



საქართველოს ეროვნული ბანკი
National Bank of Georgia

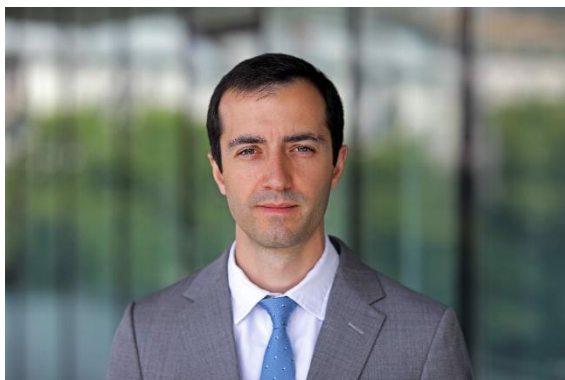
SUPERVISORY STRATEGY

2023-2025

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Statement of the Deputy Governor



The years 2020-2022 posed exceptionally difficult challenges for Georgia, like other countries of the world, including the unstable environment triggered by the coronavirus pandemic and Russia's military aggression in Ukraine. However, the financial system of Georgia, against the backdrop of large-scale economic and financial hardships, is one of the most stable and developed sectors, making a significant contribution to the progress of the national economy. This is primarily thanks to accurate, timely and reasonable regulation.

In response to current challenges, the National Bank of Georgia continuously strives to respond on time. The international sanctions imposed on the basis of the Russia-Ukraine war in 2022 was such unexpected challenge, to which our response was correct

and immediate, and most importantly, we ensured full protection of depositors' interests as we acted.

While planning the reforms and actions of the National Bank of Georgia, we, of course, have to give due consideration to the current challenges. Also, based on our own mandate and mission, in financial sector supervision we are following the Action Plan determined by our 2020-2022 Supervisory Strategy. The work of the National Bank of Georgia accomplished over the past three years was quite diverse and eventful. The following financial sector supervision measures and efforts to promote financial stability deserve a special mention:

- We have introduced the Recovery and Resolution Framework and pay great attention to its implementation and development in practice, as an important step in terms of crisis management and strengthening the stability of the financial sector;
- We have worked intensively for compliance with the acts defined by the Association Agreement, and it is a continuous process. Although some important changes have already been made in the legislative acts, such as the eligibility criteria for administrators and shareholders of commercial banks, the terms for issuing banking licenses and acquisition of a significant share of a commercial bank, the work for further streamlining, approximation and enforcement is still in progress;
- We have made the transition from local accounting standards to International Accounting and Financial Reporting Standards (IFRS), quite an intensive process both for the NBG and for the parties involved. Although commercial banks

have officially adopted IFRS from January 1, 2023, the NBG continues to work with the parties involved to effectively manage the process;

- We have developed changes to the Corporate Governance of commercial banks, to strengthen the role of independent members in the Supervisory Boards of banks and help maintain the balance of diversity in the Supervisory Board, including greater involvement of representatives of the minority gender. This will ultimately enhance the quality of risk management;
- We have improved and developed the competition policy, an important authority of the National Bank of Georgia that creates a good lever for ensuring financial stability through a competitive environment. Legal acts related to the promotion of competition have already been published, and now efforts are concentrated on their effective enforcement;
- We have taken important steps in the NBG digital currency, open and digital banking, including the licensing of the first digital bank, to support innovative financial products, increase competition and create new opportunities for customers;
- We have developed a regulatory framework for a new supervisory entity - a microbank, with the purpose to design a medium-sized, stable business model and a new financial institution with a high reputation in the financial sector, to promote lending to entrepreneurs and agriculture, to increase competition and reduce interest margins on credit products.

An overview of these and other reforms is given in the present document. An important mention is the Financial Sector Assessment Program (FSAP) of the International Monetary Fund and the World Bank in 2020-2021. Evaluating the NBG reforms, the FSAP also included recommendations for further development and improvement of the NBG supervisory framework. The NBG is focused on following partner recommendations, and makes sure these are included in the Supervisory Strategy document.

We published the first document of the supervisory strategy in 2020, laying forward the strategic priorities for 2020-2022, and updated it annually. The strategy document helps the NBG to plan its actions effectively, clearly formulate the future vision for employees, offer greater predictability of its future measures for the sector. Also, it supports the NBG in making the information on supervisory priorities and plans available for investors, international financial institutions and rating agencies, the citizens and other stakeholders. Practice has shown that the supervisory strategy has become a very important reference document for the financial sector.

The National Bank conducted work on the Supervisory Strategy for 2023-2025 with greater involvement of private and civil sectors, including receiving opinions and recommendations of stakeholders through a published questionnaire¹. As a result, we have

¹ To foster the private sector and stakeholder involvement in developing the new supervisory strategy document, the National Bank of Georgia published a questionnaire to invite everyone to participate in defining the key aspects of the supervisory strategy and submit opinions and recommendations. The questionnaire is available on this [link](#) of the NBG website.

determined the supervisory priorities, considering which the National Bank of Georgia will carry out its activities in 2023-2025. Supervisory priorities of this Supervisory Strategy are following:

- 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.

With this document, we are pleased to share the priorities and planned activities under the NBG's 2023-2025 supervisory strategy, as well as the summary report on the performance of the 2020-2022 strategy.

What is the Supervisory Strategy based on?

