*Draft*

**Law of Georgia on the Activities of Micro Banks**

**Chapter I. General Provisions**

**Article 1. Scope of the Law**

1. The aim of this law is to regulate the activities of Micro Banks operating in Georgia, to create a healthy environment for their development and to ensure free competition on the market.
2. In addition to the designation provided by the “Law of Georgia on Entrepreneurs”, Micro Bank is obliged to include the term "Micro Bank" in its company name and in contractual relations.
3. Except as cases provided in clause 2 of this Article, a Micro Bank is allowed to use the term "Bank" as its name.

**Article 2. Definition of terms**

1. For the purposes of this Law, the terms have the following meanings:
2. Administrator – a member of the supervisory board, or directorate of a Micro Bank and/or other persons who directly or indirectly have the authority and responsibility to plan, manage and/or control the activities of the Micro Bank, and whose list is approved by the Supervisory Board of a Micro Bank;
3. Micro Bank - a legal entity established in the legal form of a joint stock company, which is licensed by the National Bank of Georgia and carries out the activities provided by this Law;
4. Persons connected to a Micro Bank – Micro Bank administrators, shareholders, their relatives who represent first and second ranks legal heirs under the Civil Code of Georgia, or persons related to them by business interests;
5. Beneficial owner – a person receiving financial or other benefits under the law or an agreement, and who has no obligation to transfer these benefits to another person; and if a beneficial owner is an entity established to achieve best objectives, or if an owner is a legal person that has no person who owns a significant interest, a beneficial owner is a member of the management body;
6. Group of jointly acting partners (shareholders) – a group of closely related partners, (shareholders) or partners (shareholders) connected to each other by commercial interests in addition to the Micro Bank interests;
7. Micro Bank activities - types of activities defined by Article 3 of this Law;
8. Financial institutions – entities defined under the Law of Georgia on Securities Market;
9. Subsidiary (subsidiary organisation) – a legal person or an organisational establishment without a legal status controlled by a parent company (head organisation); or a legal person with 50 per cent or more of the shares (voting stock, shares) owned by the parent company;
10. Parent company (head organisation) – a legal person with one or more subsidiaries (subsidiary organisations);
11. Control – authority to administer financial and economic policy of the company (organisation) in order to receive economic benefit from such activity;
12. Controlling person – a person who exercises control;
13. Affiliate – a subsidiary and/or a company under control of a legal person, as well as its controlling persons, and their subsidiaries and companies under their control;
14. Person – a natural or a legal person, as well as an organisational establishment under the legislation of Georgia which is not a legal person;
15. Significant share – more than 10 percent of the paid-in or authorised capital and/or of the voting shares of a Micro Bank, directly or indirectly owned by a person or partners (shareholders) acting in concert and/or possibility to make a significant influence on the Micro Bank by a person or partners (shareholders) acting in concert, regardless of the amount of shares in the capital and /or voting stock;
16. Significant influence – a right to take part in decision-making process with respect to financial and operational policy, which does not represent control of this policy or a joint control;
17. Indirect participation (ownership) – shares in the capital of a legal person held through a relevant third person;
18. Regulatory capital – a type of capital created for conducting Micro Banking activities, for reserving against expected or unexpected financial loss/damages and protecting from different risks;
19. Share capital – a Micro Bank’s shareholder capital determined as the difference between total assets and total liabilities of the Micro Bank;
20. Authorised capital – a capital agreed upon by the company shareholders and provided for by the charter;
21. Paid-in capital – the actually paid-in portion of the authorised capital.
22. Other terms used in this law have the meaning defined by the legislation of Georgia.

**Article 3. Activities Permitted to a Micro Bank**

1. Micro Bank's business model is based on lending to entrepreneurs, including those earning income from agricultural activities. In particular, at least seventy percent of a Micro Bank loan portfolio shall consist of loans issued for entrepreneurial purposes and/or loans, the repayment source of which is income from entrepreneurial activities.
2. For the purposes of this Law, income from entrepreneurial activities shall be considered as a source of loan repayment if the income from entrepreneurial activities exceeds fifty percent of the borrower's total income.
3. Micro Bank is authorized to carry out only the following banking activities:
4. Granting loans, issuing guarantees, letters of credit and leasing, factoring operations within the limit established by this Law;
5. Soliciting interest-bearing and interest-free call and term deposits only within the limits established by the Law of Georgia on Deposit Insurance System, as well as above-the-limit, current account services in compliance with liquidity requirements set by the National Bank of Georgia, as well as attracting other and other refundable means of payment from natural persons (Including from an individual entrepreneur) in accordance with Clause 6 of this Article;
6. Opening and servicing correspondent accounts;
7. Performing monetary and non-monetary payment transactions and cash-collection services;
8. Issuing means of payment and organizing their circulation;
9. Providing payment services, operating payment system, performing the functions of a paying agent;
10. Providing interest-free banking services;
11. Enter into a derivative contract, buying and selling securities with your own funds, unless the of the mentioned activity requires a brokerage license;
12. Buying and selling foreign currency with own and clients' funds;
13. Storing valuables;
14. Leasing of property only for the purpose of Micro Banking activities provided for in this Article;
15. Other services related to each of the activities covered by this Article.
16. Micro Bank should issue loans only in national currency.
17. In addition to the activities provided for in clause 3 of this Article, Micro Bank is authorized to carry out activities permitted for a brokerage company in accordance with the requirements established by the Law of Georgia on the Securities Market, with the consent of the National Bank of Georgia. The procedure and conditions for issuing the consent provided for in this clause, as well as its revocation shall be determined by a normative act of the National Bank of Georgia.
18. In case of Micro Bank soliciting refundable means of payment from a natural person (including an individual entrepreneur), the amount of means of payment raised from each natural person (including an individual entrepreneur) shall not be less than GEL 100,000 (one hundred thousand) or its equivalent in foreign currency. This restriction does not apply to the public offering of securities and the issuance of a loan to a Micro Bank by a shareholder/founder of a Micro Bank or to a contribution in capital. Soliciting refundable means of payment above GEL 100,000 (one hundred thousand) can occur only in relation to the regulatory capital within the relevant threshold, which is determined by a legal act of the National Bank of Georgia.

**Chapter II. Licensing**

**Article 4. Micro Banking license applications**

1. Micro Banking license applications shall be submitted to the National Bank in writing. The application is to be filed by a person authorized by the Supervisory Board or shareholders of the license seeker.
2. Written application shall be attached with the following documents and information about the applicant for a Micro Banking license:
3. Constituent documents;
4. Information regarding authorized capital and its paid-in portion; also information about the ownership and origin of the capital;
5. Bank statement on filling the minimum supervisory capital in accordance with the legal act of the President of the National Bank of Georgia;
6. Information on compliance of administrators with fit and proper criteria defined by this Law and normative act;
7. Document proving payment of a license fee defined under the Law of Georgia on License and Permit Fees;
8. Documentation and information provided for in Article 6 of this Law on both, the direct and intermediate owner as well as the beneficial owner;
9. Information on ownership/ group structure in accordance with clause 3 of this Article;
10. Information on the supervisory board and the directorate in accordance with clause 4 of this Article;
11. Documents approved by the Supervisory Board in accordance with clause 5 of this Article;
12. Documentation evidencing the right of use or ownership of the real property where a license seeking Micro Bank shall be located in the future;
13. Any other information reasonably required by the National Bank in each individual case.
14. The information about the structure of the ownership/group shall include data about the ownership on every level, direct shareholders, intermediate owners and significant share beneficial owners. In particular, the mentioned information shall include:
15. In case of an individual:

a.a) Copy of identification document;

a.b) Information on citizenship and residence;

a.c) Detailed Curriculum Vitae;

a.d) Information on amount of a share in financial institutions currently or in the past and the other business interests on the territory of Georgia;

a.e) Information on criminal record; In case of non-resident persons - from the administrative bodies of all the countries of which the person has been a resident for the last 10 years;

a.f) Information on financial position, source of income and origin of such income;

a.g) Tax return on revenues.

