

LAW OF GEORGIA
ON COMMERCIAL BANK ACTIVITIES

Chapter I

General Provisions

Article 1 - Definition of terms

For the purposes of this Law, the terms have the following meanings:

- a) administrator – a member of the supervisory board, or directorate (board of directors) of a commercial bank, as well as a person authorised to enter into commitments singly or together with one or more persons on behalf of the bank;
- b) bank branch – a bank subdivision where all or part of banking activities are carried out;
- c) persons connected to a bank – bank administrators, shareholders, and their relatives who represent first and second legal heirs under the Civil Code of Georgia, or persons related to them by business interests;
- d) 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;
- e) developed countries – countries on the list of developed countries compiled by the National Bank of Georgia;
- f) 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 bank interests;
- g) commercial bank – a legal person licensed by the National Bank of Georgia ('the National Bank') that accepts deposits and uses them to conduct banking activities on its behalf under the legislation of Georgia;
- h) credit – any commitment to disburse monetary funds in consideration of their repayment, value, security and definite terms;
- i) option – the right to choose means, form and volume of fulfilling commitments that are granted under an agreement (contract) to one of the parties, or the right to refuse to fulfil commitments due to circumstances provided for in the agreement (contract);
- j) banking licence – a permit issued by the National Bank to carry out banking activities;
- j¹) (deleted);
- k) banking activities – types of activities determined by Article 20 of this Law;
- k¹) operational day – a certain period of a banking day defined by a commercial bank, after which all orders received by the bank from its customers shall be considered to be received on the following banking day;
- k²) banking day – a calendar day when transfer transactions are performed through the National Bank payment system;
- l) blank credit – a credit granted without collateral;
- m) debt instrument – a negotiable instrument of any debt and any other instrument equivalent to it; also any negotiable document enabling one to acquire another debt instrument by subscription or exchange; a negotiable debt instrument may be in certificate or book entry form;
- n) trust – a fiduciary function;
- o) foreign trust bank – a bank of a developed country that is assigned a rating at a certain level or higher by a competent international rating organisation; the National Bank compiles a list of competent international rating organisations and defines the rating levels for each rating organisation;
- p) factoring – a trade commission transaction which is adjusted to crediting of a customer's working capital, that includes collection of a customer's accounts receivables, crediting and guarantees for credit and foreign exchange risks;
- q) fiduciary transaction – trust transactions performed by a bank or a trust company on its behalf but by order and for the account of a customer (usually to manage investments); the customer shall be liable for all risks, while the bank shall receive commission charges;
- r) financial institutions – entities defined under the Law of Georgia on Securities Market;
- s) forfeiting – crediting exports in foreign trade agreements by acquiring non-negotiable commercial bills of exchange or other debt liabilities by the supplier; a bank of an importing country shall be the guarantor bank during such transactions;
- t) futures transactions – rapid trading agreements in raw materials, gold, financial and credit instruments for a price fixed on stock exchanges at the time of trading, on the condition of performing transactions at a certain later time. A certain sum of money shall be paid as a guarantee before performing the



transaction;

u) 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;

u¹) parent company (head organisation) – a legal person with one or more subsidiaries (subsidiary organisations);

v) regulatory capital – a type of capital created for conducting banking activities, for reserving against expected or unexpected financial loss/damages and protecting from different risks;

w) share capital – a commercial bank's shareholder capital determined as the difference between total assets and total liabilities of the bank;

x) authorised capital – a capital agreed upon by the company shareholders and provided for by the charter;

y) paid-in capital – the actually paid-in portion of the authorised capital;

z) insolvent bank – a bank with total liabilities exceeding total assets;

z¹) control – authority to administer financial and economic policy of the company (organisation) in order to receive economic benefit from such activity;

z²) controlling person – a person who exercises control;

z³) 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;

z⁴) person – a natural or a legal person, as well as an organisational establishment under the legislation of Georgia which is not a legal person;

z⁵) significant share – more than 10 per cent of the authorised or paid-in capital of a commercial bank owned by a person through direct or indirect participation in the equity capital;

z⁶) indirect participation (ownership) – shares in the capital of a legal person held through a third person.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 1938 of 28 December 2002 - LHG I, No 3, 17.1.2003, Art. 19

Law of Georgia No 4519 of 27 March 2007 - LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 1924 of 3 November 2009 - LHG I, No 35, 19.11.2009, Art. 234

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Article 2 - Scope of the Law

1. A commercial bank may be established as a joint stock company. Commercial banking activities shall be regulated by this Law, the Organic Law of Georgia on the National Bank of Georgia, the Law of Georgia on Entrepreneurs, and other normative acts.

2. No one shall have the right to solicit deposits and use them for granting credit on its behalf without a licence issued by the National Bank.

3. No one shall have the right to use the term 'bank', or other word-combination with this term without a banking licence issued under this Law, unless used as determined or recognised by law or an international agreement, or when the context in which the term 'bank' is used shows that no banking activity is carried out under this Law and the Law on the National Bank of Georgia.

4. (Deleted – 1.7.2011, No 5002).

4¹. (Deleted – 1.7.2011, No 5002).

4². (Deleted – 1.7.2011, No 5002).

4³. (Deleted – 1.7.2011, No 5002).

5. Provisions of this Law shall apply in case of conflict between this Law and other laws with respect to relations with commercial banks.