When developing the Supervisory Strategy for 2023-2025, elaborating on the supervisory priorities, the NBG gave consideration to the following factors:

- Main directions of supervision and regulation of financial sector;²
- Recommendations³ of international partners and commitments assumed⁴;
- Analysis of international practice and trends⁵;
- Opinions and recommendations of the private sector, including opinions regarding the formation of the main priorities of the Supervisory Strategy gathered through the published questionnaire;
- Needs identified within the supervisory mandate, underlying risks and challenges.

² 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”](#).

³ 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](#)).

⁴ Commitments taken under the [Letter of Intent](#).

⁵ The NBG continuously monitors the best international practice and trends, studies them and adapts the existing framework and practices as needed.

The NBG strives to make sure the financial system is **secure today and ready for tomorrow**. Accordingly, the priorities determined by the National Bank of Georgia and the planned actions are tailored and based on these goals.



Secure Today

Public confidence in the soundness and stability of the financial sector is an important prerequisite for economic activity. The NBG devotes considerable resources to achieving this goal and protecting the public's financial interests. For this purpose:

- The supervisory actions are guided by risk-based supervision principles⁶ and the same will be additionally used with regard to customer rights protection activities;
- Decisions are made based on the combination of data;
- The prudential regulation architecture is improved on an ongoing basis to respond to current challenges;
- A modern and flexible working environment helps the team of highly professionals to be ready to act to overcome new and unexpected challenges.



Ready for Tomorrow

As the financial sector develops at a rapid pace, 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 novelties and risks, analyzes financial developments and participants to identify the need for further regulation;
- Tries to find solutions for important challenges together with supervised entities;
- Ensures that the regulatory framework is always being improved to reflect international standards and best practices;
- Protects interests and rights of consumers at all times, including the improved practice for protection of consumer rights in the financial sector.

⁶ The National Bank of Georgia supervises and regulates commercial banks following the principles of risk-based supervision. The explanation of the supervisory regime and each principle of the National Bank of Georgia is available [here](#).



Strengths and Advantages

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

- **Staff and values** - the NBG has highly qualified, experienced and motivated employees with clear goals and values. The employees of the National Bank of Georgia share the values of NBG.
- **In-depth supervisory vision and awareness** – based on the active involvement and regular communication with the entities under the supervision of the NBG, the NBG possesses a unique and in-depth knowledge and vision regarding the risks of the sector and entities;
- **Evaluation of the sector from a systemic perspective** – based on the thorough awareness of the sector and risks, the National Bank of Georgia persistently maintains a systemic view of the sectors under supervision.
- **Strong regulatory powers** - the reforms implemented in recent years and important legislative changes have further strengthened the supervisory and regulatory powers of the NBG, an important factor for timely and effective response to the risks and weaknesses of the sector and entities.

To whom does the Supervisory Strategy concern?

On the basis of the organic law of Georgia "On the National Bank of Georgia", the NBG has been granted full authority to supervise Commercial Banks, Banking Groups, Non-bank depository institutions, Microfinance institutions, Independent registrars of securities, Brokerage companies (except insurance brokers), Stock exchange, Central depositories, Specialized depositories, Asset management companies, Accountable enterprises, Currency exchange units, Investment funds, Payment system operators, Payment service providers, Credit information bureaus and loan issuing entities. Moreover, the amendment to the Organic Law to take effect on July 1, 2023, states that microbanks now falls under the NBG supervision.

The National Bank of Georgia supports the stable and effective operation of the financial system, establishment of a competitive environment, control of systemic risk and reduction of risks. The prudential supervision regime is focused on the sustainable functioning of the entire financial system.

Under present supervisory strategy, the National Bank of Georgia considers the following financial sector entities as supervised entities: Commercial Bank, Microfinance Organization, Credit Union, Currency Exchange Unit, Loan Issuing Entity, Credit Information Bureau, Microbank.