1. in the case of a legal person:

b.a) Registration documentation;

b.b) Audited financial statements for the most recent period (quarter). If a legal entity applies to the National Bank of Georgia no later than 6 months after its establishment, it shall submit only the unaudited current balance sheet and relevant notes.

b.c) Information on criminal record; In case of non-resident legal persons - from the administrative bodies of all the countries of which the person has been a resident for the last 10 years.

1. Information on supervisory board and directorate shall include following:
2. Information on education, qualification and experience;
3. Certificate on criminal records. In case of non-resident persons - from the administrative bodies of all the countries of which the person has been a resident for the last 10 years.
4. Information on solvency/ insolvency, if legislation of the respective country provides for the possibility to issue such information;
5. Information on financial liabilities ( including overdue loans)
6. Information on kinship with shareholders or potential administrators, including information on tax/ loan debt or/ and restructured tax/ loan debt. As well as information on financial liabilities to the state (including tax/loan debt and/or restructured tax/loan debt);
7. Information about the relationship with the shareholder or potential administrator.
8. Documents approved by the supervisory board shall include:
9. Description of organizational structure and management activities;
10. By-law on corporate governance principles and risk management framework;
11. Capital adequacy calculations in accordance with the National Bank’s requirements based on the budget presented in the business plan;
12. A business plan that will run for at least three years. The business plan should include at least the following information:

d.a) A business strategy which will be duly present compliance of the business model and business strategy with the requirements set forth in this Law;

d.b) Description of the target market and evaluation of one’s own competitiveness;

d.c) Budget plan and financial forecast;

d.d) Minimum initial IT plan and IT implementation for future operational period.

1. Group/ownership structure, governance structure and operational activity/environment shall ensure the possibility to exercise effective supervision and not create threat for stability and sound operation of a Micro Bank or/and financial sector.
2. Micro Bank, its shareholders, interim owners and beneficial owners holding significant share have obligation to submit updated information defined under the present article upon request of the National Bank.
3. Micro Bank is obliged to notify the National Bank of Georgia in advance of any change in the founding structure, which may have some impact on the suitability of the Micro Bank shareholders and/or administrators, in accordance with the rules established by the National Bank.
4. The documents provided for in this Article must be submitted in the form of originals or their notarized copies. Documents issued in a foreign country must also be apostille-certified and/or legalized, and a duly certified Georgian translation of the documentation must be submitted.
5. In case of a non-resident legal entity, if the legislation of the relevant country does not provide for the issuance of a criminal record, an official document issued by the authorized agency certifying the above shall be submitted to the National Bank of Georgia.

**Article 5. Decision on licensing**

1. Decision on issuing the Micro Banking license shall be made only by the National Bank of Georgia.
2. Micro Banking license shall be issued for an indefinite term and its transfer to another person is prohibited.
3. The National Bank shall review compliance of submitted documents and information with law requirements for the purpose of making decision on issuance of a banking license and assess adequacy of business plan of a license applicant and feasibility of its implementation, its potential position in the financial sector and potential of its sustainable functioning.
4. During the review of submitted license application documents and information, the National Bank of Georgia shall be entitled to request any other, additional information essential to make reasoned decision in each specific case.
5. Within six months following the receipt of the written application for obtaining Micro Banking license, the National Bank notifies Micro Bank license applicant in writing on its well-reasoned refusal or consent. The National Bank shall be authorized to hold respective consultations with a Micro Banking license applicant prior to receipt of license application in writing.
6. If the documentation and information submitted by the interested legal person does not comply with the requirements established by the legislation of Georgia or the National Bank, the National Bank is entitled to reasonably refuse to issue a micro-banking license to or to identify a defect (including several times) to interested legal entity and to set a deadline for its elimination, during which the period provided for by clause 5 of this Article shall be suspended. Failure to use the period set for elimination of a deficiency shall represent the ground to reject applicant’s request for Micro Banking license. The total period for making a decision on issuing a Micro Banking license by the National Bank of Georgia shall not exceed 12 months.
7. The National Bank of Georgia shall be authorized to issue a Micro Banking license and to impose restrictions on certain types of permitted activities for a specific period of time or indefinitely.
8. The National Bank of Georgia is authorized by a normative act to establish the rules for issuing and revoking a Micro Banking license.

**Article 6. Fit and Proper Criteria for Holders of Significant Share and Administrators of Micro Banks**

1. A person shall be prohibited to be a holder of Micro Bank’s significant share if such person has been convicted for heavy or especially aggravated crime, terrorism financing or/and legalization of illicit income or the other economic crime.
2. A person cannot be an administrator of a Micro Bank if:

a) He/she has been recognized as receiver of support by the court;

b) He/she has been convicted for heavy or especially aggravated crime, terrorism financing or/and legalization of illicit income or the other economic crime;

c) He/she has no respective education or/and experience;

d) He/ she simultaneously is an administrator of another financial instiution, except for the case when he/she occupies position of an administrator in a financial institution controlled by this Micro Bank or in a financial institution which controls this particular Micro Bank.

1. The National Bank shall be entitled to define additional fit and proper criteria for holders of Micro Bank’s significant share and administrators under a normative act.

**Article 7. Revocation of Micro Banking licenses**

The National Bank if entitled to revoke a Micro Banking license. Grounds for revocation can be following:

a) The written request of a Micro Bank on revocation of a Micro Banking license;

b) Violation of Articles 3 and 22 of this Law by a Micro Bank;

c) Submission of forged or/and incorrect documents/information for the purpose of obtaining Micro Banking license;

d) Failure of a Micro Bank to perform activities within 6 months following license issuance;

e) Material deviation from the business plan and strategy submitted for licensing purposes without coordination with the National Bank;

f) If a Micro Bank has been merged with, acquired by, or separated from the other commercil bank or Micro Bank;

g) If a Micro Bank no longer has minimum regulatory capital formed with funds according to the National Bank’s requirements; or a is no longer reliable for creditors or a is no longer able to ensure security of assets entrusted to it;

h) Weak risk management model, a harmful or unsound practice for its financial condition, which may inflict significant damage to its depositors and/or stability of financial sector;

i) The Micro Bank faces or is expected to face significant financial problems, which may be expressed in weak profitability figures and violation of regulatory coefficients or otherwise;

j) The Micro Bank is insolvent or is likely to become insolvent;

k) Complexity or/and non-transparency of a Micro Bank’s group/ownership structure, or such change in the structure that hinders the implementation of effective supervision, endangers the stability and sound functioning of the financial sector;

l) Court decision on depriving the Micro Bank of the right to conduct Micro Banking operations;

m) Failure to meet by administrators, holders of significant share or beneficial owner fit and proper criteria defined under the present law;

n) End of the temporary administration regime unsuccessfully;

o) Other cases defined under the law.