Law of Georgia No 1636 of 13 October 1998 - LHG I, No 2, 26.10.1998, Art. 27

Law of Georgia No 1742 of 24 December 1998 - LHG I, No 7, 31.12.1998, Art. 60



Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Chapter II

Licensing

Article 3 - Banking licence applications

1. Banking licence applications shall be submitted to the National Bank in writing (except by a branch (representation) of a foreign trust bank under Article 4(4) of this Law) according to the rules and in the form determined by it. The application shall have attached:

- a) original constituent documents, or their notarially certified or apostille certified, and/or legalised copies;
- b) information on appropriateness of the administrators with compliance criteria as defined by this Law;
- c) a statement of a commercial bank on its authorised capital and its paid-in portion; also information about the ownership and origin of the authorised and regulatory capital of the commercial bank. A branch of a foreign bank shall submit information regarding the amount of resources allocated to it by its parent bank;
- d) the conformity declaration under Article 8¹ of this Law on direct ownership and beneficial ownership of significant shares;
- e) additional information as determined by the National Bank to include data on equity capital and other financial resources, the location of the head office and branches of a commercial bank, as well as any other information reasonably required by the National Bank in each individual case;
- f) documentation evidencing the right of use or ownership of the real property where a commercial bank or its branch shall be located in the future;

2. The licence fee and the method of payment shall be determined by the Law of Georgia on Licence and Permit Fees.

Law of Georgia No 1115 of 23 October 2001- LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 4 - Decision on licensing

1. Not later than three months after an application for a banking licence is submitted, the National Bank shall make a well-reasoned decision, notice of which shall be provided to the applicant in writing.

2. The National Bank shall grant banking licences only to legal persons that are registered under the legislation of Georgia if the amount of their paid-in capital, and the area occupied to carry out banking activities satisfy National Bank requirements, and if the administrators and holders of significant shares conform to the compliance criteria of a commercial bank administrator and a holder of significant shares as defined by this Law. The amount of resources allocated by the parent bank to the branch must satisfy National Bank requirements.

3. A banking licence shall be granted to a branch of a foreign bank (except for a branch of a foreign trust bank under the fourth paragraph of this article) only if the bank is authorised to solicit deposits in the country of the head office. In this case, the licence shall be granted to the branch if it presents the consent to open a branch in Georgia, given by the appropriate regulatory body of the country of the bank's registration.

4. The National Bank shall grant an appropriate licence to the branch of a foreign trust bank only after the branch submits the following documents:

- a) an application of the founding bank;
- b) a consent to open a branch in Georgia given by the appropriate regulatory body of the country of the bank's registration;
- c) a document evidencing that the founding bank, based on its rating, has been assigned the status of a foreign trust bank under this Law;
- d) a statement of appointment of the branch bank administrators;



e) a document certifying the authority of the person submitting the documents under this paragraph.

5. Minimum reserve requirements determined by the National Bank for commercial banks operating in Georgia shall apply to the branch of a foreign trust bank.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 1938 of 28 December 2002 - LHG I, No 3, 17.1.2003, Art. 19

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Article 4¹ – Compliance criteria for holders of significant shares and administrators of commercial banks

1. A person may not be a holder of significant shares of a commercial bank if he/she has criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income, or other economic offences.

2. A person may be a commercial bank administrator if he/she:

a) is not declared legally incapable by a court;

b) has no criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income, or other economic offences;

c) has appropriate education and/or knowledge;

d) is not an administrator of another commercial bank at the same time, except when holding the position of an administrator in a bank under control of this bank, or in a bank that controls this commercial bank;

e) (deleted – 20.12.2011, No 5528);

3. The National Bank shall be authorised to issue a normative act to define additional compliance criteria for holders of significant shares and administrators of a commercial bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 5528 of 20 December 2011 - website, 28.12.2011

Law of Georgia No 6019 of 10 April 2012 - website, 30.4.2012

Article 5 - Licensing conditions

1. Banking licences shall be issued for an unlimited period and shall not be transferable.

2. When issuing banking licences, the National Bank shall be authorised to apply certain additional conditions and restrictions unless the requirements under Article 4(2) of this Law are completely satisfied. The conditions and restrictions may only be further applied to banking licences if commercial banks regularly violate banking legislation, instructions, provisions, regulations, or requirements of the National Bank. These conditions and restrictions may be applied only to the extent necessary to eliminate the violations.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 6 - Revocation of banking licences

1. A banking licence may be revoked only by the decision of the National Bank:

a) upon the request of a commercial bank under Article 7 of this Law;

b) due to violation of Article 21 of this Law;

c) due to one or more of the following circumstances:

c.a) if a licence is issued on the basis of false statements or other inaccuracies in the application for a banking licence;



- c.b) if a commercial bank has not used the licence within six months after its effective date;
- c.c) if a commercial bank has been merged with, acquired by, or separated from other bank;
- c.d) if a commercial bank no longer has a minimum cash amount of equity capital or regulatory capital determined by the National Bank; or a bank is no longer reliable for creditors due to failure to fulfil its obligations towards them; or a bank is no longer able to ensure security of assets entrusted to it;
- c.e) if partners (shareholders) of a commercial bank decide to liquidate the bank or the bank ceases to exist as a legal person;
- c.f) if a commercial bank follows or has followed a harmful or unsound banking practice for its financial condition, which may significantly damage its depositors;
- c.g) if the liquidation process of a commercial bank is in progress by decision of its shareholders;
- c.h) if a commercial bank is insolvent.