Table N1⁷

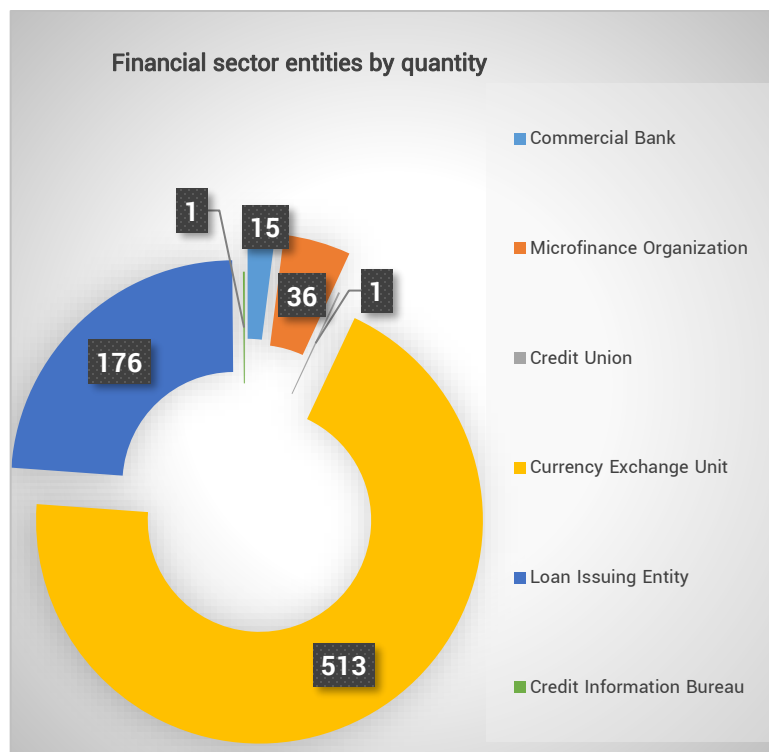
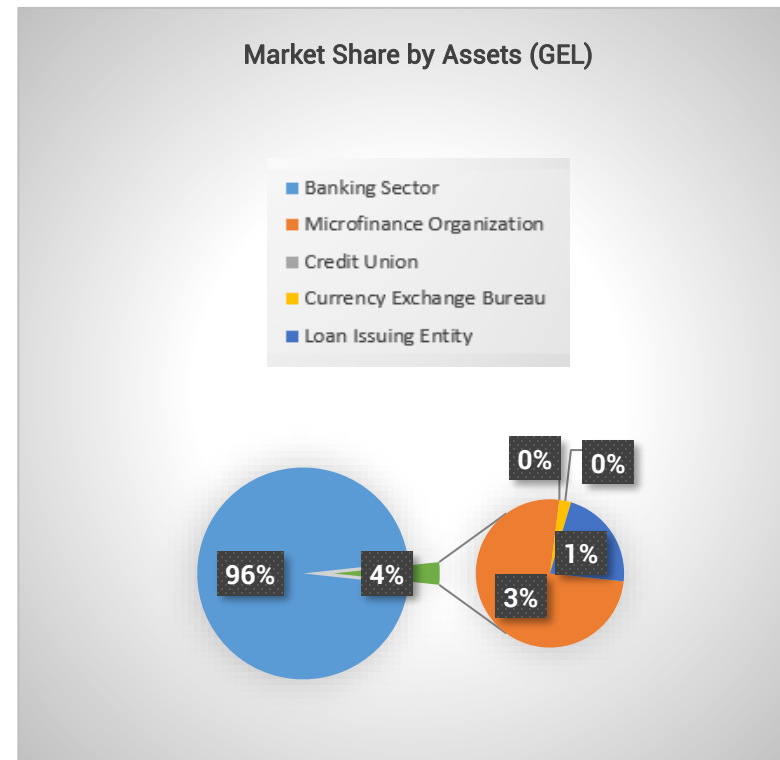


Table N2⁸



⁷ The table shows the supervised entities and their number as of December 31, 2022. 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](#)).

⁸ The table shows the market share of the supervised entities in terms of their assets in national currency. The data on the assets of the banking sector (GEL70,351,948,552), microfinance institutions (GEL1,879,170,674), lending entities (GEL551,828,707) and currency exchange bureaus (GEL63,476,029) are given as of December 31, 2022, and that of the credit union (GEL514,513) as of September 30, 2022.

Supervisory Mandate, Mission, 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 sound 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

Aligned with high international standards, dynamic, innovative, flexible, independent and competent central bank, which, through the protection of financial stability and transparency, promotes the protection of the consumer rights and investors, the financial education of the society, deserves the trust and respect of the public, colleagues and supervised entities.

Culture and Values



A sound organizational culture is one of the most important factors for the accomplishment of the mandate, mission and vision, which implies sharing of common goals and values by the employees of the NBG and teamwork based on them.

PROFESSIONALISM	INTEGRITY	ORIENTED ON DEVELOPMENT AND GROWTH	TEAMWORK	TRUST AND MUTUAL RESPECT
Thorough understanding of the field and constant aspiration towards development, adoption of innovative approach	Compliance with the publicly accepted social, ethical and professional standards	Constant strive towards improvement of own activity, the environment and their abilities	Recognizing the advantages of teamwork and acting effectively in a team to achieve the set goals	<ul style="list-style-type: none">▪ Cooperating inside and outside the organization in a sincere, dignified manner, respecting other's opinions and views▪ Leaving a sense of reliability and credibility within a relationship

In addition to the values, great attention is paid to openness and transparency, of course, by respecting the principle of confidentiality defined by law.

- Facilitate the financial stability and transparency of the financial sector
- Protection of consumer and investor rights

MANDATE



- Facilitation of a sustainable and sound development of the financial sector
- Promotion of competitive environment, where consumer rights are protected

MISSION



- Aligned with high international standards, dynamic, innovative, flexible central bank, independent and competent financial sector supervisor, which deserves the trust and respect

