reporting. The signatories of the memorandum are the National Bank of Georgia, the Insurance State Supervision Service of Georgia, the National Energy and Water Supply

Regulatory Commission of Georgia, the National Communications Commission of Georgia and the Accounting, Reporting and Audit Supervision Service of the Ministry of Finance. The memorandum aims to strengthen the cooperation of entities subject to supervision and regulation, which implies joint consideration of issues related to financial and management reporting and implementation of joint initiatives.

- The Office of Financial Innovations was established in the National Bank at the end of 2019, the purpose of which is to encourage fintech companies and innovative ideas, and further to promote the transformation of these ideas into a sustainable financial model. The Innovation Office provided assistance to more than 100 NBG-regulated and non-regulated entities during 2021.
- The official website of the National Bank is an important communication channel through which central banks communicate and cooperate with representatives of the general public and other interested parties. With the help of the website, the user has the opportunity to receive - objective, reliable, academic and constantly updating information on the most important topics in the economy. Moreover, all necessary information that will help users to raise awareness about their rights. The National Bank completely updated its official website in 2021. The new version of the website responds to modern digital requirements and is as user-friendly as possible: it has easy navigation, improved search engine, flexible feedback form and compatibility.
- The National Bank is constantly trying to raise awareness and expertise in various areas of activity. In 2021, In addition to the participation of employees in various local and international trainings and seminars, experts from the World Bank held 1-week workshop sessions at the National Bank on topics related to competition for both representatives of the financial sectors and employees of the National Bank.

FACILITATION OF STABLE FUNCTIONING OF FINANCIAL SECTOR

- Initial recovery plans were prepared by commercial banks and submitted to the National Bank in 2021, which was preceded by intensive communication and consultations between the parties. After the National Bank of Georgia has studied and reviewed the plans, banks have received feedback on issues that need to be addressed in future versions. The representatives of the sector will prepare the full version of the plans in 2022. The National Bank will provide the sector with information on good practices in accordance with international studies and will contribute to the integration of the early preparation tool for crisis management with the risk management framework.
- Initial resolution plans for systemically important banks were developed in 2021. The resolution strategy and the hindering factors were defined, the mitigating works of

which will continue in the future periods in accordance with the technical assistance received from international partners and the study of international practices.

- Based on the recommendations received within the framework of the joint mission of the International Monetary Fund and the World Bank (FSAP) and based on the needs identified in practice, the National Bank continues to work on the improvement and development of the legal framework and other technical-procedural parts. Studies were conducted in term of defining the technical parts of the framework and the results were reflected in the solution of the tasks. Moreover, the work on certain priority recommendations has been started and will continue in accordance with the given terms in the future as well, with active involvement of international experts within the framework of technical assistance.
- The first meeting of the inter-agency committee was held in 2021, where, in addition to the report on financial stability, the committee was presented with information on the main aspects of the reform of the resolution mechanism, the progress of the implementation of the framework and the role of the resolution committee and the inter-agency platform in the interaction. The review also addressed recommendations outlined in the new FSAP, including the need for interagency coordination to strengthen readiness for crisis.
- A number of activities involving internal and external communication around the framework were implemented in the area of strengthening cooperation with stakeholders regarding recovery and resolution processes in 2021. Additional activities will be carried out continuously in future periods as well.
- The National Bank is actively working on improving the conflict of interest management standards, as a result of which it will be in compliance with the limits and requirements established by the "Regulation on Concentration of Risk Positions and Large Exposures in Commercial Banks".
- The National Bank developed a draft of the rules for determining the risk categories of financial instruments and expected credit losses in 2021, regarding which the National Bank has already consulted the sector, the World Bank expert and international auditors. It is planned to approve the rule in 2022.
- The National Bank is also actively working on defining the regulation and basic principles of credit risk management, the need of which is related to the reform of the transfer of local accounting standards to International Accounting and Financial Reporting Standards (IFRS). The document will cover the issues of asset classification and the main important principles of credit risk management, which banks should take into account in risk management processes. The document is based on Basel, ECB, BIS and other international best practices.
- The plan to create a center for analysis and sharing of operational and cyber-risk information is also significant. One of the main tasks in terms of operating and cyber-