2. The National Bank shall be obliged to revoke the banking licence of a branch or a subsidiary of a foreign bank, if the parent bank has been deprived of the right to conduct banking operations in its country of residence.

3. Upon revocation of a banking licence, the National Bank shall be obliged to start the liquidation process of a legal person holding the banking licence under Article 37 of this Law.

Law of Georgia No 2015 of 28 May 1999 - LHG I, No 20(27), 9.6.1999, Art. 88

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 7 - Revocation of banking licences upon request

1. A commercial bank may submit a written request to the National Bank to revoke its licence.

2. The National Bank shall make a decision based on the request not later than three months after receipt of the request, and shall immediately notify the commercial bank of its decision (in case of refusal, the grounds shall be specified).

Law of Georgia No 2015 of 28 May 1999 - LHG I, No 20(27), 9.6.1999, Art. 88

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 8 - Publication and effect of the decision on revocation of banking licences

1. The decision on revocation of a banking licence shall immediately be published in the National Bank gazette and other printed media. The decision shall become effective from the date it was made, or from any other date determined by the decision.

2. After revocation of the banking licence, a commercial bank may not conduct any activities granted under this licence and the bank must be liquidated as provided for in Article 37 of this Law. After the banking licence is revoked, the commercial bank must, within the shortest period of time, discharge all liabilities related to its activities. During termination of its activities until all liabilities are discharged, a commercial bank shall follow the provisions of this Law as a licensed bank.

3. Only the National Bank shall make decisions on insolvency and bankruptcy of a commercial bank.

Law of Georgia No 2015 of 28 May 1999 - LHG I, No 20(27), 9.6.1999, Art. 88

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter II¹

Acquisition of Significant Shares of Commercial Banks



Article 8¹ - Declaration of conformity

1. A person ('the declarant'), who intends to acquire a share in a commercial bank so that his/her/its own or his/her/its beneficial owner's (owners) participation exceeds 10, 25 or 50 per cent in the bank capital, shall be obliged to submit a conformity declaration to the National Bank ('the Declaration').

2. The declarant shall indicate the following in the declaration:

a) his/her/its identification data;

b) information that he/she has no criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income or other economic offences;

c) identification data of the beneficial owner (owners) under the first paragraph of this article, or a statement that, based on the information available to him/her, no beneficial owner (owners) shall exist as a result of this operation;

d) information that a beneficial owner under the first paragraph of this article, has no criminal records for a serious or particularly serious crime; of financing terrorism, and/or of legalising illicit income, or other economic offences;

e) the amount of his/her/its own shares if the acquisition is completed;

f) 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;

g) a declaration of the beneficial owner (if submitted) to certify that the information in the declaration is accurate.

2¹. If possible, the declarant shall attach the declaration (declarations) of the beneficial owner (owners) under the first paragraph of this article to his/her/its own declaration.

3. If, based on information available to the declarant, the beneficial owner under the first paragraph of this article does not exist, the declarant shall indicate such in the declaration, and shall not fill in the beneficial owner's section of the declaration.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5528 of 20 December 2011 - website, 28.12.2011

Article 8² – Review of declarations

1. The National Bank shall review a declaration within one month after it is submitted. The National Bank shall give consent or a substantiated 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's failure to respond within one month after a declaration is submitted shall automatically be considered as consent to acquire the share.

4. An agreement to acquire a significant share shall be void if the declarant fails to submit a declaration to the National Bank, or if the declarant received a substantiated refusal of the National Bank, but still acquired a significant share of a commercial bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29.

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 8³ – Information to be submitted to the National Bank

1. On the basis of available information, a commercial 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 commercial bank shares, shall be obliged to submit to the National Bank in April of every year a declaration as of December of the previous year.

3. If a direct owner and a beneficial owner of significant shares of a commercial bank fail to submit the required information to the National bank, they



shall be held liable for the failure under the legislation of Georgia.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 8⁴ – Sanction and appeal

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

2. If so provided for in the first paragraph of this article, 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 commercial bank, suspension of the voting right and/or requirement to reduce his/her shares to 10 per cent to a court.

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

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter III

Ownership and Administration

Article 9 - Requirements towards commercial bank capital and reserves

1. The National Bank shall periodically determine the minimum amount of reserves, paid-in capital and regulatory capital of a commercial bank, and regulations for their formation. A commercial bank may not pay in (form) the equity capital in a nonmonetary form.

2. A commercial bank may not reduce its equity capital by redeeming shares, or reduce its regulatory capital by using reserves without the prior written consent of the National Bank, and without an appropriate amendment regarding a change in the equity capital defined in its charter.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 10 - Restriction of ownership rights and structure of the assets of commercial banks

1. A commercial bank may:

a) without the permission of the National Bank, directly or indirectly own a maximum of 20 per cent shares in the equity capital of a legal person unless the bank's share exceeds 15 per cent of its equity capital;

b) hold an unlimited amount of shares in a certain business that is related solely to banking activities; these shares must not exceed 15 per cent of the bank's equity capital without the written permission of the National Bank;

c) establish and acquire subsidiaries that are engaged in other businesses under written permit of the National Bank; the permit shall specify the type of business each subsidiary may conduct; in this case, activities of subsidiaries shall be restricted to the businesses specified in the permit;

d) receive a share to repay the amount of credit granted; in this case, if the requirements under the second paragraph of this article are violated, a commercial bank shall be obliged to dispose of the surplus shares not later than six months after this right was acquired; in special cases, the National Bank may extend this time;

e) establish or acquire a subsidiary – a brokerage company which is engaged only in brokerage activity as determined by the Law of Georgia on Securities Market; the commercial bank may hold an unlimited amount of shares in the brokerage company unless the shares exceed 15 per cent of the bank's equity capital without permission of the National Bank.