VISION



ORIENTED ON DEVELOPMENT
AND GROWTH

INTEGRITY

VALUES

PROFESSIONALISM

TRUST AND MUTUAL
RESPECT

TEAMWORK

Supervisory regime and vision regarding innovations

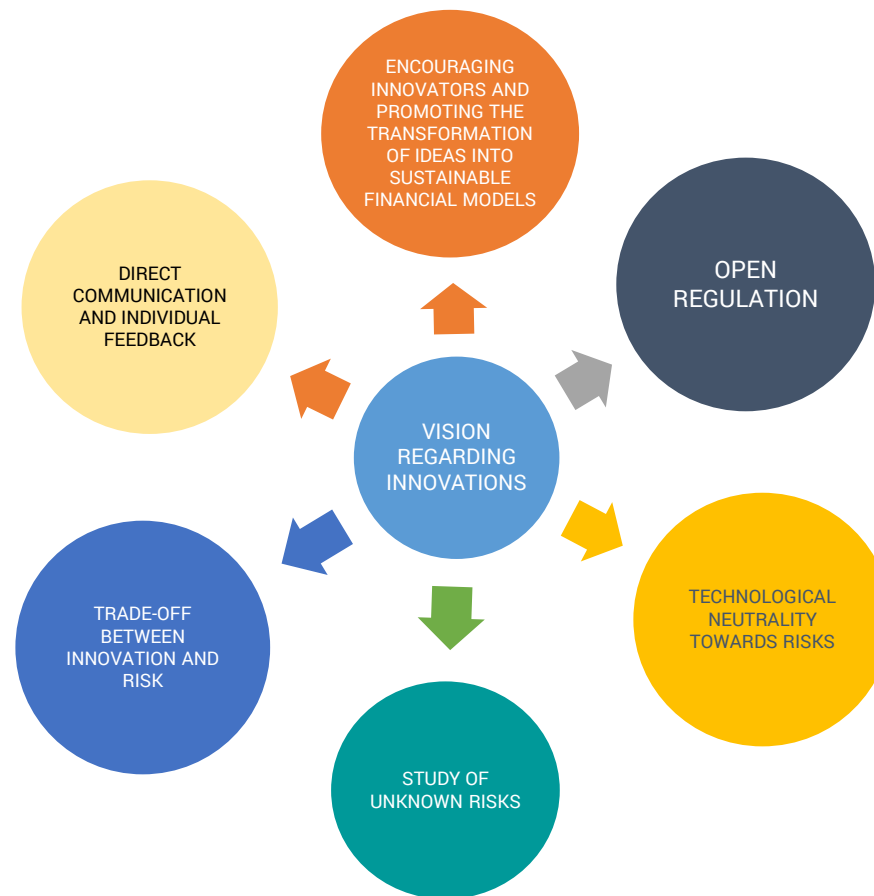
The supervisory regime and principles of the National Bank, as well as the vision regarding innovation will not change substantially for 2023-2025. Taking into account the constant changes of the environment in the field of consumer protection, the approaches of the National Bank of Georgia to this issue are systematically sophisticating and improving in response to the challenges in the market.

SUPERVISORY PRINCIPLES							
Concentration on material risks	Future-oriented approach	Dialogue with the 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	Competition assessment and monitoring	Formation of an environment tailored to consumers and investors

- **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).
- **Future-oriented 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.
- **Consistency, compliance and compatibility, same regulation for same activities and risks** - Ensuring compliance between the requirements set for financial institutions, applying uniform requirements and approaches to decision-making processes related to institutions with similar characteristics and their regulation. The principle implies the establishment of similar regulatory requirements for representatives of a specific market segment, given that they tend to have the same activities and risks; proportional response to 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.
- **Competition assessment and monitoring** - To establish a competitive environment in the financial sector, the NBG actively supports innovative business models and also assesses and monitors the compliance of the work of the financial sector with the competition legislation, including the assessment of concentration and study of potential violations of competition.
- **Formation of an environment tailored to consumers and investors** - the introduction of risk-based supervisory practices allows the supervisor to study the problems in the sector more globally and comprehensively and look at how the sector complies with the legal requirements concerning consumer rights. This will support the improvement of the environment adapted to consumers.

The NBG vision of innovation is somewhat based on the supervisory principles of the NBG, especially in terms of the risk-based approach.



- **Encouraging innovators and promoting the transformation of ideas into sustainable financial models** - the National Bank of Georgia pays great attention to encouraging innovations and promoting their transformation into sustainable financial models. For this goal, the NBG develops various supervisory approaches and is involved in the design of the basic infrastructure for fintech activities, which consists of two vectors: financial infrastructure and development of a supervisory framework.
- **Open regulation** - The supervisory approach is open to new ideas and initiatives that serve the goals of financial market development while not increasing the risk to financial stability and the system. Any person whose innovative idea may be hindered by the supervisory techniques of the National Bank of Georgia can submit to the NBG evidence based on international practice and local facts for the development of regulation.⁹
- **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.
- **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.
- **Trade-off between innovation and risk** - the rapid development of financial innovation and the reduction of risk can often conflict with each other. The NBG vision involves persistent attention to improving the optimal balance between financial market development and risks.
- **Direct communication and individual feedback** - to encourage innovation, the NBG is ready for direct communication and individual feedback with stakeholders, and that implies timely and detailed communication on questions related to the supervisory approach to financial technologies, as well as the opportunity for the interested parties to get feedback tailored to their individual needs.

⁹Information on open regulation framework and its elements is available on the NBG [webpage](#).

Underlying challenges of operational environment

Challenges in the operational environment can affect the NBG's supervisory work, failure to implement the supervisory strategy, postponement or modification of planned activities. The environment may even render the Bank's predetermined supervisory priorities and planned activities irrelevant.

The trends, challenges and certain risks characteristic of the NBG's dynamic operational environment may affect the priorities defined in this document, the changes planned and the deadlines for their implementation. To properly respond to such challenges and effectively accomplish the supervisory mandate, the NBG reserves the right to change/adjust these priorities and/or their implementation deadlines.