risk is the timely analysis and sharing of information about operational events/incidents of critical and essential importance. This process plays a crucial role in the timely and effective management of systemic operational and cyber-risk. Therefore, NBG, as a financial sector regulator, considers the establishment of an information sharing and analysis portal as one of its priorities, and with the support of NBG, timely sharing of information on material operational/cyber risk events in the financial sector will be possible. Within the framework of this reform, an information exchange portal was created in 2021, which is currently in testing mode with commercial banks.

- The National Bank approved two important acts related to competition in 2021. In particular, the "Rule and procedures on market analysis and submitting and reviewing concentration notifications", which establishes the methods of market analysis, criteria and parameters for evaluating the competitive environment, and " Rule on investigation of a possible violation of competition, procedure for submitting and reviewing a complaint / application", which establishes the guarantees of the protection of the rights of the parties, the actions taken within the investigation of the case and the decision-making procedures. The mentioned acts and documents are a kind of instruction and regulation framework for both the National Bank and the sector. They describe the rules and requirements for market analysis, including review of concentrations, assessment of the competitive environment, market monitoring, assessment of the competitive environment or possible cases of competition violations, and decision-making. It should be noted that the above rules were based on the regulations developed by the Competition Agency and international advanced practices, and in addition to international experts and industry representatives, representatives of the Competition Agency were actively involved in the process. By effectively enforcing the developed rules, the efficiency and transparency of the activities and decisions related to competition by the National Bank will increase significantly. It should be noted that the decisions of the National Bank related to competition are public and are published on the official website of the National Bank, of course, considering the protecting the confidentiality.
- The National Bank is actively working on the institutionalization of supervisory practices, in the framework of which the National Bank is working on the development and improvement of a number of internal policies and procedures. In the framework of the aforementioned, the National Bank has developed an internal procedure of the General Risk Assessment Program (GRAPE), which defines in detail the course of the process, the structural units involved and the deadlines and decision-making processes. In addition, in accordance with risk-based supervision and principles-based regulation, the General Risk Assessment Program (GRAPE) manual will be updated, which will be in line with international best practices, and the

recommendations defined by the FSAP assessment will be taken into account, which will make risk assessment processes more efficient and transparent.

- Amendments were made to the "Corporate Governance Code for Commercial Banks" in February, 2021 in order to improve the standards of corporate governance in commercial banks and bring them closer to the best international practices. Based on the amendments, the criteria for determining the person taking the material risk will be specified in the Code. In order to strengthen the Supervisory Board, the list of functions and duties assigned to it will be added, and in order to ensure the independence of the Supervisory Board and its members, the period of time a member of the Board is considered an independent member will be altered. As a result of the implemented changes, the board of directors of systemically important banks is required to appoint an independent chairman. In addition, the requirement to create a nomination committee will be added for systemically important banks. Requirements related to composition will be specified for the committees of the Supervisory Board. In order to strengthen the audit, risk and remuneration committees, additional functions and duties are reflected in the relevant article. To ensure a healthy remuneration system, payment requirements have been expanded and specified. The overall goal of the changes made in the Code is to ensure the healthy functioning of the bank's supervisory board, directorate and other structural units in the bank.
- In order to promote consistent, compatible and comparable disclosure of environmental, social and governance (ESG) issues by commercial banks, the National Bank made additional changes to the "Corporate Governance Code of Commercial Banks" in June 2021. Moreover, the National Bank started using the "Sustainable Financing Report" and developed the "Principles of ESG Issues and Disclosure" and the corresponding template, based on which commercial banks published information in May 2021. In addition, the National Bank continues to study international experience related to ESG standards. For this purpose, the National Bank of Georgia hosted an online forum on sustainable financing in November 2021. The mentioned event was held in cooperation with the International Finance Corporation (IFC), the World Bank and the IFC's Sustainable Banking and Finance Network (SBFN) and with the support of the Swiss State Secretariat for Economic Affairs (SECO).
- During 2021, the National Bank worked on creating a regulatory framework for a new supervisory entity - micro-bank. The draft law of Georgia "On the Activities of Micro-Banks" and related bills have already been developed. The purpose of the legislative package is to create a medium-sized financial institution with a stable business model and high reputation in the financial sector, to promote lending to entrepreneurial and agricultural activities, to increase competition and to reduce interest rates on credit products.