2. The total cost of shares referred to in paragraph 1(a-e) of this article may not exceed 50 per cent of the equity capital of a commercial bank.

3. A commercial 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.

4. The obligation under the third paragraph of this article shall not apply to beneficial owners of a commercial 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.

5. For the purposes of this Law, the requirements that apply to the partners (shareholders) of a commercial bank shall also apply to beneficial owners who directly or indirectly hold shares in the commercial bank.

Law of Georgia No 1751 of 24 December 1998 - LHG I, No 1(8), 14.1.1999, Art. 4

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1617 of 4 July 2002 - LHG I, No 23, 24.7.2002, Art. 108

Law of Georgia No 1938 of 28 December 2002 - LHG I, No 3, 17.1.2003, Art. 19

Law of Georgia No 2787 of 17 March 2006 - LHG I, No 8, 24.3.2006, Art. 59

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Article 10¹ – Requirements for commercial bank subsidiaries that conduct activities outside Georgia under the legislation of Georgia for persons who carry out monitoring under the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation

1. To conduct activities outside Georgia under the legislation of Georgia for persons who carry out monitoring under the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation, a commercial bank must submit to the National Bank within 14 days after establishing or acquiring a subsidiary the bank's decision that upon commencing operations, the subsidiary has developed a program to combat legalisation of illicit income and financing of terrorism for fulfilling recommendations for Combating Legalisation of Illicit Income and Financing of Terrorism, and of the Financial Action Task Force (FATF).

2. If fulfilment of the FATF recommendations by a subsidiary is not provided for in the laws and subordinate normative acts of a foreign country of the subsidiary's residence, or if this country fails to combat legalisation of illicit income and financing of terrorism and the FATF recommendations are not followed, or followed insufficiently, then:

a) a bank must undertake a written obligation that it shall ensure implementation of measures for combating legalisation of illicit income and financing of terrorism by its subsidiary under the requirements established in Georgia towards the bank and the FATF recommendations;

b) a bank shall ensure that the National Bank is informed if its subsidiary fails to carry out measures under the legislation of Georgia for combating legalisation of illicit income and financing of terrorism because these measures are prohibited or restricted by the legislation of a foreign country of a subsidiary's residence.

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Article 11 - Merger, acquisition or separation of commercial banks

Commercial banks may be merged, acquired or separated only upon a written consent of the National Bank. No merger, acquisition or separation of commercial banks that fails to comply with provisions of Article 10 of this Law shall be implemented.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 12 - Charter of commercial banks

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

2. Each commercial bank shall be administered according to its by-laws to determine the following under its charter:

a) organisational and administration structure of banks and their administrative and operational subdivisions, their constituent units and functions, administrative positions and accountability;

b) duties of each department director, and of each division under his/her subordination and control;



c) audit committee functions;

d) authority of administrators and other employees of a bank to conduct bank transactions on behalf of and for the account of the bank.

3. Each commercial bank shall submit to the National Bank its charter, by-laws and names of officials that have the bank's representative authority, together with their specimen signatures and indication of their scope of authority.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 13 - Management bodies of commercial banks

Commercial bank management bodies shall be formed and operate under the Law of Georgia on Entrepreneurs. The highest management body of a commercial bank is a General Meeting of Shareholders which acts in compliance with the legislation of Georgia and the company Charter. The Meeting shall appoint the supervisory board. The National bank shall be informed of the date and agenda of the General Meeting for its possible participation in the Meeting, within the time frame determined for shareholders under the legislation of Georgia.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 14 - Supervisory Board

1. A Supervisory Board shall supervise commercial bank activities. The Board shall consist of at least 3 and a maximum of 21 members. There must be an odd number of Board members.

1¹. A commercial bank director (directors) may be a member(s) of the Supervisory Board. Directors may not constitute a majority in the full list of the Supervisory Board. Directors must not participate in decision-making processes related to supervision of the activities of the Board of Directors (executive bodies), and to approval and assessment of their reports.

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

3. The General Meeting of Shareholders shall determine remuneration for Board members. No type of incentives shall be offered to Board members from a commercial bank expenses.

4. 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 commercial bank registered in Georgia, except when holding a position of an administrator in a bank under control of this bank, or in a bank that controls this commercial bank;

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

d) is declared bankrupt.

5. In addition to the requirements under the Law of Georgia on Entrepreneurs, the following may be performed only with the consent of the Supervisory Board:

a) to start a new or terminate an existing banking activity;

b) to define and approve internal policy and procedures for administering credit, investments, currency, assets and liabilities; for evaluating and classifying assets, and creating adequate reserves against their possible loss;

c) to define and approve minimum and maximum interest rates to be applied by the bank to credit resources and deposits;

d) to redeem shares issued by a commercial bank in cases defined under law.

6. Supervisory Board members must administer commercial bank activities with good faith, care for the bank as a faithful and sensible person cares in similar conditions; they must act out of interest in the bank's stability. If they fail to fulfil these duties they shall be jointly and severally liable to the bank for damages caused. The Supervisory Board members must prove that they acted in good faith and in the interests of the bank. The bank's rejection or compromise to pay regressive compensation shall be void if the compensation is necessary to satisfy bank creditors. This rule shall not apply if the person liable to pay compensation is solvent or makes an agreement with its creditors to avoid bankruptcy and/or terminate banking activities. If the compensation is necessary to satisfy bank creditors, the bank administrators shall continue to be liable even when they act to execute shareholders' decisions.