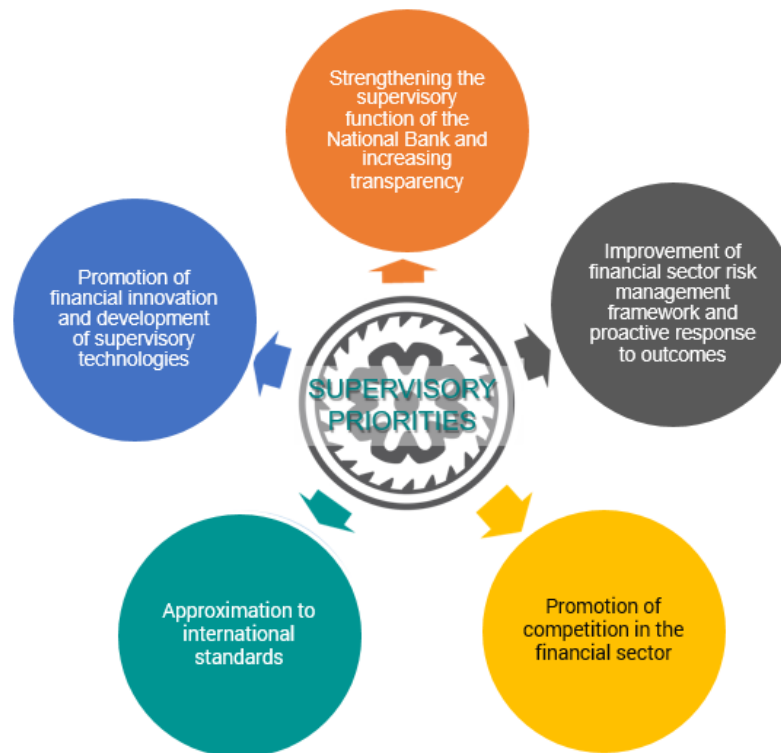


Current challenges of the operational environment identified by the NBG are multidimensional:

- Non-financial and emerging risks
- Changes in the industry, including new business models
- Rapid growth of crypto assets and of crypto currency tendencies
- Technological innovations and cybercrimes
- Human resource management, outflow and lack of competence
- Political environment and external shocks
- Globalization and digitalization
- Collaborative culture

Strategic priorities for 2023-2025

The 2023-2025 supervisory strategy document includes the NBS's new supervisory priorities for the next three years.



Similar to the 2020-2022 supervisory strategy, the new supervisory strategy document will be updated annually, which in order to effectively attain the supervisory mandate and mission, entails actions plan to attain the set priorities, reporting the performance of the actions in the plan, and, possibly changing the deadlines provided for in the action plan, as needed.

IMPROVEMENT OF FINANCIAL SECTOR RISK MANAGEMENT FRAMEWORK AND PROACTIVE RESPONSE TO OUTCOMES

Improving the risk assessment for the financial sector and proactively responding to risks identified is a priority over the next three years. The National Bank of Georgia plans to accomplish this goal with the following actions:

- Improvement of risk assessment systems related to non-financial risks of the financial sector, including cybersecurity, climate change, information technology and the use of models, and development of appropriate supervisory policies;
 - Development of climate change risk scenarios and stress-test framework;
 - Introduction of the cloud computing model manual;
 - Update of the regulation on management of operational risks at commercial banks;
 - Determining requirements for operational and cyber risk stress-tests for commercial banks;
- Development and implementation of appropriate policies, procedures and techniques, based on the principles of risk-based supervision, to monitor the current consumer rights practices and enforcement of the legislative and regulatory framework;
- Promotion of gender diversity in the financial sector to increase the quality of risk management;
- Assessment of banks' capital, liquidity and risk management framework and practices within internal capital and liquidity adequacy assessment programs (ICAAP & ILAAP);
- Assessment of the resilience of the financial sector to external shocks, including by conducting stress-tests and integration of the results in an appropriate framework to improve the resilience of the financial sector;
- Conducting the 2022 round of stress-tests for commercial banks and analysis of the 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 requirements for operational risks, cybersecurity and corporate governance for microfinance organizations based on risk assessment;
- Assessment of informational gaps between different areas of commercial banks (including corporate banking, investment banking, insurance, brokerage, asset management) and corporate governance issues, risk analysis and integration of the identified risks and measures in the appropriate strategy and supervisory vision;
- Improving direct and effective communication with commercial banks (including senior management and supervisory board) on the risk-based supervisory regime, including risks and weaknesses identified, supervisory measures and other material issues;
- Similar to commercial banks, the proportional transfer of the supervision regime of other supervised entities to risk-based principles;

- Qualitative assessment of the effectiveness of risk management and internal control functions (including internal audit) of commercial banks and taking appropriate measures for gaps and weaknesses identified;
- Continuous proactive assessment of recovery plans developed by commercial banks and appropriate communication;
- Further improvement of the guidelines for developers and real estate under construction;
- Upgrade of standards for managing conflict of interest;
- Development of a regulation on credit risk management and definition of basic principles;
- Development of special insolvency/bankruptcy legislation for microfinance institutions;
- Introduction of temporary administration regime for microfinance organizations through legislative changes;
- Establishing data quality management requirements for commercial banks.