- An important change was made in the rules for determining monetary penalties for currency exchange points. In particular, according to the amendment, not only the currency exchange point, but also their directors may be fined. In addition, the amounts of additional fines were determined in case of repeated occurrence of penalizable cases.
- In terms of strengthening the supervisory and regulatory framework of lending entities, it is worth noting that in order to improve the operating environment of lending entities, to define certain standards and requirements, changes will be made in relevant by-laws. Accumulated gaps in the sector made it necessary to develop common standards. This will contribute to the reduction of operational risks for lending entities, continuous functioning of the sector and raising the reputation of companies in the market. The changes mainly involve setting requirements for software, accounting software and such processes. Moreover, in the case of providing secured loans, the standards of handling and storage of the collateral (jewelry, equipment or other) are defined.
- The National Bank developed a draft code of ethics to define the principles of ethics related to the debt collection by financial organizations, which was based on the best international practice, taking into account the characteristics of the local market, and which will be approved in the near future. We would like to remind you that the draft of the mentioned code of ethics was also publicly published in order to receive recommendations and comments from interested parties.
- The National Bank published a methodical manual for stress tests in 2020, the purpose of which is to disclose to interested parties the methodology for determining the capital adequacy of commercial banks for a stressful period, including the used scenario, assumptions and approaches to be used for each risk. In addition, in 2021 and the following years, the National Bank should continue to work to improve the manual, including taking into account the new rule of reserving.

APPROXIMATION TO THE INTERNATIONAL STANDARDS

- The National Bank continues intensive work in the area of transferring local accounting standards to international accounting and financial reporting standards (IFRS). For this purpose, throughout 2021, work continued on updating the reporting forms to be submitted to the National Bank, which were brought into compliance with IFRS, the project of the asset reserve rule was updated, and an outline of the final approaches related to capital was formed.
- In order to approximate to the best international practices, the National Bank continued to work on improving the framework of the criteria of compliance of

administrators and shareholders, as well as the framework of licensing and the acquisition of a significant share during 2021. At this stage, the draft of the rule on the compliance criteria of shareholders has already been developed, as well as the relevant changes to be implemented in the regulations of the National Bank on the compliance of administrators and commercial bank licensing rules, the drafts of which will be published for consultation in the near future and consultations will be held with representatives of the banking sector.

- The National Bank is actively working to bring the systematic buffer determination methodology closer to international practice, including the methodologies issued by the Basel Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA).

DEVELOPMENT OF THE ECOSYSTEMS FOR SUSTAINABLE FINANCIAL TECHNOLOGIES

- The Office of Financial Innovations was established at the National Bank at the end of 2019, the purpose of which is to encourage fintech companies and innovative ideas, and further to promote the transformation of these ideas into a sustainable financial model. During 2021, the Innovation Office provided assistance to more than 100 NBG-regulated and non-regulated entities.
- The regulations on the creation of the regulation laboratory framework and its use came into force in May, 2020. The regulation laboratory will allow representatives of the financial sector subject to the supervisory authority of the National Bank to test innovative services and products in a real-time, supervisor-controlled environment. Work on the process of remote identification was completed within the framework of the Regulation Laboratory in 2021, and the relevant regulation was approved.
- Commercial banks started providing credit register information to the National Bank in 2021. At this stage, the credit register is working in a test mode and the data quality is being studied. The purpose of the credit register is to improve supervision, ease the reporting burden for commercial banks over time, and subsequently share with them the aggregate indicators of the system.
- From March 31, 2021, open banking information exchange between commercial banks is available, which involves exchanging detailed information on account balances and account statements. From December 1, 2021, banks have made payment APIs available to individuals. It is planned to involve legal entities in the part of initiating payments, to introduce the process of remote identification and to exchange information on standard products in 2021. After the entry into force of the legislative changes, non-banking institutions will be able to use the mentioned services.