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



developed in writing.

8. A commercial bank Supervisory Board or its members may not delegate their rights to others without the consent of the General Meeting of Shareholders.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 15 – Board of Directors

1. Commercial bank directors shall administer and represent the company. They are responsible for managing banking activities 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 re-appointment shall be unlimited.

2. A person may not be appointed as a member of commercial 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 compliance criteria for a bank director;

b) (deleted);

c) is not entitled by law to be in the Board of Directors;

d) is declared bankrupt;

e) (deleted);

f) is a spouse, child or close relative of the bank Board of Directors member.

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

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Article 16 - Audit committee

1. By decision of the Supervisory Board, an audit committee shall be established under the auspices of the Supervisory Board. The audit committee shall consist of independent members. Committee members shall be considered independent unless they are connected to the commercial bank and unless they and/or their relatives, who are first and second legal heirs under the Civil Code of Georgia, have financial liability to the commercial bank.

2. The audit committee shall periodically submit reports on its activities to the Supervisory Board.

3. The basic function of the audit committee is to facilitate the operation of internal audit and external auditors of the bank.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Article 17 - 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 communicated only to the National Bank within its authority.

2. Information on any agreement (including on an attempt to conclude an agreement), accounts, transactions conducted from these accounts and account balances may be granted to the parties to a respective agreement, respective account holders and their representatives, in the cases under the legislation of Georgia – to the Financial Monitoring Service of Georgia, and to persons that are authorised to execute acts subject to enforcement under the Law of Georgia on Enforcement Proceedings during the course of their enforcement; also, to a taxation body – based on a judicial decision under the Code of Administrative Procedure of Georgia.

3. Courts, investigation bodies and tax authorities shall not communicate confidential information to other bodies, including the mass media, and shall not use this information in public statements until a court judgement is delivered.



Law of Georgia No 163 of 21 March 1996 - newspaper 'The Republic of Georgia', 3.4.1996

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 2474 of 20 June 2003 - LHG I, No 20, 11.7.2003, Art. 140

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 213 of 15 July 2008 - LHG I, No 17, 28.7.2008, Art. 129

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5528 of 20 December 2011 - website, 28.12.2011

Law of Georgia No 2948 of 12 December 2014 - website, 24.12.2014

Article 17¹ – Right to verify information

1. The bank shall be entitled to obtain personal information of a person from the Public Service Development Agency based on a written consent of the person.
2. The bank is obliged to prevent disclosure of information obtained from the Public Service Development Agency to a third person, except as provided for by law.

Law of Georgia No 5978 of 21 March 2008 - LHG I, No 9, 4.4.2008, Art. 65

Law of Georgia No 6317 of 25 May 2012 - website, 19.6.2012

Article 18 – Branches of commercial banks

Branches, representative offices and other similar subdivisions of a commercial bank shall be established by decision of the Supervisory Board under the terms and conditions defined by the National Bank.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter IV

Operational Requirements

Article 19 - General principles of banking activities

1. A commercial bank shall be managed and its operational activities shall be performed according to administrative and accounting procedures, conditions and restrictions attached to the 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 procedures, standards and guidelines applying to more than one commercial bank shall be subject to mandatory publication and shall become effective from the date of publication or the date indicated in the procedures, standards and guidelines. If the National Bank has not determined procedures for a certain banking activity, a commercial bank shall act according to international banking standards and practices.
2. A commercial bank shall maintain an appropriate level of capital and liquid resources, and shall diversify its assets considering the risk of loss, as required by the National Bank.
3. The relationship for banking services between a bank and its customers shall be regulated by agreement. If the time frames under a money transfer agreement are violated, the bank shall be obliged to pay the customer not less than 0.5 per cent of the delayed amount for each overdue banking day.
4. A commercial bank shall be entitled to develop a security policy for using electronic signatures in providing certain banking services and shall submit the policy to the National Bank for approval. On the basis of the security policy approved by the National Bank for using electronic signatures in providing certain banking services, an electronic signature used when providing certain banking services by a commercial bank shall have equal legal affect as personal signatures on a hardcopy document.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011



Article 20 - Banking activities

1. Commercial banks may only be engaged in:

- a) soliciting interest-bearing and interest-free deposits (call deposits, term deposits and others) and other refundable means of payment;
- b) grant loans including consumer loans, mortgage loans, unsecured and other credits; factoring operations with or without right of recourse; financing commercial deals, issuing guarantees, letters of credit and acceptances, including forfeitures;
- c) sales, with its own and customers means, of monetary instruments (including cheques, bills of exchange and depositary certificates), securities, debt instruments or interest rates of futures and options, currency and interest rate instruments, debt documents, foreign currency, precious metals and gems;
- d) performing monetary and non-monetary payment transactions and cash-collection services;
- e) issuing means of payment and organising their circulation (including payment cards, cheques and bank bills);
- e¹) providing interest-free banking services;
- f) rendering intermediary services in financial markets;
- g) performing fiduciary (trust) transactions, soliciting and placing funds by order of customers;
- h) storing and registering valuables, including securities;
- i) providing credit reference services;
- i¹) central depositary activities under the Law of Georgia on Securities Markets;
- i²) leasing property;
- i³) providing payment services, operating payment system, performing the functions of a paying agent;
- j) providing services related to all of the above activities.