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 the regulation on management of operational risks at commercial banks						
	Determining requirements for operational and cyber risk stress-tests for commercial banks						
	ICAAP & ILAAP assessments of commercial banks						
	Develop a risk-based supervisory strategy in the field of consumer protection						
	Conducting the 2022 round of stress-tests for commercial banks and analysis of the results						
	Preparatory works for the 2025 round of stress-tests for commercial banks, conducting the round and analyzing the results						
	Development of requirements for operational risks, cyber security and corporate governance for microfinance organizations						
	Further improvement of the guidelines for developers and real estate under construction						
	Upgrade of standards for managing conflict of interest						
	Development of a regulation on credit risk management and definition of basic principles						
	Development of special insolvency/bankruptcy legislation for microfinance institutions						
	Introduction of temporary administration regime for microfinance organizations through legislative changes						
	Establishing data quality management requirements for commercial banks						

PROMOTION OF COMPETITION IN THE FINANCIAL SECTOR

To promote competition in the financial sector, the priorities for the next three years 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 purpose of 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 rules on imposing fines on currency exchange units.
- Monitoring of the market(s) of the financial sector, which includes, but is not limited to, the study of issues and practices related to combined financial products and development of 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 work on enforcement mechanisms in practice;
- Initiation of simplified impact assessment for the introduction of new legal initiatives and/or acts for the financial sector in order to analyze the expected impact of the new initiatives/acts on competition (on the financial markets concerned);
- Develop institutional capacity to conduct merger analysis/antitrust investigations/competition advocacy within the NBG as a separate function to minimize conflict of objectives;
- To expand cooperation with institutions across the country (including the Georgian Competition Agency, regulatory agencies, Personal Data Protection Agency, ministries, the Parliament and others), to effectively implement the competition policy;
- Facilitating the access of small players to expensive infrastructure and rich data;
- Encouraging the emergence of new players in the market;
- Facilitating monitoring and enforcement processes for consumer rights protection law, including by amending rules on imposing fines and relevant acts on consumer rights protection.

Priority	Activity	Action plan					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of competition in the financial sector	Development of the supervisory framework for Microbanks						
	Bringing the entities carrying out factoring operations a under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework						
	Bringing the 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						
	Improvement of the regulatory framework for currency exchange units						
	Improvement of the 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						
	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, promoting the digitization of supervisory processes and services, and developing respective supervisory technologies are priorities for the next three years. The National Bank of Georgia plans to accomplish this goal with the following actions:

- Improving the effectiveness of supervision, promotion of digitalization of supervisory processes and services and development of appropriate supervisory technologies;
- Development and promotion of open banking;
 - Promoting the use of open banking services by non-banking institutions, including fintech companies, in order to provide innovative services to financial sector users and improve the competitive environment;
 - Dynamic standardization of financial information and services in electronic space;
 - Continuous development of the open banking framework, which involves sharing more financial information;
 - For open finance: identification, prioritization and support of products and services of practical use bringing added value to the citizens;
 - Development of a relevant supervisory framework for the purpose of transition to open finance;
- Determination of guidelines for the development of financial technologies and a national financial inclusion strategy;
- Development of open supervisory techniques:
 - Upgrading open regulation principles;
 - Development of the Financial Innovations Office as the main channel of communication with the community of financial innovators;
 - Easing the entry barriers of entities with innovative business models into the financial market;
- Development of digital banking:
 - Ensure increased access to financial services, use technological capabilities and promote the development of digital banking channels;
 - Promoting the development of a modular banking model;
 - Developing a cybersecurity framework for digital banking;
 - Sustainable development of cloud architecture data storage and processing.
- Upgrade and development of the regulatory sandbox, which, in turn, involves expanding the scope of its use and investigating unknown risks, including its use in relation to unregulated entities, improving the risk testing framework for various technologies, and using a Targeted Sandbox for NBG's priority services/licenses as needed;

- Facilitating the development of data analysis and supervisory technologies (SupTech) at the NBG, which includes the development of the credit register and improvement of data quality, and optimization of supervisory forms; BigData modeling and its use in the supervisory process; transfer of supervisory information to the XBRL (Extensible Business Reporting Language) data exchange standard and development of risk analytical tables (so-called dashboards);
- Development of models:
 - Promotion of data processing to improve access to finance, development of 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 appropriate guidelines;
 - Development of principles for the ethical use of models;
 - Monitoring of international practice to develop principles for transparency and explainability of the model and improvement/tightening of the principles based on the needs identified;
 - Improvement of qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9. Identification of supervisory segment indicators for IFRS models through credit register data.
- Launch of pilot Central Bank Digital Currency:
 - Starting a pilot program together with the NBG-selected tech partner and testing practical examples that generate additional value as identified by the NBG¹⁰;
 - Implementation of digital currency in the real environment, based on the experience gained from the pilot program;
 - Study of potential risks of digital currency emerging after implementation in pilot and real environment and development of mitigation measures;
 - Coordination of the parties involved in the digital Lari (GEL) project and taking care of their effective integration;
 - Encouraging financial innovation and studying business models and international practices for the development of supervisory technologies, establishing close partnerships with related parties and promoting public awareness of financial technologies: conducting studies on DLT technology, crypto-assets, stable coins, smart contracts; identify risks for these technologies/assets and establish appropriate supervisory framework for them;
 - Encouraging the use of built-in finance in order to increase competition in the domestic financial market;
 - Working on establishing regional cooperation and developing a joint fintech action plan;
- Positioning Georgia as a regional/Black Sea fintech hub.