**Article 8. Publication of decision on revocation of Micro Banking license and its results**

1. The decision on revocation of a Micro Banking license shall be published in the Legislative Herald of Georgia and on the official web page of the National Bank. Decision shall enter into force on the day of its publication on the official web page of the National Bank of Georgia or on another date specified in the Decision.
2. Upon revocation of the Micro Banking license, it is mandatory for the National Bank of Georgia to start the process of liquidation of the legal entity holding the Micro Banking license, except in the case provided in Article 15 of this Law.
3. A legal entity shall be prohibited to pursue any activity provided for in the Micro Banking license from the license revocation date. Legal entity shall meet all liabilities defined under the legislation within shortest period of time from the Micro Banking license revocation date. Prior to meeting this liability, a legal person shall be subject to Micro Banking law similar to licensed Micro Banks.
4. Decision on insolvency and bankruptcy of Micro Bank shall be made only by the National Bank**,** in accordance with the rules established by it.

**Chapter III. Acquisition of Significant Shares of Micro Banks**

**Article 9. Documents and information to be submitted**

1. A person or a group of effective partners (shareholders) acting in concert (‘the declarant’), who intends to acquire a share in a Micro Bank so that his/her /its own or his/her/its beneficial owner’s ( beneficial owners) direct or indirect participation exceeds 10, 25 or 50 percent in the Micro Bank’s capital, shall be obliged to submit a fit and proper declaration to the National Bank (‘the Declaration’) personally or through a representative, as well as information on holder of a significant share and beneficiary owner provided for in Article 4 of this Law.
2. For the purpose of making decision on acquisition of a significant share, the National Bank shall review submitted documents and information and their correspondence with the requirements set under the Law and take into consideration declarant’s reputation and financial position, potential impact of changed ownership/group structure on effective supervision and transparency of the ownership/ group structure, as well as money laundering and terrorism financing risks with respect to such transaction.
3. The applicant must submit the following documents and information to the National Bank of Georgia:
4. Own identification data;
5. Information that he/she has no criminal records for heavy or especially aggravated crime, terrorism financing or/and legalization of illicit income or the other economic crime;
6. Information on held and/or ongoing investigative, criminal and/or administrative proceedings and responsibilities imposed on him/her and/or a written statement by the person that no such incident has taken place;
7. In the case of a natural person, information on the revocation of the license/registration/membership related to business and professional activities, dismissal from the workplace, disciplinary liability and relevant reasons;
8. In case of a natural person, information on the solvency of the organizations owned or managed by the applicant, and/or in which he/she owned or owns a significant share and/or has significant influence, and/or the applicant's written confirmation that such had no place (Information from credit information bureau, debtors' register (if any) and/or in the form of information provided by the applicant without a statement);
9. In case of a legal entity, information on its legal form, place of registration, location of head office and contact information; As well as a list of persons authorized to manage a legal entity, their identification data, date and place of birth, contact information and information about their education and professional experience;
10. Identification data of the beneficial owner (owners) specified in clause 1 of this Article, or an indication that, to the best of his/her knowledge, there will be no such beneficial owner (owners) as a result of this transaction;
11. Information that the beneficial owner specified by clause 1 of this Article has not been convicted for heavy or especially aggravated crime, terrorism financing or/and legalization of illicit income or the other economic crime;
12. The amount of his/her/its own shares as a result of transaction;
13. Information on origin of funds required for acquisition of a significant share;
14. Based on information available to him/her/it, the amount of shares owned by the beneficial owner whose share exceeds 10, 25 or 50 per cent, if the acquisition is completed;
15. A declaration of the beneficial owner (if submitted) to certify that the information in the declaration is accurate;
16. Information on the applicant's ownership/group structure, identifying shareholders with significant influence, including existing shareholder agreements. This should also include information on the group member financial and non-financial institutions;
17. As a result of the acquisition of a significant share of in Micro Bank by the applicant, in the event of a change in the group structure, information on the members of the consolidated supervision group and the impact of the transaction on future unhindered supervision, timely and accurate information provision (if any);
18. Information on current financial condition, credit rating (if any), current financial assets and liabilities;
19. Description of current business activities.
20. In case of acquisition of more than 50% of shares or otherwise controlling shares, the applicant must submit a business plan, which at least must include:
21. A strategic development plan that should represent the main goals, the ways to achieve them;
22. Forecasts of financial indicators;
23. Assessment of the expected impact of the transaction on corporate governance and general organizational structure, including:

c.a) Information on the composition of the Directorate/Supervisory Board and changes in the composition of the committees established by them;

c.b) Impact assessment on internal control procedures and systems, money laundering and terrorist financing risk management, key functions of internal auditors and risk management;

c.c) Information on changes of information security infrastructure, outsourcing policy, systems security, continuity plan and audit systems;

c.d) Any other relevant information related to changes in corporate governance and general organizational structure as a result of the transaction, including changes in voting rights.

1. If possible, the declarant shall attach the information provided by beneficial owner (owners) specified by the first clause of this Article to his/her/its own submitted declaration.
2. If, based on information available to the declarant, the beneficial owner specified by the first clause of this Article does not exist, the declarant shall indicate such in the declaration.
3. In the event the National Bank considers that additional information is required for making a decision, it shall be entitled to request any other information within its competence including information specified in Article 4 of this Law (including confidential information).
4. Direct or indirect owner of the Micro Bank who intends to sell its share in a Micro Bank directly or indirectly, due to which his/her/its or beneficial owner’s share in capital becomes less than 10, 25 or 50 percent, is obliged to notify the National Bank in advance on this fact. The notification shall include as detailed information about the transaction as possible.
5. Micro Bank shall immediately notify the National Bank about any change in a fit and proper criteria with regard to owner of the significant share.

**Article 10. Review of Application**

1. The National Bank shall review a declaration within one month after it is submitted and shall give consent or a well-reasoned refusal to the declarant to acquire the share.
2. If the National Bank considers the information submitted on the beneficial owner to be insufficient or inaccurate, it shall be entitled to verify or clarify that information directly with the beneficial owner. In this case, the deadline for response shall be extended to three months, and the declarant must be notified of it.
3. The National Bank of Georgia may suspend a voting right of the owner of the significant share or request the immediate sale of a significant share if the applicant has not submitted an application and relevant information to the National Bank of Georgia or has received a reasoned refusal from the National Bank of Georgia but has still acquired a significant share of Micro Bank.
4. When considering the issue of approving an application for the acquisition of a significant share, the National Bank of Georgia is entitled to request, within its authority, any additional information necessary to make a reasoned decision on a specific case.

**Article 11. Information to be submitted to the National Bank**

1. On the basis of available information, a micro bank shall provide the National Bank, together with annual reports, with information on the direct owner and the beneficial owner of more than 10 per cent of bank shares and shall indicate whether it confirms the accuracy of the information provided.

2. A beneficial owner, who directly or indirectly holds more than 10 per cent of a Micro Bank shares, shall be obliged to submit to the National Bank in April of every year an information on changes in its share amount or to confirm that changes have not taken place.