2. Exercising rights with respect to securities transactions under the first paragraph of this article shall be regulated by the Law of Georgia on Securities Markets.

3. Before providing a banking service under paragraph 1(e¹) of this article, a commercial bank is obliged to submit the description of the respective bank product to the National Bank for approval.

Law of Georgia No 1751 of 24 December 1998 - LHG I, No 1(8), 14.1.1999, Art. 4

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6019 of 10 April 2012 - website, 30.4.2012

Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Article 21 - Economic limits and standards

1. Commercial banks are obliged to observe the following economic limits determined by the National Bank:

- a) a minimum amount of equity and regulatory capital;
- b) a ratio between various capital accounts of a bank and its classified assets under the procedures of the National Bank;
- c) a marginal ratio between solicited deposits of the bank and its regulatory capital;
- d) a ratio between the total sum of credits and other liabilities issued by a bank to one borrower (an insider or outsider) and the regulatory capital of the bank;
- e) a ratio between the total sum of credits and other liabilities issued by a bank to all insiders (persons connected to the bank and to each other) and the regulatory capital of the bank;
- f) a maximum allowable total sum of all issued credits and other liabilities, expressed as a percentage with respect to all credits issued by a bank and which the bank may grant to its 10 largest borrowers (including insiders and interconnected persons).



2. Commercial banks are obliged to observe the following economic standards determined by the National Bank:

- a) a ratio of the minimum total sum of liquid funds or certain types of such funds to the value of assets (including acquired guarantees and pledges) or a change in their values. The ratio may be set generally for assets or liabilities (including off-balance sheet liabilities) or for specific types. Banks have the right to place appropriate funds with the National Bank in order to comply with liquidity requirements;
- b) a standard for a maximum total sum of credits and investments or of special types;
- c) classification of assets and off-balance sheet liabilities, and formation and use of reserves against probable losses; also terms and conditions under which accounts receivable based on assets will not be entered into revenue except when received in cash;
- d) standards for prohibitions, restrictions and conditions in relation to:
 - d.a) types and forms of credits granted and funds invested;
 - d.b) conformity of maturity periods and interests based on assets and liabilities (off-balance sheet and other liabilities);
 - d.c) open positions in foreign currencies, precious metals and gems formed as a result of exceeding set limits.

3. Based on the risk-based supervision principles, the National Bank is authorised to set for each commercial bank individual indices and requirements for economic limits and standards under the first and second paragraphs of this article.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 21¹ – Opening of accounts

1. Commercial banks shall open accounts under the Law of Georgia on Facilitating the Prevention of Illicit Income Legislation.
2. In business relations with their service consumers and when verifying transactions of the consumers, banks must be aware of the identity and activities of their service consumers and the level of risk for these activities with regard to legalisation of illicit income and financing of terrorism.
3. Commercial banks operating in Georgia shall have the right to decide and require other additional information.
4. Commercial banks operating in Georgia shall have the right to refuse without any justification to open an account.

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Article 22 - Prohibited agreements and methods of working

1. Commercial banks may not perform any activities or make any transactions that will put them, alone or together with other persons, in a dominating position on monetary, financial or credit markets; also any manipulation giving an undeserved advantage to the bank or third persons, or creating the possibility or risk of limiting competition for banking activities, of fixing interest rates and commission fees. Under the legislation of Georgia, a competition policy in banking activities shall be implemented by the National Bank which defines allowable parameters, evaluation criteria and measures of influence for banking activities in this field.
2. Commercial banks may not conclude any agreement with their customers that will require acquisition or use of a non-banking service of this bank or any of its affiliates in exchange for granting a loan or providing any banking service, unless the customer is given an opportunity to receive this non-banking service from other providers.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6150 of 8 May 2012 - website, 25.5.2012

Article 23 - Registration of transactions and liabilities

1. Commercial 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 bank partners (including borrowers and guarantors) that form the basis for the bank to approve a transaction;

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

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

2. Commercial banks shall be obliged to store information on their customers and transactions in an electronic form for not less than 15 years.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

Article 24 - (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Article 25 - Transactions with interested persons

Commercial banks may not grant any banking product or render any banking service within their banking activities under preferential conditions to any administrator, controlling person, affiliate or connected persons despite the type of loan, interest rate, maturity period, collateral, value or any other conditions.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter IV¹

(Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Article 25¹ – (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 4220 of 29 December 2006 - LHG I, No 2, 4.1.2007, Art. 27

Law of Georgia No 4519 of 27 March 2007- LHG I, No 9, 31.3.2007, Art. 84

Chapter V

Reports, Audit, Accounting and Inspection

Article 26 - Reports and financial statements

1. Banks and their subsidiaries shall regularly prepare reports, records and annual financial statements that precisely include their operations and financial conditions under International Accounting Standards. In addition, banks and their subsidiaries shall follow an appropriate form of regulations, level of details and accounting standards determined by the National Bank.

2. Bank reports, records and financial statements shall reflect operations and the financial condition of its subsidiaries on a consolidated basis.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Article 27 - External audit



1. Each commercial bank and its subsidiary shall be obliged to invite external auditors and conduct an external audit inspection every year as determined by the National Bank.