¹⁰ The pilot phase is planned to start in first half of 2023. The duration of the pilot program will be identified together with the tech partner.

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 relevant supervisory framework for the purpose of transition to open finance						
	Determination of guidelines for the development of financial technologies and a national financial inclusion strategy						
	Developing a cybersecurity framework for digital banking						
	Upgrade and development of the regulatory sandbox						
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models						
	Improving the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9						
	Identification of supervisory segment indicators for IFRS models through credit register data.						
	Starting a pilot program together with the NBG-selected tech partner and testing practical examples that generate additional value						
	Development of supervisory framework for DLT technology, cryptoassets, stable coins, smart contracts						
	Encouraging the use of built-in finance						
	Sustainable development of cloud architecture data storage and processing						

APPROXIMATION TO INTERNATIONAL STANDARDS

For the purpose of stable and effective functioning of the financing system, the NBG prioritizes for the next three years to ensure approximation with the advanced international standards and accomplish the commitments or recommendations. The National Bank of Georgia plans to accomplish this goal with the following actions:

- Improvement of current prudential regulation, which will effectively respond to the growing challenges and encourage innovation in the financial system;
- Monitoring the implementation of the project on transition to IFRS (International Financial Reporting Standards), with subsequent updating/integrating changes in supervisory policies, as needed;
- Monitoring of standards for dynamic approximation with the Directives and related standards determined by the Association Agreement;
- Development of environmental, social, governance (ESG) risk management guidelines;
- Preparing a new guide/action plan on sustainable finance;
- Improving transparency reporting related to environmental, social, governance (ESG) issues and establishing advanced practices in finance;
- Conducting studies and determining the requirements for the introduction of the minimum requirement for own funds and eligible liabilities (MREL);
- 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;
- Continuous monitoring and improvement of regulatory capital standards:
 - Adopt definition and assessment methodology for deductible foreseeable dividends and charges from undistributed profit to be included in the CET1 capital. In addition, the principle of including annual and interim profits in the CET1 capital will be explained;
 - Adopt 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;
- Approximation of risk exposures to 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;
 - Adoption of a new methodology to calculate risk weighted exposures for market risk;
 - Adoption of additional approach regarding the counterparty credit risk;
- Adoption of prudential requirements on the consolidated level;
- Improvement of standards related to liquidity (LCR, NSFR).

- Setting up of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures;
- Canceling the effects of exchange rate depreciation;
- Development of a framework for additional supervision of financial conglomerates.

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 guideline/action plan on sustainable finance						
	Improving transparency reporting related to ESG issues and establishing advanced practices in finance						
	Conducting studies and determining the requirements for the introduction of the minimum requirement for own funds and eligible liabilities (MREL)						
	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						
	Updating the standardized approach for the credit risk						
	Adoption of a new methodology to calculate risk weighted exposures for market risk						
	Adoption of additional approach regarding the counterparty credit risk						
	Adoption of prudential requirements on the consolidated level						
	Improvement of standards related to liquidity (LCR, NSFR)						
	Setting up of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures						
	Canceling the effects of exchange rate depreciation						
	Development of a framework for additional supervision of financial conglomerates						

STRENGTHENING THE SUPERVISORY FUNCTION OF THE NATIONAL BANK AND INCREASING

Improving the organizational and institutional standards and practices of the National Bank of Georgia in order to achieve maximum efficiency and synergy of the supervisory function is a priority for the next three years. The National Bank of Georgia plans to accomplish this goal with the following actions¹¹:

- Strengthening the NBG's corporate culture, offering a diverse, equal, and inclusive environment for employees, providing a work environment based on professional and motivated employee teamwork, including work on improving the hybrid work system;
- Strengthening governance in making supervisory decisions, increasing the roles of employees involved in the process, improving the accountability framework and optimizing the process;
- Maximum institutionalization of supervisory practice;
- Ensuring the maximum involvement of all responsible departments in working groups missioned to respond to the challenges identified in the supervision process and encouraging joint decision-making;
- Improving the practice of publishing the supervisory strategy document, and presenting it to sector representatives and industry experts for discussion;
- Implementation of a framework for receiving comments regarding supervisory policy documents and initiatives, and then publicizing the received feedback;
- Ensuring complete and effective implementation and enforcement of regulations and policies in place;
- Attracting professionals, developing a long-term development plan for them;
- Strengthening internal communication and increasing employee engagement;
- Encouraging the culture of cooperation and information exchange, training and coaching;
- Promoting the orientation/adaptation of new employees;
- Improving the employee performance evaluation and feedback system, including piloting the 360-degree feedback system;
- Development of a sustainable HR policy.

The projects planned to achieve this goal require continuous work and so the National Bank of Georgia will devote continuous effort to strengthening its supervisory function and enhancing transparency in the course of 2023-2025.

