

LAW OF GEORGIA

"Factoring" means commission trading operation combined with financing of customers working capital; includes encashment of customer's receivables, extending credits and guaranties from lending and transfer risks;

"Fiduciary operation" means trust operation, which bank or trust company carries out on their own behalf, but according to instructions of customer and on his expenses (as a rule, for investments management); all operational risks bears the customer, the bank receives brokerage fees;

"Forfeiting" means financing exports under foreign trade agreement by purchasing from supplier nonnegotiable notes and other debt instruments; in this case the bank of importer's country serves as a guarantor;

"Future transactions" means time transactions on exchanges, providing for sale and purchase of raw materials, gold, financial and credit instruments on the future contract date for fixed prices; before carrying out a contract certain amount of money is paid in advance as a guarantee;

"Subsidiary" (subordinate undertaking) means any juridical person in which principal institution holds the equivalent of fifty percent or more of stocks (the voting shares).

Article 2. Scope of Operation of this Law

1. This Law shall apply to all persons who engage in Georgia in the business of receiving money deposits or other repayable funds and extending credits for their own account on the basis of repayment, valuation, guarantee and timing, except for agriculture credit unions, activities of which are regulated by specific instructions.or limited liability company;

Activities of commercial bank are regulated by this Law, "Law on the National Bank of the Republic of Georgia", "Law of the Republic of Georgia Concerning Entrepreneurs", "Law on Foreign Commercial bank may be established in the organisational-legal form of joint-stock company Investments of the Republic of Georgia", and other legal and normative acts.

2. No one has the right to attract cash resources or other means of payment and give out credits on their own expense using these attracted amounts without the license issued by the National Bank of Georgia. Foreign exchange transactions will be conducted by the banks and foreign exchange booths on the basis of the licenses issued by National Bank of Georgia.
3. No one shall use the word "bank" or derivatives of the word "bank" without a banking license issued pursuant to this Law, unless such usage is established or recognised by law or international agreement, or unless it shall be clear from the context in which the word "bank" is used, that physical or juridical person is not engaged in the banking activities, defined by this Law or "Law on the National Bank of the Republic of Georgia".

1. Banking licenses shall be applied for in writing to the National Bank of Georgia in such form as shall be prescribed by regulation of the National Bank of Georgia and shall be accompanied by the following information:
 - a) The charter, registered in the court and notarially confirmed constitutive documents;
 - b) The qualifications and experience of the managers and supervisors of the proposed bank;
 - c) The statement of the amounts of the authorised and subscribed capital stock of the proposed bank and the amount that have been paid in on capital stock subscriptions;
 - d) A business plan for the proposed bank, setting out inter alia the types of activities envisaged for and the structural organisation of the proposed bank;
 - e) The name, residence, and occupation or profession of each person (location of juridical person), who owns five percent or more of the stock of the proposed bank, and the amount of the shares held;
 - f) The additional information, as shall be prescribed by the regulations of the National Bank of Georgia, should at least include amounts of the bank's capital funds and other financial resources, the location of the bank's headquarters and branch offices.
2. The special Law defines the fees on licensing, which shall be equal for all banks and transferred to the income of the National Bank of Georgia.

Article 4. Banking License Decision

1. Within one month from the date of its receipt of an completed application for a banking license, the National Bank of Georgia shall take grounded decision on the application and notify the applicant of its decision in writing.
2. The National Bank of Georgia shall grant a banking license to juridical or physical persons, which are registered according to the established rules, the amounts of the bank's capital stock subscribed and paid in, location space and the qualification and experience of the managers and supervisors of the bank, also submitted business-plan will comply with the assessment criteria, previously defined by the National Bank of Georgia, and the banking activities that the bank was licensed to engage in;
3. The banking licenses will be granted only to banks whose paid in capital is no less then 50 percent of subscribed capital and provided that all requirements to the minimal authorised capital stock are satisfied. In any event, the compliance with the prescribed prudential economic requirements to be maintained by banks shall be assessed with respect to the bank's paid in capital.
4. Banking license concerning a subsidiary or a branch office of a foreign bank shall be granted only if the foreign bank is authorised to engage in the business of receiving money deposits or other repayable funds in the foreign country where its head office is located. Banking licenses pursuant to this Article shall be granted only following consultations on the granting of a banking license between the National Bank of Georgia and the competent authorities of a foreign country which supervise the banking activities of the foreign bank concerned.