3. If a direct owner and a beneficial owner of significant share of a micro bank fail to submit the required information to the National bank, they shall be held liable for the failure under the legislation of Georgia.

4. A Micro Bank shall be obliged to have complete information about the identity of each beneficial owner of the bank who directly or indirectly owns more than 10 per cent of shares (indicating the amount of shares); to provide the National Bank with that information (as well as with information of any significant changes regarding a beneficial owner) and to publish this information in the bank's annual reports. The National Bank shall define the method of providing and publishing this information on the basis of International Financial Reporting Standards and best international practices.

5. The obligation under the fourth paragraph of this article shall not apply to beneficial owners of a micro bank who cannot be identified by the bank because the nominal ownership in their favour is held by a clearing organisations located and exercising their authority in developed countries, or by international depositaries.

**Article 12. Requirement for submission of information by an owner of significant share and supervisory measures**

1. In case of reasonable doubt, the National Bank may require that a micro bank submit an updated information on the direct and beneficial owners of its significant shares.

2. If the requirement provided in the first paragraph of this article is not satisfied by the significant owner or by the assessment of NBG the significant owner does not satisfy the fit and proper criteria, the National bank shall be authorised to:

a) Suspend the voting rights of such person for a certain period, and require him/her/it to reduce his/her/its shares to 10 per cent within 60 days;

b) Suspend the voting right of such person for unlimited period;

3. The person shall have the right to appeal the decision of the National Bank on refusal to acquire shares in a micro bank, suspension of the voting right and/or requirement to reduce his/her/its shares to 10 per cent to a court.

4. If there is a court decision suspending the voting rights, the person shall have the right to exercise his/her/its voting rights proportionate to only 10 per cent of the shares.

**Article 13. Requirements towards capital and reserves of micro bank**

1. The National Bank shall periodically determine the requirements for minimum amount of reserves and their maintenance, paid-in capital and minimum amount of regulatory capital of a micro bank, and regulations for their formation.

2. A micro bank may not reduce its paid-in capital without the prior written consent of the National Bank and without an appropriate amendment regarding a change in the subscribed capital capital and paid-in capital defined in its charter.

**Article 14. Investments of Micro Bank**

A Micro Bank may:

a) Invest (including establishing or acquiring a subsidiary) of a legal entity that is a financial institution or whose activities are related to the activities of a micro bank or its social projects. The share in each enterprise referred to in this sub-paragraph shall not exceed 20 percent of the equity capital of the micro bank, and the total cost of the investments shall not exceed 30 percent of the equity capital of the micro-bank. The National Bank of Georgia is authorized to exempt the micro bank from the limitations specified in this sub-paragraph for no more than 1 year.

b) Receive a share to repay the amount of credit granted. The micro bank shall immediately notify the National bank and inform about activities of such enterprise. If activities of an enterprise the share of which is received by the micro bank do not meet requirements set under the sub-paragraph “a” of this article, the micro bank shall take steps for selling the share within 6 months. In case of the prior consent of the National bank of Georgia, the micro bank has to purchase the share within 1 year. In exceptional cases, the National Bank of Georgia is authorized to extend this period, which, regardless of how many times it is extended, should not exceed 2 years in total. If the amount of repurchased share authorizes the micro bank to control and manage an enterprise, it shall not be allowed to commence any new additional activity within the period from repossession until disposal without the National Bank’s consent.

**Article 15. Conversion of a Micro Bank into a Commercial Bank**

1. A Micro Bank is allowed to change its activities and apply to the National Bank of Georgia for a banking license in accordance with the rules established by the legislation of Georgia.

2. Until the National Bank of Georgia decides on the issuance of a banking license, the micro bank shall continue its licensed activities and shall be subject to the requirements established by this Law.

3. Along with the decision to grant a banking license, the National Bank of Georgia shall make a decision on the revocation of micro banking license. Upon revocation of micro banking license, its legal successor becomes the relevant commercial bank.

4. In case of refusal to grant a banking license, the micro bank shall continue to operate in accordance with the rules established by this Law.

**Article 16. Merger or separation of Micro banks**

1. Micro banks may be merged, acquired or separated only upon a written consent of the National Bank of Georgia. No merger, acquisition or separation of micro banks that fails to comply with provisions of Article 14 of this Law shall be implemented.

2. The National Bank of Georgia shall review the compatibility of the merger of micro banks with the competitive environment in accordance with the Law of Georgia on Competition and the rules established by the National Bank of Georgia.

**Article 17. Corporate Governance of Micro Bank**

1. Each micro bank has its charter which complies with the legislation of Georgia. The National Bank shall be immediately notified in writing if any amendments are made to the charter.

2. A Micro bank shall be administered according to its charter and other internal organizational rules, which should define the organizational structure, risk management framework, responsibilities and which should be formalized and permanently available to the National Bank of Georgia.

3. Management bodies of a micro bank shall be formed and operate under the Law of Georgia on Entrepreneurs, taking into account the requirements of this law. The highest management body of a micro bank is a General Meeting of Shareholders, which acts in compliance with the legislation of Georgia and the charter of a micro bank. The Meeting shall appoint the supervisory board. The National bank shall be informed on holding a General Meeting (indicating the date and agenda) for its possible participation in the Meeting, within the time frame determined for shareholders under the legislation of Georgia.

4. The National Bank of Georgia is authorized to define additional requirements for corporate governance of a micro bank by the legal act.

**Article 18. Supervisory Board**

1. It is mandatory for a micro bank to establish a Supervisory Board, to which the rules prescribed by the Law of Georgia on Entrepreneurs regarding the Supervisory Board of a Joint-Stock Company shall be applied.

2. A Supervisory Board shall supervise activities of a micro bank.

3. Members of the Supervisory Board shall not have executive functions.

4. The General Meeting of Shareholders shall appoint each member of the Board for a term of four years. Their re-appointment shall be unlimited.

5. The General Meeting of Shareholders shall determine remuneration for Board members. Only fixed remuneration is allowed for members of the Supervisory Board.

6. A person may not be appointed as a Supervisory Board member and must be withdrawn from the Board by decision of the General Meeting of Shareholders if this person:

a) Is a member of a supervisory board or a board of directors in more than seven companies registered in Georgia;

b) Is an administrator of another financial institution registered in Georgia, except when holding a position of an administrator in a financial institution under control of this micro bank, or in a financial institution that controls this micro bank;

c) Is not authorised to be in a Supervisory Board under the law;

d) Is declared bankrupt.

7. Supervisory Board members must administer micro bank activities with good faith, care for the micro bank as a faithful and sensible person cares in similar conditions and they must act out of interest in the micro bank's stability. If they fail to fulfil these duties, they shall be jointly and severally liable to the micro bank for damages caused.

8. The decision by each Supervisory Board member must comply with micro bank interests. The members must act reasonably and independently. They must ensure that qualified directors are appointed and retained, a micro bank business strategy is defined, and the banking policy is developed in writing.

9. A micro bank supervisory board or its members may not delegate their rights to others without the consent of the General Meeting of Shareholders.

**Article 19. Board of Directors**

1. Micro bank directors shall administer and represent the company. They are responsible for managing activities of a micro bank and performing its functions. The Board of Directors consists of at least 3 directors to be appointed by the Supervisory Board for a maximum of four years. Their reappointment shall be unlimited.