2. Upon completion of an external audit, each commercial bank shall be obliged to provide the National Bank with a complete inspection report and publish the financial accounting and external audit opinion as defined under the procedures of the National Bank.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 28 - Branches of foreign banks

Articles 26, 27 and 29 of this Law shall apply to branches of foreign banks and their subsidiaries that operate in Georgia under licences issued by the National Bank. Under the law, financial and accounting documentation of a bank branch may be submitted as simplified financial statements, which implies that an audit committee of the foreign bank or other respective body may be considered to be the audit committee for the bank branch.

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 29 - Reporting and inspections

1. Commercial banks shall prepare reports and submit them to the National Bank. The reports shall include organisational-administrative and operational activities (of banks and their subsidiaries), their liquidity, solvency and profitability in order to evaluate the financial condition of banks and their subsidiaries jointly and individually. The form, degree and terms for submitting reports shall be determined by National Bank standards.

2. Each commercial bank and its subsidiary shall be subject to inspection to be performed by inspectors of the National Bank or auditors appointed by it. If a branch or a subsidiary of a foreign bank is inspected, the employees of financial or regulatory bodies of respective foreign countries may be the auditors.

3. When inspecting commercial banks and their subsidiaries, the National Bank and its auditors shall have the right to:

a) check accounts, funds, account books, documents and other necessary records of a commercial bank and its subsidiary;

b) require administrators and employees of a commercial bank and its affiliates to provide information regarding the bank's shareholders, controlling persons and administrators, and any information on banking operations and transactions. If these requirements are not complied with or fully complied with, sanctions under Article 30 of this Law shall apply.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Chapter VI

Violations and Sanctions

Article 30 - Violations and sanctions

1. The National Bank shall impose sanctions in each individual case for violations referred to in this article. The party against whom the sanction is imposed shall have the right to appeal it to court.

2. The National Bank shall have the right to impose the following sanctions against a commercial bank, its administrators or controlling persons, if the bank or any of its administrators, or controlling persons has 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 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;

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

3. If violations under the second paragraph of this article are identified, the National Bank shall have the right to apply the following sanctions



consistently or inconsistently, based on the severity of a violation and the current or possible risk to commercial bank assets:

- a) send a written notice of warning to a commercial bank;
- b) determine special measures or issue an instruction (guideline) requiring that a commercial bank terminate and prevent any violation in the future and that it take necessary measures to correct a violation within the time frame specified by the National Bank;
- c) impose a financial penalty on a commercial bank in the manner and amount determined by the National Bank, but not more than the bank's own funds;
- d) enforce payment of a financial penalty from a commercial bank in the manner and amount determined by the National Bank, if an administrator's actions have inflicted financial damage on the bank, or resulted in violating the banking regulations and requirements determined by the National Bank;
- e) suspend the administrator's right of signature and demand a commercial bank's Supervisory Board to temporarily remove or dismiss him/her from office;
- f) demand that a commercial bank's Supervisory Board and Board of Directors convene an extraordinary General Meeting of Shareholders to discuss violations and to take necessary measures for their correction;
- g) suspend or restrict a commercial bank from increasing assets, distributing profits, paying dividends and bonuses, increasing salaries and soliciting deposits;
- h) in special cases, when interests of a commercial bank depositors or other creditors are endangered, suspend active operations of the bank, and impose provisional administration;
- i) demand that controlling persons of a commercial bank cancel or restrict control if the bank fails to provide the National Bank with financial or other information, or any violation is detected; the conditions and time frames that the National Bank finds necessary under existing circumstances must accompany the cancellation or restriction;
- k) revoke the banking licence of a commercial bank.

4. Sanctions must correspond with the severity of a violation, and damage inflicted on, or possible risks to, the commercial bank's assets.

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

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 2474 of 20 June 2003 - LHG I, No 20, 11.7.2003, Art. 140

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Chapter VII

Provisional Administration and Liquidation

Article 31 - (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Article 32 Procedure for appointment of provisional administration

The decision on appointment of a provisional administration shall contain:

- a) the grounds for the appointment of provisional administration;
- b) full name of the provisional administrator (administrators);
- c) the period of provisional administration;
- d) the warning with regard to possible freezing of deposits and other funds of bank customers;
- e) measures that are applied towards bank administrators.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125



Article 33 - Provisional administration

1. Provisional administration shall start performing its duties from the date specified in the decision to appoint a provisional administration. The decision shall be published in the printed media.

1¹. A provisional administrator shall be obliged, immediately but not later than the date of the provisional administration appointment, to notify of the introduction of provisional administration to the payment system operator, in which the commercial bank administered by the provisional administration is involved.

2. After the individual administrative-legal act on appointment of the provisional administration is issued, any action on behalf and for the account of a commercial bank shall be performed with written consent of the provisional administration, except as provided for by the Law of Georgia on Payment System and Payment Services.

3. Complete authority of all bodies (including General Meeting of Shareholders and administrators) of a commercial bank shall be transferred to provisional administrator.

4. A provisional administrator shall be obliged, as soon as possible, to request to amend the list of officials submitted to the National Bank.

5. (Deleted – 1.7.2011, No 5002).

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011

Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Article 34 - Authority of provisional administrations

1. A provisional administrator appointed by the National Bank shall be entitled to take necessary measures to improve the financial condition of a commercial bank, including selling or closing its branches, representations or other subdivisions, dismissing bank employees, and paying funds or suspending payment. The provisional administrator shall also be entitled to merge the commercial bank with another commercial bank, to renew its capital or to alienate its assets and liabilities, or part of them, to other commercial banks. The provisional administrator's decision to pay or suspend payment of funds must not contradict the Law of Georgia on Payment System and Payment Services.