- The XBRL portal will be operational from March 2021. Through the portal, commercial banks send part of the supervisory reporting to the National Bank in XBRL format. The XBRL portal is a modern alternative to the existing portal, which will replace the existing system and allow banks to manage their reports to the National Bank through it.
- During 2020, the National Bank enacted the "Data-based Statistical, Artificial Intelligence and Machine Learning Model Risk Management Regulation", which was preceded by consultations with representatives of financial institutions and other interested parties. The regulation entered into force in January, 2021. Currently, the regulation is being updated, as a result of which the demand for rigor and impartiality of the models will increase. A requirement for risk-based classification of models will also be added.
- National Bank actively continues to work towards the release of the pilot version of the Central Bank Digital Currency (CBDC). The use of new financial technologies will contribute to increasing the efficiency of the payment system and financial inclusion. During 2021, the National Bank met with more than 80 entities that are interested in participating in this project. In early 2022, the NBG plans to publish more detailed information on what the CBDC technical requirements will be and what functions it should have.
- The National Bank continues to work on the establishment of a new, instant payments system within the framework of the agreement between Georgia and the World Bank, which will contribute to the strengthening of the innovative ecosystem in the financial sector, and will play an important role in the digitization of the economy and the development of small and medium-sized businesses. Within the framework of the project, the infrastructure of payment systems will be renewed, which will be implemented independently by the National Bank, that] on the one hand will help to strengthen assistance programs for small enterprises, and, on the other hand, a new system of quick payments will be created, which will increase access to funds for the mentioned enterprises. The project is scheduled to be completed by the end of 2022.

RESPONSE MEASURES TO THE CORONAVIRUS PANDEMIC (FROM 2020 TO PRESENT DAY)

It is worth noting that the publication of the first document of the supervisory strategy (in 2020) coincided with the active course of the new coronavirus (COVID-19) pandemic, which turned out to be a significant difficulty and challenge for the global economy and, of course, for Georgia as well. At the very beginning of the pandemic, the National Bank started working in the direction of weakening impacts and taking the necessary measures to reduce the effects caused by the coronavirus pandemic and took a number

of important steps in response to the existing challenges, as a result of which the National Bank and the entities subject to supervision were given the opportunity to mobilize their resources in response. It should be noted that despite the COVID-19 pandemic, the National Bank's long-term goals and strategic priorities presented in the document remained unchanged.

The steps taken by the National Bank and planned supervisory measures were reviewed in detail in the first document of the strategy. These measures included:

- Reducing the part of the conservation and Pillar 2 buffer (two-thirds of the credit risk buffer caused by exchange rate changes) for the banking sector, which allowed the banking sector to continue lending to the economy. The reduced regulatory capital requirements will gradually increase as economic indicators improve and the negative effects of the pandemic stops.
- In order to continue lending to the economy, providing the necessary amount of liquidity to the financial sector, which meant providing liquidity both within the existing instruments and with new instruments.
- Proactive assessment of credit portfolio quality and recognition of expected credit losses by the National Bank. This approach was facilitated by the comfortable volume of capital buffers accumulated in the banking sector as a result of the past decisions of the National Bank. At the same time, according to the decision of the National Bank, the loans to which the financial institutions extended the grace period only for this reason, risk positions were not reserved and the supervisory burden was not increased.
- A temporary moratorium until September, 2020 on the development and imposition of new supervisory requirements for financial institutions, in order to ease the operational burden, with the aim of maximum mobilization of resources financial institutions and the National Bank in response to existing challenges.
- Encouraging initiatives on introduction of remote channels.