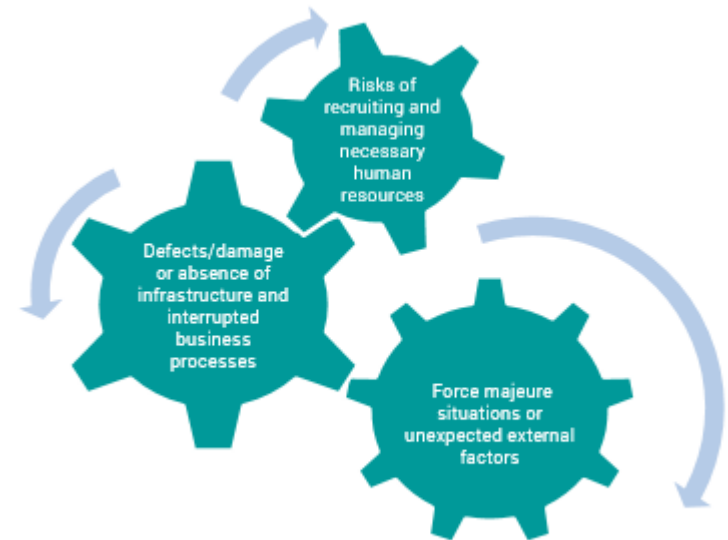
¹¹ The activities planned for achieving this goal require continuous work and so the National Bank of Georgia will devote ongoing effort to strengthening the supervisory function and enhancing transparency in the course of 2023-2025.

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 relevant policies and procedures						
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback						
	Improving the employee performance evaluation and feedback system, piloting the 360-degree feedback system						
	Development of a sustainable HR policy						

Risks to implementing the Supervisory Strategy

In addition to challenges posed by the operational environment¹², there are other risks and external factors that may also affect the failure to implement the supervisory strategy, or parts of it, including:

- 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
- Defects/damage or absence of infrastructure of the NBG, which hinders the normal flow of business at the NBG.



¹² See page 16

Action Plan

Similar to the previous strategy, the standards and regulations included in the change plan are already mostly covered by the NBG's supervisory framework. However, as the international best practices and standards are developed and global and local trends are updated, the National Bank of Georgia continuously modernizes and upgrades the supervision-related regulatory framework and supervisory resources, technologies and techniques.¹³

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 the regulation on management of operational risks at commercial banks						
	Determining requirements for operational and cyber risk stress-tests for commercial banks						
	ICAAP & ILAAP assessments of commercial banks						
	Develop a risk-based supervisory strategy in the field of consumer protection						
	Conducting the 2022 round of stress-tests for commercial banks and analysis of the results						
	Preparatory works for the 2025 round of stress-tests for commercial banks, conducting the round and analyzing the results						
	Development of requirements for operational risks, cyber security and corporate governance for microfinance organizations						
	Further improvement of the guidelines for developers and real estate under construction						
	Upgrade of standards for managing conflict of interest						
	Development of a regulation on credit risk management and definition of basic principles						
	Development of special insolvency/bankruptcy legislation for microfinance institutions						
	Introduction of temporary administration regime for microfinance organizations through legislative changes						
	Establishing data quality management requirements for commercial banks						

¹³ The NBG is unable to set accurate deadlines for the projects that involve or depend on legislative changes.

Priority	Activity	Action plan					
		2023		2024		2025	
		HY1	HY2	HY1	HY2	HY1	HY2
Promotion of competition in the financial sector	Development of the supervisory framework for Microbanks						
	Bringing the entities carrying out factoring operations a under the regulation of the National Bank of Georgia and developing the appropriate supervisory framework						
	Bringing the 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						
	Improvement of the regulatory framework for currency exchange units						
	Improvement of the 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						
	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 relevant supervisory framework for the purpose of transition to open finance						
	Determination of guidelines for the development of financial technologies and a national financial inclusion strategy						
	Developing a cybersecurity framework for digital banking						
	Upgrade and development of the regulatory sandbox						
	Creating a supervisory framework for the sustainable development of statistical and artificial intelligence models						
	Improving the qualitative indicators, comparability and compatibility of models for the purposes of IFRS 9						
	Identification of supervisory segment indicators for IFRS models through credit register data.						
	Starting a pilot program together with the NBG-selected tech partner and testing practical examples that generate additional value						
	Development of supervisory framework for DLT technology, cryptoassets, stable coins, smart contracts						
	Encouraging the use of built-in finance						
	Sustainable development of cloud architecture data storage and processing						
Approximation to international standards	Development of ESG risk management guidelines						
	Preparation of a new guide/action plan on sustainable finance						
	Improving transparency reporting related to ESG issues and establishing advanced practices in finance						
	Conducting studies and detrmining the requirements for the introduction of the minimum requirement for own funds and eligible liabilities (MREL)						
	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						
	Updating the standardized approach for the credit risk						
	Adoption of a new methodology to calculate risk weighted exposures for market risk						
	Adoption of additional approach regarding the counterparty credit risk						
	Adoption of prudential requirements on the consolidated level						
	Improvement of standards related to liquidity (LCR, NSFR)						
	Setting up of a committee to review disputes within the NBG on payment systems and payment services, and development of related regulatory acts, policies and procedures						
	Canceling the effects of exchange rate depreciation						
	Development of a framework for additional supervision of financial conglomerates						
Strengthening the supervisory function of the National Bank and increasing transparency	Simplify the supervisory decision-making process and develop relevant policies and procedures						
	Adoption of a framework for receiving comments regarding supervisory policy documents and initiatives, and publicizing received feedback						
	Improving the employee performance evaluation and feedback system, piloting the 360-degree feedback system						
	Development of a sustainable HR policy						

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.

Contact Information

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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 license may email at: BankingLicense@nbg.gov.ge
- Persons interested in obtaining a digital bank license may contact the NBG's Financial Innovations Office at: InnovationOffice@nbg.gov.ge