2. A person may not be appointed as a member of Micro Bank Board of Directors or must be dismissed from the Board Directors membership by decision of the Supervisory Board if this person:

a) fails to meet the fit and proper criteria for a micro bank director;

b) Is not entitled by law to be in the Board of Directors;

c) Is declared bankrupt;

d) Is the spouse, child or close relative of a member of the Board of Directors of this micro bank.

3. In certain cases, a micro bank Board of Directors shall have the right to delegate his/her authority to others, partially or completely, based on a prior written consent of the Supervisory Board of this micro bank.

**Article 20. Bank secrecy**

1. No one shall have the right to give anyone access to confidential information, to disclose or disseminate this information, or to use it for personal purposes. Confidential information may be only provided to the National Bank within its authority.

2. Information on any transaction (including the case of attempting to conclude a transaction), conducted payment transaction, account, operation conducted from this account and account balance may be provided to a party of respective transaction, while conducting a payment transaction – the payer and/or the recipient, a respective account holder and their representatives; in the cases provided for by the legislation of Georgia – to the Financial Monitoring Service of Georgia, and to persons, that are authorized to execute the enforcement normative acts defined under the Law of Georgia on Enforcement Proceedings, in the course of their enforcement; while conducting the inspection provided for by the Law of Georgia on Personal Data Protection - the Personal Data Protection Service; to a tax authority, based on a judicial decision under the Code of Administrative Procedure of Georgia and the Agreement between the Government of the United States of America and the Government of Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA) and, also, to the LEPL Deposit Insurance Agency, in cases provided for in the Law on Deposit Insurance System. This Information can also be disbursed on the basis of respective ruling of the court.

3. Tax authority shall be entitled to transfer the information provided for in Paragraph 2 of this Article to the competent authority of the US in accordance with the Agreement between the Government of the United States of America and the Government of Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA) without court ruling.

4. The restriction provided for in Paragraph 2 of this Article shall not apply to exchange of information within micro banking group and between micro banks for purposes of the anti-money laundering and terrorism financing legislation.

**Chapter V. Operational Requirements**

**Article 21. General principles of micro banking activities**

1. A micro bank shall be managed and its operational activities shall be performed according to administrative and accounting procedures, conditions and restrictions attached to the micro banking licence that are substantiated by the legislation of Georgia, as well as under the resolutions, procedures and guidelines of the National Bank. The National Bank rules, standards and guidelines applying to more than one micro bank shall be subject to mandatory publication and shall become effective from the date of publication or the date indicated in the rules, standards and guidelines.

2. The Terms of the relationship between the customer and the micro bank regarding the provision of services by the micro bank shall be regulated by agreement. If the time frames under a money transfer agreement are violated, the micro bank shall be obliged to pay the customer not less than 0.5 per cent of the delayed amount for each overdue banking day.

3. A micro bank shall be entitled to develop a security policy for using electronic signatures in providing certain banking services and submit the policy to the National Bank for approval. On the basis of this security policy, an electronic signature used when providing certain banking services by a micro bank shall have equal legal force as personal signatures on a material document. Electronic document certified with an electronic signature may be used in all of those cases where Georgian legislation requires hard copy of the document.

4. Submission of security policy on use of electronic signature, provided for in paragraph 3 of this Article, shall not be mandatory only if micro bank, when rendering banking services, uses signature affixed through an electronic ID issued by an administrative agency authorized under the Georgian legislation or a signature, certificate for which is issued in accordance with the Law of Georgia on Electronic Document and Electronic Reliable Services.

5. Paragraphs 3 and 4 of this Article do not limit the right of a micro bank to use electronic signature in banking services in accordance with Article 3 (8) of the Law of Georgia on Electronic Document and Electronic Reliable Services. In this case, the National Bank shall be entitled to request from a micro bank submission of the security policy on use of electronic signature for approval by NBG. If the National Bank, after review of the security policy submitted by a micro bank, rejects the security policy on use of electronic signature in accordance with this paragraph, the micro bank shall cease using such electronic signature.

**Article 22. Economic limits, normatives and individual requirements**

1. Micro banks are obliged to observe the following economic limits and normatives determined by the legal acts of National Bank:

a) A minimum amount of regulatory capital;

b) A ratio between various types of capital and classified assets under the rules of the National Bank;

c) The maximum total sum of credits and other liabilities issued to one borrower or a group of interconnected borrowers shall not exceed GEL 1,000,000 (one million);

d) The ratio of one large credit and all large credit and other liabilities to Tier 1 Capital;

e) A ratio between the total sum of credits and other liabilities issued by a micro bank to all insiders and the Tier 1 Capital of the micro bank;

f) Level of liquidity in accordance with the rules established by the National Bank of Georgia;

g) Classification of assets and off-balance sheet liabilities, and formation and use of reserves against possible losses;

h) A ratio of investments and property investments to equity capital;

i) Open foreign currency position limit to regulatory capital.

3. Based on the risk-based supervision principles, the National Bank is authorised to set for each micro bank individual indices and other requirements for economic limits and normatives or impose additional requirements for economic limits and normatives.

3. If the total assets of the micro bank exceed 2% of the total assets of the financial sector, the National Bank of Georgia is authorized to request a return plan from the micro-bank within this limit or to impose additional and/or different supervisory requirements.

**Article 23. Business relations with clients**

1. Micro banks shall open accounts in accordance with the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and the „Agreement between the governments of United States of America and Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA).

 2. In business relations with their service customers and when verifying transactions of the customers, micro banks must be aware of the identity and activities of their service customers and the level of risk for these activities with regard to money laundering and terrorism financing. Micro bank shall also determine the tax residency of the client and retrieve the information on the corresponding status of this person in accordance with the „Agreement between the governments of United States of America and Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA)”.

 3. Micro banks operating in Georgia shall have the right to decide and require other additional information.

4. Micro banks operating in Georgia shall have the right to refuse without any justification to open an account or render service.

5. A micro bank is entitled to refuse to open an account or close an existing account if a person refuses to provide information requested by micro bank in accordance with the the requirements set out in the agreement “ between the governments of United States of America and Georgia on Improving International Tax Compliance and Implementing the Foreign Account Tax Compliance Act (FATCA)”.

**Article 24. Prohibited agreements and methods of working**

1. Micro banks may not conclude any agreement with their customers that will require acquisition or use of a non-banking service of this micro bank or any of its affiliates in exchange for granting a loan or providing any other service by the micro bank, unless the customer is given an opportunity to receive this nonbanking service from other providers.

2. Controlling person/administrator of a micro bank shall be prohibited to perform any action, which results, using the information received from the micro bank, granting them independently or with other persons a dominant positions or results restriction of competition in non-banking sector.

3. Controlling person and administrator of a micro bank shall ensure avoiding from conflict of interest and must not put their interests above those of the micro bank, or abuse their authority. Controlling person and administrator of a micro bank who possess a non-public information that could significantly affect the cost of certain investments, is prohibited from using this information independently or with other persons.

4. For the purpose of fulfilling the requirements of this article, micro bank shall ensure implementation of adequate policies, procedures and technical systems related to the management of non-public information and monitor them. This should ensure that improper flow of information to the parties related to the micro bank, its controllers and administrators is restricted.