Article 7. Revocation of Banking License Upon Request

1. A bank may request the National Bank of Georgia in writing to revoke its banking license.
2. Within 3 months after its receipt of the request, the National Bank of Georgia shall decide on the request. The decision of the National Bank of Georgia shall be communicated in writing to the bank as soon as possible giving, in the event of denial of the request, the grounds therefor.

Article 8. Publication and Effect of Decisions to Revoke Banking License

1. The decision to revoke a banking license shall immediately be published in the official paper and in one or more newspapers of general circulation in every town of Georgia where offices of the bank concerned are located. The decision to revoke a banking license shall become effective on the date of such publication or on such later date as the decision shall specify.
2. Starting on the date that the revocation of a banking license takes effect, the former bank shall be prohibited from engaging in any of the banking activities, and shall as soon as possible thereafter liquidate its assets and discharge its liabilities. During the winding up of its affairs, the former bank shall otherwise continue to be subject to the provisions of this Law as if it were licensed.

Chapter III. OWNERSHIP AND ADMINISTRATION OF BANKS

Article 9. Standard Requirements on Capital and Reserves of Banks

1. The National Bank of Georgia in accordance with general directions of monetary and credit policy shall periodically define for commercial banks the minimum amounts of subscribed and paid in the capital stock and the rules of creation of unimpaired capital and reserves.
2. No bank shall decrease its capital and reserves by repurchasing shares or distributing reserve assets without prior written authorisation from the National Bank of Georgia and appropriate changing of their charter.

Article 10. Restrictions on Ownership and Structure of Assets

1. No partner (shareholder) or group of partners (shareholders) acting in concert have legal right to hold and transact the amount of shares, which exceeds 25 percent of subscribed or paid in capital of bank.

The National Bank of Georgia is authorised to except from this rule only such shareholders, which themselves are licensed to engage in banking activities or themselves are banks.

2. The bank is authorised to:
 - a) Hold an equity interest in a juridical person that either represents no more than 20 percent of authorised capital stock of the juridical person concerned or net current value of bank's

holding is no more than the equivalent of 15 percent of the bank's unimpaired capital and reserves;

- b) Hold an unlimited amount of equity interest in certain activity, which is connected with banking and if such activity is listed in the banking license issued by the National Bank of Georgia

3. Each bank shall maintain on file with the National Bank of Georgia a copy of its charter, its by-laws, and a list of the officials of the bank who are currently authorised contractually to engage the bank, together with their specimen signatures and a description of the limits of their authority.

Article 13. Organisational and Administrative Functions of the Bank

The highest administrative body of bank is the General meeting of partners (shareholders) which acts in accordance with legislation and charter, and approves the Board of Supervisors, a Directorate (Management) and an Audit Committee.

Article 14. Board of Supervisors

1. The Board of Supervisors of a bank shall be responsible for the supervision of the activities of the bank. Its prior written consent shall be required for the approval and modification of the maximum and minimum interest rates and discount rates charged by the bank and for the acquisition, disposal and management of real estate.
2. The Board of Supervisors of the bank shall consist of not less than three and not more than 21 members. The number of members shall be divisible by 3. Board members shall be appointed

- b) Extending credits, including consumer, mortgage, and blank credits; factoring, with or without recourse; and financing of commercial transactions, including forfeiting;
- c) Buying and selling for its own account or for accounts of customers (including underwriting) of: money market instruments (including checks, bills of exchange and certificates of deposit); futures and options relating to debt securities or interest rates; exchange and interest rate documents: and debt securities;
- d) Providing money transmission and cash desk services;
- e) Buying and selling foreign currencies, including contracts for the future sale, but only pursuant to the license issued by the National Bank of Georgia;
- f) Issuing and administering means of payment (including payment cards, traveller's checks and banker's drafts);
- g) Money brooking;
- h) Providing trust and fiduciary operations on the instructions of customers, receiving and depositing funds; management of securities;
- i) Safekeeping and administration of valuables, including securities;
- j) Providing services as a securities and portfolio manager or adviser or as a financial agent or consultant;
- k) Providing credit reference services
- l) Anything that shall be incidental to the foregoing.

