

**LAW OF GEORGIA**  
**ON ACTIVITIES OF COMMERCIAL BANKS**  
**(as amended to December 24, 1998)**

**Chapter I. GENERAL PROVISIONS**

**Article 1. Definitions**

Wherever used in this Law, the following terms shall have the following meanings:

**"Administrator"** means any person who is a member of the Board of Supervisors, the Management Board or the Audit Committee of a bank or another credit institution or who alone or together with one or more others has the authority to enter into commitments for the account of a bank;

**"Branch office"** means a unit of a bank, which conducts directly all or some banking activities;

**"Persons, connected to the bank"** means administrators or partners (shareholders) of the bank, and persons connected to them by marriage, close kinship or common business interest;

**"Group of partners (shareholders) acting in concert"** means a number of either kindred partners (shareholders) or partners (shareholders) which have common commercial interests not only in the bank concerned.

**"Commercial bank"** means a credit institution which is engaged in the business of a bank with the aim to derive a profit;

**"Credit"** means any commitment to disburse a sum of money in exchange for a rights of repayment, valuation, guarantee and timing;

**"Option"** means the right, granted by agreement (contract) to one of the parties concerned, to chose means, form and amount of carrying out the commitment or the right, stipulated by conditions of agreement (contract), to repudiate commitment;

**"Banking license"** means an authorisation issued by the National Bank of Georgia by which the right to carry on the business of a bank is granted;

**"Banking activities"** means the activities that are listed in Article 21 of this Law;

**"Blank credit"** means the credit which is not guaranteed by valuables or securities;

**"Debt instrument"** means any negotiable instrument of indebtedness and any other instrument equivalent to such instrument of indebtedness, and any negotiable instrument giving the right to acquire another negotiable debt security by subscription or exchange; negotiable debt securities may be in certificate or in book-entry form;

**"Credit institution"** means any physical or juridical person that is engaged in the business of receiving money deposits or other repayable funds from the public and extends credits for its own account, as may be determined by the National Bank of Georgia;

**"Trust"** means the trust banking operations;

**"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".

## **Chapter II. LICENSING**

### **Article 3. Banking License Application**

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 5. Conditions of Licensing**

1. Banking licenses shall be granted for an indefinite period of time and shall not be transferable.
2. By its decision to grant a banking license, the National Bank of Georgia may attach conditions or restrictions to the banking license if the provisions of subsection 2 of Article 4 are not fully satisfied. Thereafter, conditions or restrictions may be attached to a particular banking license only if the bank concerned repeatedly has failed to comply with the provisions of this Law or any applicable regulation, guideline or instruction issued by the National Bank of Georgia and only to the extent required to remedy such failure.

## **Article 6. Revocation of Banking License.**

1. The banking license of a bank may be revoked only by decision of the National Bank of Georgia:
  - a). Upon a request of the bank pursuant to Article 7 of this Law;
  - b). Following an infraction pursuant to Article 21 of this Law;
  - c). On one or more of the following grounds:
    - the license has been obtained on the ground of false statements or other material irregularities that occurred in connection with the license application;
    - the bank has not made use of the banking license within 6 months after the date of its effectiveness;
    - a merger, amalgamation or division of the bank has occurred;
    - the bank no longer possesses the minimum amount of capital and reserves required by regulation of the National Bank of Georgia or can no longer be relied upon to fulfil its obligations towards its creditors and, in particular, no longer provides security for the assets entrusted to it;
    - the partner (shareholder) of the bank, that holds 5 percent or more of the bank's capital, has transferred or otherwise lost such interest and within two weeks the bank concerned have not informed about this the National Bank of Georgia ;
    - the partners (shareholders) have decided to dissolve or to liquidate the bank, or the bank has ceased to exist as a legally or operationally independent entity.
2. The National Bank of Georgia is bound to revoke or nullify a banking license of subsidiaries or branch offices of a foreign bank that has lost authority to engage in the banking business in the foreign country where its head office is located.
3. The decision to revoke a banking license shall be communicated within one week in writing by the National Bank of Georgia to the bank concerned as soon as possible, giving the grounds for the revocation.

### **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;
- c) In accordance with the written authorisation of the National Bank of Georgia the banks may establish or acquire subsidiaries which are engaged in the activities other than banking. The authorisation shall define for each subsidiaries the kind of its permissible activity. In this case the activity of subsidiary shall be restricted by the defined kind of activity;
- d) Hold equity interests that have been acquired by bank in lieu of repayment of credit granted by the bank. In such case the bank shall entirely dispose such equity interests within 6 months from the moment of their acquiring. In exceptional cases the National Bank of Georgia can prolong this time period.

The aggregate net value of all equity interest mentioned in subsections a., b., and d. shall not exceed 50 percent of the bank's aggregate value of the unimpaired capital and reserves.;

#### **Article 11. Bank Mergers, Amalgamation or Division**

To have legal effect, the merger, amalgamation or division of a bank shall require the prior written authorisation of the National Bank of Georgia. Mergers, amalgamation or division, that would be inconsistent with the provisions of Article 10 of this Law shall not be authorised.