5. In case of violation of the requirements of this Article, the National Bank may apply the supervisory measures and sanction (fine) envisaged in this Law.

6. For the purpose of satisfying the requirements of this article the National Bank of Georgia is authorized to set the requirements regarding the prohibited agreements and methods of working for shareholders, controlling persons and administrators of micro banks and set relevant supervisory measures and/or sanctions (fine).

**Article 25. Registration of transactions and liabilities**

1. Micro banks are obliged to keep all documents related to each of their transactions for the time frames determined by the National Bank, in particular:

a) Requests and all contractual documents related to transactions (including agreements on credits, guarantees and pledges);

b) Those financial records and other documented certificates of the micro bank partners (including borrowers and guarantors) that form the basis for the micro bank to approve a transaction;

c) A signed record of the micro bank's decision to approve a transaction;

d) Other documents as provided for by the National Bank standards.

2. Micro banks shall be obliged to store information on their customers, transactions implemented by them and on their accounts in an electronic form for not less than 15 years.

**Article 26. Transactions with interested persons**

1. Micro banks may not grant any product or provide any service included in the activities of the micro bank under preferential conditions to any administrator, controlling person, affiliate or persons related to them, despite the type of loan, interest rate, maturity period, collateral, value or any other conditions.

2. The National Bank of Georgia is authorized to determine the persons related to the micro bank.

**Chapter VI. Reports, Audit, Accounting and Inspection**

**Article 27. Financial statements and Audit**

1. Micro banks and their subsidiaries shall regularly prepare reports, records and annual financial statements that precisely include their operations and financial conditions under “International Financial Reporting Standards (IFRS)”. In addition, micro banks and their subsidiaries shall follow an appropriate form, level of details and accounting norms as defined by the rules of the National Bank

2. Reports, records and financial statements of micro banks, both individual and consolidated, shall reflect the operations and financial condition of their subsidiaries.

3. Micro bank and its subsidiary shall be obliged to invite auditors and conduct an audit of financial statements every year as determined by the National Bank.

4. Upon completion of an audit, each micro bank shall be obliged to provide the National Bank with a complete audit report and publish the financial statements, and audit report as defined under the procedures of the National Bank.

**Article 28. Reporting and inspections**

1. Micro banks shall prepare reports and submit them to the National Bank in accordance with the rules and in the form established by it.

2. The National Bank of Georgia is authorized to inspect the micro bank and its subsidiary, conduct on-site inspections and remote supervision, audit accounting documents, reporting components and other materials both individually and in a consolidated manner. National Bank is authorized to have full access to the information within the micro bank, including the data and documents on shareholders, supervisory board, management and employees.

 **Chapter VII. Supervisory measures and sanction (fine) of the National Bank of Georgia**

**Article 29. Supervisory measures of the NBG and sanction (fine)**

1. The National Bank may impose one or several supervisory measures and/or sanction – (fine) in relation to a micro bank, its administrators or controlling persons, in the presence of one or more following grounds, if the micro bank or any of its administrators, or controlling persons have violated:

a) Any provision of this Law, or any standard, instruction, provision, regulation, resolution, requirement or written guideline of the National Bank;

b) Any condition or restriction included in a micro banking licence or a respective provision of the National Bank;

c) The deadlines for submitting reports, or has submitted wrong reports or other inaccurate information;

d) The requirements of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation and Terrorism Financing;

e) The requirements of the Law of Georgia on Payment System and Payment Services;

f) The requirements of the Law of Georgia on Competition;

g) Impeded supervision process as a result of failure to fulfill of requirements set by the legislation or/and by the National Bank of Georgia;

h) The micro bank has engaged or is engaging in unsafe and unsound micro banking practices;

i) Risks have been identified through the supervisory review and evaluation process;

2. If one of the grounds under the first paragraph of this Article is identified, the National Bank is authorized to take the following one or several supervisory measures sequentially or without being subject to any order, based on the principle of proportionality:

a) Send a written notice of warning to a micro bank, its administrators or controlling persons;

b) require additional capital;

c) require the update of the arrangements, processes, control systems and strategies and to submit an action plan to improve financial condition;

d) Determine special measures, terminate or limit certain transactions or issue an instruction (guideline) requiring the micro-bank to ensure compliance with the requirements of Georgian legislation and sound practices and take necessary measures to correct a violation specified in paragraph 1 of this article within the timeframe specified by the National Bank.

e) require Micro bank to apply a specific provisioning policy or treatment of assets in terms of capital requirements;

f) suspend the administrator’s right of signature and demand a micro bank’s Supervisory Board and in the case of member of a Supervisory Board from the bank’s shareholder’s meeting, to dismiss him/her from office;

g) suspend or restrict a micro bank from increasing assets, distributing profits, paying dividends and bonuses, increasing salaries and soliciting deposits;

h) suspend the voting right of the controlling person and/or significant shareholders in case of failure to submit the financial or other type of information or violating the legislation, including failure to meet the fit and proper criteria identified in the Article 6 of this Law and/or if a significant shareholder or controlling person uses its powers in a manner that is detrimental to the interests of the micro bank. The National Bank determines the conditions and terms of the suspension or restriction taking into account the circumstances;

i) Require a controlling person of a micro bank to repeal or restrict a control over a micro bank in case of failure to submit the financial or other type of information or any other violation of the law. The National Bank determines the conditions and terms of the repeal and restriction based on specific circumstances;

j) Require the micro-bank to respond appropriately to the risks related to its activities, products and/or systems;

k) Require a micro bank to reduce the amount of variable remuneration necessary to comply with the established capital adequacy ratios or to comply with other normatives;

l) Restrict or prohibit distributions or interest payments by a micro bank to shareholders, or holders of Tier 1 capital instruments;

m) Impose additional reporting requirements;

n) Impose individual liquidity requirements;

o) Require additional disclosures;

p) Revoke the license of a micro bank.

3. If one or several grounds under the first paragraph of this Article is identified and/or a micro bank’s financial situation is rapidly deteriorating, or it is likely to do so soon, including deteriorating capital, or liquidity situation, increasing of non-performing loans or exposures, the NBG is authorized to independently or simultaneously with one or more other supervisory measures impose one or more following supervisory measures taking into account the proportionality principle:

a) Require a micro bank to implement one or more of the measures set out in the action plan for improving financial condition;

b) Require a micro bank to carry out valuation of a micro bank’s assets and liabilities by an independent valuator approved by the NBG;

c) Require changes to a micro bank’s business strategy or to the organisational structure;

d) Require that a micro bank’s Supervisory Board and Board of Directors to convene an extraordinary General Meeting of Shareholders to discuss grounds defined by the first paragraph of this Article and take necessary measures for their correction. If these bodies fail to comply with the requirement, the National Bank of Georgia may directly convene a meeting of shareholders of the institution, set the agenda and require certain decisions to be considered and necessary measures to be adopted for correction of grounds defined by the first paragraph of this Article.

e) Appoint a temporary administrator;

4. In the case of Subparagraphs "a-h" of the first paragraph of this Article, the National Bank of Georgia is authorized, taking into account the proportionality principle, to impose on the micro bank and its administrator and/or controlling person, a sanction/fine, in the manner and amount determined by the NBG. The sanction/fine may be imposed independently or simultaneously with one or more supervisory measures and the amount of the fine should not exceed the equity capital of the micro bank.