Article 21. Economic Limits and Standards

1. Banks and other credit institutions shall observe the following economic limits prescribed by regulations of the National Bank of Georgia:

- a) Requirements concerning the minimum aggregate amount of liquid resources or specific categories of such resources in relation to the value or change in value of assets (including guarantees and collateral received) or specific categories thereof, or in relation to the

- d) Such other documents as the National Bank of Georgia may specify by regulation.

Article 24. Notification of Terms and Conditions

Each bank shall regularly notify its customers of the terms and conditions associated with the deposits made and credits received by them, including the annual rate of interest, in accordance with guidelines issued by the National Bank of Georgia.

Article 25. Transactions with Related Persons

1. Banks and other credit institutions shall refrain from extending credit to or for the benefit of a person who is related to the bank, if such credit would be extended on more favourable terms and conditions as to other persons who are not so related to the bank.

The National Bank of Georgia may prescribe the restrictions on extending credits or other obligations to such persons

The provisions of Articles 26, 27, and 29 shall apply to branch offices of foreign banks that operate in Georgia under a banking license issued by the National Bank of Georgia, as subsidiaries of foreign banks. Statutory and regulatory provisions requiring financial statements may be satisfied for the branch office by financial statements prepared on a pro forma basis, which means that an Audit Committee or other representative organ of the foreign bank may function as the Audit Committee of the branch office.

Article 29. Reports and Inspections

1. Each bank shall prepare and submit to the National Bank of Georgia reports (of bank and separately of its subsidiaries) concerning organisational- administrative and operational activities, liquidity, solvency, and profitability, and those of its subsidiaries, for an assessment of the financial condition of each bank and each subsidiaries on an individual and a consolidated basis. The reports shall be prepared in such form and detail and shall be submitted at such intervals as shall be prescribed by regulation of the National Bank of Georgia.
2. Every bank and each of its subsidiaries shall be subject to inspections by inspectors of the National Bank of Georgia or by auditors appointed by the National Bank of Georgia. Such auditors may include employees of the monetary or prudential supervision of banking activities in foreign country, if inspection concerns a branch office or a subsidiary of a foreign bank¹⁴ -1.4918 for auditing the taxation of bank or, upon request shall admit tax administration to audit trustworthiness of such information.

- a) The violation of a provision of this Law or of any regulation, guideline, resolution or instruction of the National Bank of Georgia;
- b) The violation of any condition or restriction attached to the banking license of the bank or credit institution or to an authorisation issued to the bank by the National Bank of Georgia;

Article 32. Decision Ordering Appointment of the Temporary Administration

The decision, ordering the appointment of the Temporary Administration, shall indicate:

- a) The reasons for the appointment of the Temporary Administration;
- b) The name of the Temporary Administrator;
- c) The duration of the Temporary Administration;
- d) The warning about possible freezing of deposits or other customer funds in the bank or credit institution;
- e) Measures applicable to the Administrators of the bank or credit institution;

Article 33. Effect of the Temporary Administration

1. The Temporary Administration shall take effect on the date specified in the decision ordering the Temporary Administration; the decision shall immediately be published in the official bulletin and in one or more newspapers of general circulation in every town in Georgia where offices of the bank or credit institution are located.

2. After the date of the publication of the decision ordering the Temporary Administration, the name of the Temporary Administrator shall be published in the official bulletin and in one or more newspapers of general circulation in every town in Georgia where offices of the bank or credit institution are located.

The name of the Temporary Administrator shall be published in the official bulletin and in one or more newspapers of general circulation in every town in Georgia where offices of the bank or credit institution are located.

- a) At the end of the term established for the Temporary Administration; this decision shall immediately be published in the official bulletin and in one or more newspapers of general circulation in every town in Georgia where offices of the bank or credit institution are located.
- b) Before the end of the term in accordance with the grounded decision of the National bank of Georgia;
- c) Upon liquidation of the bank or credit institution in accordance with this Law.

Article 36. Declaration of Insolvency of the Bank

agreements shall be considered as not demanded assets and shall pass into the property of the National Bank of Georgia with the aim of revealing their rightful owner.

7. Bank claims, related to collateral, shall be settled in accordance with the terms and conditions of appropriate agreements; all other rightful claims shall be settled in following order (with the exception of necessary and purposeful expenses of the Liquidator and the National Bank of Georgia during the implementation of legislative provisions):