In addition to the supervisory plan, it is important to have an exit strategy and a plan to restore capital buffers. For this purpose, from the beginning, in the supervisory plan developed by the National Bank, mechanisms that would motivate commercial banks to restore their capital buffers were consolidated. In particular, in case of restoration of the released requirements before the set deadline, the restrictions imposed on the distribution of capital for banks will be removed (dividend issuance, share redemption, equity investments and creating a variable remuneration obligation to issue management bonuses).

The National Bank continued to actively assess the impacts and challenges of the COVID-19 pandemic and take them into account in its supervisory activities in 2021, as the COVID-19 pandemic, unfortunately, had an severe nature during 2021 too.

As mentioned in last year's strategy, in order to mitigate the negative impact of the COVID-19 pandemic, the National Bank of Georgia launched a temporary supervisory plan in March 2020, which meant the use of capital and liquidity buffers during periods of financial stress by reducing existing capital and liquidity requirements. During the capital conservation and CICR buffer relief period, banks have limited capital allocations, including dividend payments, share redemption, equity investments and the creation of variable remuneration obligations to pay management bonuses. According to the decision of the Financial Stability Committee in June 2021, January 1, 2022 was announced as the start date for the restoration of the buffers released at the beginning of the crisis. The buffer restoration process will last 2 years. Banks were given time until January 1, 2023 to restore the unhedged foreign exchange credit risk (CICR) buffer, and until January 1, 2024 to meet the capital conservation buffer requirement. In the supervisory plan developed by the National Bank, such mechanisms that would motivate commercial banks to restore capital buffers were considered from the beginning. In particular, in the case of early restoration of the relaxed requirements, restrictions imposed on the allocation of capital for banks (dividends, share redemption, equity investments and the creation of variable remuneration obligations for management bonuses)¹¹ will be removed.

The National Bank is observing current events, is in constant communication with the financial sector and continues to take emergency measures as needed.

EVALUATION OF REFORMS

The reforms of the National Bank are evaluated by international organizations and partners. The International Monetary Fund and the World Bank implemented the "Financial Sector Assessment Program" (FSAP) in 2020-2021. This included the assessment of the stability and healthiness of the financial sector, the reforms carried out by the National Bank, development and growth prospects, and recommendations for further development and improvement of the supervisory framework of the National Bank. Most of the reports drawn up by the mission have already been published (see [link](#)), and some of the reports will be published in the near future. Recommendations

¹¹ See more details about the mentioned measures on the NBG website ([link](#))

It should be noted that the FSAP mission positively evaluated the prudential policy and reforms carried out by the National Bank.

The international rating company Fitch Ratings improved Georgia's prospect from negative to stable, while maintaining the sovereign rating at BB level. The report positively evaluates the measures taken by the National Bank of Georgia (NBG) in response to the pandemic and other external shocks and emphasizes that the National Bank remains firmly committed to its primary mandate - price stability (see [press release](#)).

The document published by the US State Department positively evaluates the activities of the National Bank of Georgia. The report states: "The International Monetary Fund, credit rating companies and other international organizations positively evaluate the NGB's macroeconomic framework and inflation targeting regime. The NBG received the "Transparency Award" from the international publication Central Banking in March, 2021. This highlighted Georgia's national improved communication of the bank's monetary policy, financial stability, protection of consumer rights and financial education. The same publication nominated NBG as a candidate for the "Risk Manager Award" in 2020. According to the report of the US State Department, the banking sector is one of the fastest growing sectors of the Georgian economy. Despite the regional and global difficulties facing neighboring countries, Georgia's banking sector is well regulated and capitalized (see [press release](#)).