5. The amount of a fine imposed under this article shall be paid into the State Budget.

6. The party against whom the supervisory measure and/or sanction (fine) is imposed has the right to appeal to the court within 1 month after the official notification of the relevant individual administrative-legal act.

**Article 30. The Principle of Proportionality**

1. NBG’s decision taken in pursue of Article 29 of this Law should be proportionate to the grounds of imposing supervisory measure or sanction (fine). NBG should take into account following criteria while taking decision on imposing supervisory measure or sanction (fine):

a) The gravity of established grounds defined by Article 29 of this Law. NBG assesses at least the micro bank’s financial position, the micro bank’s capital adequacy relative to the risks assumed, the impact of the grounds on the micro bank’s financial position, the scale of grounds, number and their interdependence; duration and frequency of ground, legality of the micro bank’s operations and/or potential threat to the micro bank’s assets.

b) The demonstrated readiness and capability of the micro bank to eliminate the established grounds of Article 29. For this purpose, the NBG assesses at least the capability of the micro bank’s management to identify, assess, monitor and manage the bank’s risks, efficiency of eliminating the grounds provided for in the same Article and cooperativeness of the micro bank, its administrators and controlling persons during supervision.

c) The extent to which the micro bank jeopardises the stability of financial sector and its smooth functioning. For this purpose, NBG assesses and takes into account the micro bank’s size, its interconnectedness with other participants in the financial sector, substitutability of the functions of micro bank and the complexity and the scope of its business activities.

**Article 31. Temporary Administration Regime**

1. If one or more of the grounds under the first and/or third paragraphs of Article 29 is identified and if imposing the supervisory measures was insufficient or according to the NBG’s opinion they would not be sufficient to reach the result, for the purposes of facilitating the stable and efficient operation of financial sector and a micro bank and protection of the interests of a micro bank’s depositors and other creditors, NBG is authorized to appoint a temporary administrator independently or simultaneously with one or more supervisory measures defined in paragraph 2 and/or 3 of Article 29.

2. The temporary administrator shall start performing his/her duties from the date specified in the decision on the appointment of the temporary administrator. The decision shall be published in an official gazette.

3. The temporary administrator is required to immediately, but no later than the day of the appointment of the temporary administration notify the payment system operator of the introduction of the temporary administration regime, the system of which includes a micro bank managed by the temporary administration.

4. From the date of issuance of the individual administrative-legal act on the appointment of the temporary administration, it is prohibited to carry out any action on behalf of the micro bank and at its expense without the written consent of the temporary administrator, except in cases provided by the Law of Georgia on Payment System and Payment Services.

5. The full authority of all management bodies of the micro bank (including the general meeting of partners/general meeting of shareholders and administrators) is transferred to the temporary administrator.

6. The temproary administrator is obliged to initiate as soon as possible the necessary changes in the list of officials submitted to the National Bank of Georgia.

7. The National Bank of Georgia is authorized to determine the rules for an introduction and operation of the temporary administration regime by a separate normative act.

**Article 32. Appointing of a Temporary Administration**

The decision on appointing of a temporary administration shall contain the following elements:

a) Grounds of appointment of a temporary administration;

b) Identification data of a temporary administrator/s;

c) Duration of temporary administration;

d) Warning about possible freezing of micro bank customers' funds;

e)Measures applied to the micro-bank administrators.

**Article 33. Powers of the Temporary Administrator**

1. The temporary administrator appointed by the National Bank of Georgia has the right to take the necessary measures to recover the financial condition of the micro bank, including closing its branches, dismissing the employees of the micro bank, disbursement or suspending the payment of funds. The temporary administrator is also authorized to merge a micro bank with another micro bank or commercial bank, to renew its capital or to sell its assets and liabilities or part thereof to another financial institution. The decision made by the temporary administrator on the payment of funds or the suspension of their payment shall not contradict the requirements of the Law of Georgia on Payment System and Payment Services.

2. A temporary administrator of a micro bank shall be authorized to bring an action to the Court to challenge any act performed by the micro bank administrator one year before the temporary administrator was appointed and which inflicted damage to the micro bank’s creditors, except the actions taken on the basis of the Law of Georgia on Financial Collateral Arrangements, Netting and Derivatives. If the opposing party is a related person, the action carried out within 2 years before the administrator was appointed may be brought to the Court. An action taken by a micro bank administrator to the detriment of creditors may be challenged if it was carried out within 3 years before the appointment of a temporary administrator.

**Article 34. Termination of temporary administration**

1. The temporary administration shall terminate:

a) With the expiry of its period, about which it is published in an official gazette;

b) by a reasoned decision of the National Bank of Georgia;

c) In case of liquidation of a micro bank, if the purpose of recovery of its financial condition cannot be achieved based on the conclusion of the temporary administrator.

2. The temporary administrator of the micro bank is authorized to block, in whole or in part, any funds of individuals and legal entities for the duration of the temporary administration in order to improve the financial condition of the micro bank, provided that it takes necessary measures to maintain their stability. The above is allowed if it does not contradict the requirements of the Law of Georgia on Payment System and Payment Services and the Law of Georgia on Financial Collateral Arrangements, Netting and Derivatives.

**Article 35. Liquidation of a Micro Bank**

1. A micro bank shall be liquidated when its license is revoked except as provided in Article 15 of this Law. The purpose of the liquidation process is preserving the stability of financial sector, protecting deposits insured in accordance with the Law of Georgia on Deposit Insurance System and maximizing the value for creditors. A person appointed by the National Bank shall act as a liquidator of micro bank as determined by the NBG. A person related to the micro bank shall not be appointed as a liquidator. Compulsory enforcement shall be terminated upon commencement of liquidation process.

2. If a liquidated micro bank was a payment system operator and/ or a settlement agent, the liquidator shall be obliged, upon appointment, to ensure that transfer orders accepted prior to commencement of his/ her activities are fulfilled, the settlement positions are defined and/or settlements are performed under the Law of Georgia on Payment System and Payment Services.

3. The liquidator shall be obliged, within three months after appointment, to prepare a list of assets and liabilities of the micro bank and submit a copy to the National Bank. The micro bank’s liquidator shall be accountable to the National Bank as defined by the latter;

4. A micro bank’s liquidator shall be authorized to sell the assets of micro bank at a public auction, or to select another form of sale in agreement with the National Bank, as well as transfer the right of claim for assets to creditors according to their priority, or transfer the right of claim for loans or other financial assets to other micro bank or financial institution and arrange for the transfer of this liabilities.

5. When transferring assets and liabilities provided for in paragraph 4 of this Article, consent from respective creditors is not necessary.