2. To improve the financial condition of a commercial bank, the provisional administrator of the bank shall have the right, at any time, to block any financial funds of natural and legal persons in the bank, partially or completely, for as long as the term of office of the provisional administration, provided that the administrator shall take necessary measures to maintain stability of the funds unless it contradicts the Law of Georgia on Payment System and Payment Services.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Article 35 - Termination of provisional administration

Provisional administration shall be terminated:

- a) after its term expires, as published in printed media;
- b) by a reasoned decision of the National Bank;
- c) if the banking licence of a bank is revoked.

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29

Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 36 - (Deleted)

Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125



Article 37 - Liquidation

1. A commercial bank shall be liquidated when a banking licence is revoked. The National Bank shall appoint a person to act as a liquidator as determined by the National Bank. A person who is connected to the commercial bank shall not be appointed as a liquidator. Enforcement shall be terminated as soon as the liquidation process starts.

1¹. If a liquidated commercial bank was a payment system operator and/or a settlement agent, the liquidator shall be obliged, upon appointment, to ensure that transfer orders accepted by the system before the liquidator began his/her functions are performed, the settlement positions are defined and/or settlements are performed under the Law of Georgia on Payment System and Payment Services.

2. The liquidator shall be obliged, within three months after appointment, to prepare a list of assets and liabilities and submit a copy to the National Bank to be published. The commercial bank liquidator shall be accountable to the National bank as defined by the National Bank.

3. A commercial bank liquidator shall be authorised to sell bank assets at a public auction, or to transfer the right of demand for assets to creditors according to their priority, or transfer the right of demand of loans or other financial assets to other banks and arrange for the transfer of liabilities to these banks.

4. Within three months after appointment, the liquidator may terminate:

a) a transaction for recruiting a bank employee;

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

c) any liability of the bank as a real property lessee, unless a lessor (who must be notified 60 days in advance that the 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.

4¹. A provisional administrator and a liquidator of a commercial bank shall be authorised to bring an action in court to challenge any act or transaction performed by the commercial bank administrator one year before the provisional administrator or the liquidator were appointed and to require that the act or transaction be declared void if as a result, persons connected to the commercial bank enjoyed any material benefits or advantages, privileges or preferences for the account of this bank, and which inflicted damage to the bank (its creditors).

5. Within two months after appointment, the liquidator must:

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 by insured letter statements of requirement types and amounts according to the bank's accounting documents to all depositors, the rest of its creditors, customers who store valuables in the 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.

6. Any property that is stored on a commercial bank premises and which is not claimed within the time frame indicated in the statement, any unclaimed financial resources and property remaining on the bank's balance sheet under an agreement, shall be considered as unclaimed resources and shall become the property of the National Bank in order for it to identify the owners.

7. When liquidating a commercial bank, a pledger of a financial pledge shall have a preferential right that its claim secured by the financial pledge be satisfied. When liquidating a commercial bank, claims based on pledges shall be satisfied according to the respective agreement conditions (within the pledge value) and all other lawful claims must be satisfied in the following order:

a) the National Bank, and other creditors to which a commercial bank became liable after having its banking licence revoked

b) amounts of not more than GEL 1 500 on the accounts of natural persons

c) amounts on the accounts of natural persons that have not been paid under subparagraph (b) of this paragraph

d) amounts on the accounts of legal persons

e) indebtedness to budget, including claims secured by a tax lien;

f) all other claims against the commercial bank.

8. If the existing money is not sufficient to completely satisfy claims under paragraph 7(b-e) of this article, all respective claims shall be paid in proportion to the claim amount of each creditor in the order listed.

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

10. After seizing an asset which was a commercial bank asset before an administrative-legal act on completion of a liquidation process was issued, it shall automatically be considered as the liquidated bank's asset and the right of its management shall be transferred to the National Bank. If the seized asset of the liquidated bank is monetary funds, they must be transferred to an account opened at the National Bank for the liquidated bank's unclaimed funds. The monetary funds must be distributed according to the final and verified order of liabilities submitted by the liquidator, as determined by the National Bank. If a non-monetary 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 bank's liabilities.



Law of Georgia No 1115 of 23 October 2001 - LHG I, No 32, 7.11.2001, Art. 125
Law of Georgia No 2787 of 17 March 2006 - LHG I, No 8, 24.3.2006, Art. 59
Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160
Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104
Law of Georgia No 5002 of 1 July 2011 - website, 15.7.2011
Law of Georgia No 6306 of 25 May 2012 - website, 12.6.2012

Chapter VIII

Transitional Provisions

Article 38 - (Deleted)

Law of Georgia No 5909 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 29
Law of Georgia No 1677 of 24 September 2009 - LHG I, No 29, 12.10.2009, Art. 160

Article 39 - Requirements towards subsidiaries established or acquired by commercial banks

A commercial bank, which established or acquired, before Article 10¹ of this Law was effected, a subsidiary that conducts activities outside Georgia as provided for by the legislation of Georgia for persons carrying out monitoring under the Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation, shall submit documents under Article 10¹ of this Law to the National Bank within six months after this Law takes effect.

Law of Georgia No 2830 of 23 March 2010 - LHG I, No 19, 13.4.2010, Art. 104

President of Georgia

Eduard Shevardnadze

Tbilisi

23 February 1996

No 121-IIS