GLOSSARY

P2P PLATFORM	A platform that ensures that similar entities are connected to each other and transaction between them are implemented without a third party.
XBRL (EXTENSIBLE BUSINESS REPORTING LANGUAGE)	Extensible Business Reporting Language, which is an international standard for sharing supervisory reports.
RECOVERY PLAN	A plan developed by a commercial bank which together with other elements includes measures for the purpose of restoring a financial condition of a bank during significant financial difficulties.
CAPITAL BUFFERS	The amount of regulatory capital in excess of the required minimum amount of regulatory capital.
CAPITAL INSTRUMENTS	Instruments, which satisfy the criteria of a regulatory capital.
MACROPRUDENTIAL POLICY	A Combination of policy and procedures created to avoid accumulation of systemic risks, to reduce the probability of a crisis and to facilitate stable functioning of a financial system.
MACHINE READABLE DATA	Presentation of data in a form that enables its processing and perception through computer software.
MICROPRUDENTIAL POLICY	A combination of policy and procedures created to facilitate sustainability of individual financial institutions.
MODULAR BANKING MODEL	A banking model, in which a banking infrastructure is represented with independent modules based on their scope of activities and the replacement of each is relatively less difficult.
PRUDENTIAL FILTER	Supervisory adjustments with the purpose of maintaining the quality of regulatory capital or other supervisory indicators by using approaches, different from the financial accounting framework, in their calculations.
REGULATORY SANDBOX	A combination of terms and procedures for testing innovative financial products and/or services in a testing environment.
RESOLUTION	Upon having enough grounds to terminate a license of a commercial bank, an alternative option to the liquidation, which implies the restructuring of a bank by the regulator in a manner that does not threaten the financial stability.
RISK BASED SUPERVISION/PRINCIPLES	Supervisory regime/principles, which imply allocation of more supervisory resources to more complex and/or riskier institutions and transactions.

RISK ANALYTICS DASHBOARDS	A graphic representation of the main activity indicators, which simplifies complex data and enables its consumers to easily access information regarding the business activities or specific processes.
RISK APPETITE STATEMENT	Statement which defines the risks assumed by this organization, serving for the purpose of achieving its objectives.
RISK POSITIONS	Balance sheet or off-balance sheet items on which the financial institution has a claim.
REGULATORY CAPITAL	A type of capital, which a financial institution has to have as required by the supervisor and which serves for the purpose of offsetting potential losses.
GRACE PERIOD	A period of time, during which a borrower is not charged with interest and commission and/or part of the principal amount and the payments are to be resumed after the end of grace period.
SUPTECH INSTRUMENTS	Supervisory technologies, which imply the use of innovation technologies in the supervision process by the supervisory authorities.
IFRS - INTERNATIONAL FINANCIAL REPORTING STANDARDS	International Financial Reporting Standards.
IFRS 9	International Financial Reporting Standard, which defines matters related to the recognition, termination of recognition, evaluation and impairment of financial assets and financial liabilities.
FINANCIAL INNOVATION OFFICE	A means of communication between the National Bank of Georgia and the community of innovators of financial technologies with the purpose of providing an easy way to get direct feedback on supervisory questions, promoting responsible innovations in the financial sector and helping Fintech organizations/startups understand the supervisory approach and regulations of the National Bank of Georgia.
FSAP – FINANCIAL SECTOR ASSESSMENT PROGRAM	A joint program of International Monetary Fund (IMF) and World Bank, with the purpose of assessing sustainability of a financial sector, the quality of regulatory and supervisory framework and capacity to manage financial crisis in the country.
CLOUD	An internet base for keeping and accessing data, documents and programs.



საქართველოს ეროვნული ბანკი
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In case of questions regarding licensing, stakeholders may contact the National Bank at the following e-mail address:

- Persons interested in obtaining a banking activity license may address to the following address: BankingLicense@nbg.gov.ge
- Persons interested in obtaining a digital bank license may contact the Financial Innovation Office of the National Bank: InnovationOffice@nbg.gov.ge