6. The liquidator of micro bank may terminate:

a) Arrangement for recruiting an employee;

b) Contracts for services in the provision of which the micro bank was taking part;

c) Any liability of the micro bank as a real property lessee, unless a lessor (who must be notified 60 days in advance that the micro bank intends to cancel the lease agreement) has any claims on the lease payment, except for the amount that has accrued until the lease cancellation date and unless the lessor requires compensation for damages incurred due to cancelling the lease;

d) Bank guarantee issued by a micro bank and transfer those on the same terms to another micro bank or commercial bank. Consents of a guarantee beneficiary and principal shall not be required for such transfer. Liquidator shall notify the beneficiary and principal about transfer of guarantees to another micro bank or commercial bank;

7. A liquidator of a micro bank shall be authorized to bring an action in court to challenge any act or transaction performed by the micro bank administrator one year before the liquidator was appointed and which inflicted damage to the micro bank’s creditors, except the actions taken on the basis of the Law of Georgia on Financial Collateral Arrangements, Netting and Derivatives. If the opposing party is a related person, the action carried out within 2 years before the liquidator was appointed may be brought to the Court. An action taken by a micro bank administrator to the detriment of creditors may be challenged if it was carried out within 3 years before the appointment of a liquidator.

8. The liquidator of a micro bank shall:

a) Take all necessary measures to terminate all functions of a fiduciary person that were performed by the institution, return all assets and property held by the company as a fiduciary person to their owners and settle all accounts of the fiduciary;

b) Send statements on claim types and amounts according to the micro bank's accounting documents to all depositors, the rest of its creditors, customers who store valuables in the micro bank’s safes; also to the depositors of the property administered by the company. The statement shall indicate that claims may be submitted to the liquidator within one month after receiving the letter and that the customers can receive their valuables back;

c) Request from micro bank’s borrowers and debtors to repay liabilities against the micro bank within the term of contract. For the purpose of maximum recovery of micro bank’s assets, the liquidator, in agreement with the National Bank, may achieve restructuring of loans of those borrowers and debtors who do not have sufficient funds and assets required for meeting their liabilities in full and within the contractual timeframes.

9. Any property that is stored on a micro bank premises and which is not claimed within the timeframe indicated in the statement, any unclaimed financial resources and property remaining on the micro bank’s balance sheet under an agreement, shall be considered as unclaimed resources and become the property of the National Bank in order to identify their owners. The funds shall be recorded on the account of unclaimed amounts at the National Bank.

10. When liquidating a micro bank, a pledge of a financial collateral shall have a preferential right to have its claim satisfied. When liquidating a micro bank, claims shall be satisfied in the following order:

a) Expenses related to the liquidation process;

b) National Bank of Georgia, including the amounts provided for in paragraph 16 of Article 48 of the Organic Law of Georgia on the National Bank of Georgia;

c) Loans received during the liquidation period;

d) Insured deposits under the Law on Deposit Insurance System of Georgia, up to the coverage level, and/or the claims of the LEPL Deposit Insurance Agency, including its claims as per paragraph 2 Article 20 of the said law;

e) balances on accounts of individuals;

f) balances on accounts of legal entities;

g)Indebtedness to budget, including claims secured with a tax lien;

h) other claims to a micro bank except the cases in accordance with (i)-(n) subparagraphs of this paragraph;

i) Loans of a micro bank toward direct and indirect owners of the micro bank, except the cases in accordance with (j)-(n) subparagraphs of this paragraph;

j) Subordinated debt of a micro bank that is not a regulatory capital instrument;

k) liabilities of a micro bank that are subject to write-down or conversion on a contractual basis except the cases in accordance with (m) and (n) subparagraphs of this paragraph;

l) Tier 2 capital instruments;

m) Tier 1 capital instruments;

n) Other claims of a micro bank toward its direct and indirect owners.

11. If the available funds are not sufficient to completely meet claims under paragraph 10 of this article, then all respective claims shall be paid in proportion to the claim amount of each creditor in the order listed.

12. The claim of each following order shall be met after the claims of a preceding order are satisfied.

13. Failure of a micro bank’s depositor to submit a claim for his/her own funds within the timeframe set by a liquidator shall entail transfer of such amount to the account of unclaimed funds in the National Bank to reveal the owner of such funds.

14. For the purpose of timely completion of liquidation process a liquidator shall be entitled in agreement with the National Bank to transfer to the NBG and/or any other micro bank and/or commercial bank, the bank accounts against which legal restrictions or/and enforcement measures are applied in accordance with the Georgian legislation, without violating the order of restrictions or/and enforcement measures according to the procedure set by the National Bank.

15. After seizing an asset which was a micro bank asset before an administrative-legal act on completion of a liquidation process was issued, it shall automatically be considered as the liquidated micro bank’s asset and the right of its management shall be transferred to the National Bank. If the seized asset of the liquidated micro bank is represented by monetary funds, they must be transferred to an account opened at the National Bank for the liquidated micro bank’s unclaimed funds. The monetary funds must be distributed according to the final, specified order of liabilities submitted by the liquidator, according to the National Bank’s procedure. If a nonmonetary material asset is seized, in order to manage it, the National Bank shall issue an individual administrative - legal act to determine the procedure for management of the seized asset to satisfy the liquidated micro bank’s liabilities.

16. Liquidation process is deemed to be complete if all claims to the micro bank are fully covered and the remaining assets are distributed to the shareholders in accordance with the legislation.

17. If the micro-bank has remaining liabilities but no longer has assets to meet such liabilities, the liquidation process shall be terminated and the bankruptcy case shall be opened in accordance with the rules established by the National Bank of Georgia.

18. An individual administrative-legal act of the National Bank of Georgia shall be issued on the decision to terminate the liquidation process of the micro bank, which shall be submitted to the LEPL - National Agency of Public Registry for registration of liquidation of the micro bank and removal it from the register of entrepreneurs and non-entrepreneurial (non-commercial) legal entities.

**Article 36. Netting and Close-out Netting**

Netting or close-out netting and resulting operations, carried out in accordance with the Law of Georgia “On Financial Collateral Arrangements, Netting and Derivatives” and based on the netting agreement between the parties, shall not be disputed by the third persons, administrative and regulatory bodies, liquidators of micro banks, trustees, insolvency/rehabilitation manager, temporary administrator and any other person undertaking similar functions.

**Chapter VIII. Transitional and Final Provisions**

**Article 37. Transitional Provisions**

1. In case of application for a micro banking license by microfinance organizations before January 1, 2023, they should no longer have pledged assets, except for the monetary instruments of the National Bank of Georgia to support liquidity, no later than 2 years after the micro banking license was issued. During this period, an individual requirement for a liquidity ratio shall be determined for them:

a) Micro banks whose pledged assets to equity capital ratio, at the time of obtaining the license, is more than 90% shall not be eligible to solicit deposits;

b) Micro banks whose pledged assets to equity capital ratio at the time of obtaining the license is less than 90% shall have the right to solicit deposits provided that the pledged asset ratio will be less than 50% not later than one year after receiving the right to solicit deposits and equal to zero no later than two years.

2. In case of application for a micro banking license by microfinance organizations before January 1, 2023, at least fifty percent of the loan portfolio of a micro bank shall consist of loans issued for entrepreneurial purposes and/or loans, the source of repayment of which is income from entrepreneurial activities. No later than 2 years after receiving the micro banking license, the micro bank must meet the requirements of the first and second paragraphs of Article 3 of this Law.

3. The National Bank of Georgia is obliged to adopt legal acts provided for by this Law within 6 months after the entry into force of this Law.

**Article 38. Entry into force of this Law**

1. This Law, with the exception of paragraph 3 of Article 37 of this Law, shall enter into force 6 months after its promulgation.

2. Paragraph 3 of Article 37 of this Law shall enter into force upon its promulgation.