#### **Article 12. Charter and by-Laws**

- 1. Each bank shall have a charter consistent with the current legislation. The National Bank of Georgia shall be informed in written about any amendment of the charter.
- 2. Each bank shall be governed by internal by-laws, which in compliance with its charter shall establish:
  - a) Conformity of persons, which may be appointed or elected to the administrative positions of the bank with the qualification and experience criteria specified by the National Bank of Georgia.
  - b) The structure of the organisation and administration of the bank, including its operational and administrative units, their sub-units and functions, supervisory positions, and reporting relationships;
  - c) The duties of each departmental director and the units under his direction and supervision;
  - d) The functions of the Audit Committee and other permanent internal committees;
  - e) The limits of the authorisation of the Administrators and other employees of the bank to engage in banking activities in the name and for the account of the bank.

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 by the General meeting for a period of not more than 4 years; they may be reappointed without any restrictions.

The General meeting of a bank may establish a remuneration for Board membership, provided that such remuneration shall be paid only out of the net profits of the bank.

3. A person shall not be eligible to become a member of the Board of Supervisors of bank, or shall by decision of the General meeting of the bank be relieved of his membership on the Board of Supervisors, in the event that:
  - a) He is a member of the Board of Supervisors or the Directorate (Management) of more than five other corporations registered in Georgia;
  - b) He is an employee of the bank;
  - c) He has by law been deprived of the right to sit on the Board of Supervisors;
  - d) He has been declared bankrupt.
4. The Board of Supervisors of a bank and its members cannot delegate their responsibilities of Board membership to others without consent of the General meeting of the bank.

### **Article 15. Directorate (Management)**

1. The Directorate (Management) of a bank shall be responsible for the management and execution of the bank's activities.
2. The Directorate (Management) shall consist of not less than 3 members. The members of the Directorate (Management) shall be appointed by the bank's General meeting or on its behalf by

the Board of Supervisors for periods not more than 4 years; they may be reappointed for an unlimited number of subsequent terms. Only physical persons who are current partners (shareholders) of the bank shall be eligible for appointment to its Directorate (Management).

3. A person shall not be eligible to become a member of the Directorate (Management) of a bank, or shall by decision of the General meeting be relieved of his membership on the Directorate (Management) of the bank, in the event that:
  - a) He is a member of the Board of Supervisors of the bank concerned or a member of the Directorate (Management) of other bank, registered in Georgia;
  - b) He has by law been deprived of the right to sit on the Directorate (Management);
  - c) He has been declared bankrupt;
  - d) He is the spouse, or a relative in the first or second degree, of a member of the Directorate (Management).
4. With the prior consent of the Board of Supervisors the Directorate (Management) may delegate all or part of their powers to others.

#### **Article 16. Audit Committee**

1. The Audit Committee shall consist of not less than 3 members appointed by the bank's General meeting for periods of 4 years; members of the Audit Committee shall not concurrently serve on the Board of Supervisors or the Directorate (Management), or has by law been deprived of the right to sit on the Audit Committee.

The Audit Committee shall:

- a. Establish appropriate accounting procedures and accounting controls for the bank, supervise compliance with such procedures, and audit bank's accounts and records;
  - b. Monitor compliance with laws and regulations applicable to the bank.
2. The Audit Committee shall meet ordinarily once per quarter and extraordinarily when convened by the Board of Supervisors. Decisions shall be taken by a majority of the members present and no abstentions shall be allowed.

#### **Article 17. Secrecy of Banking**

1. No person have the right to permit anybody to the confidential information, disclose or distribute, or use such information for personal gain. Mentioned information may be disclosed only to the National Bank of Georgia, considering its terms of responsibility.
2. Information about the operations and accounts of physical and juridical persons may be disclosed only to the owners of accounts, their supervisors and representatives, to the judiciary and investigation bodies in connection with current legal proceedings, and to the tax administration on the grounds of the court's decision.

3. Prior to the decision of the court, judiciary and investigation bodies, also tax administration have no rights to disclose confidential information obtained from the bank to other bodies, including mass-media, or use such information in public presentations.

#### **Article 18. Branch Offices**

The establishment of branches, agencies, and other such offices of banks shall be carried out on the basis of decision of the Board of Supervisors and be subject to conditions and restrictions established by regulation of the National Bank of Georgia.

### **Chapter IV. OPERATIONAL REQUIREMENTS**

#### **Article 19. General Banking Principles**

1. Banks and other credit institutions shall conduct their administration and operations in accordance with sound administrative and accounting procedures, the requirements of the law, the conditions and restrictions attached to their banking license, and the regulations, guidelines and instructions issued by the National Bank of Georgia.

All than one bank or credit institution shall be published in the official bulletin and shall take effect on the date of such publication or on such later date as such regulation, guideline or instruction shall specify.

In the absence of special instruction, issued by the National Bank of Georgia, which regulates one or another aspect of banking activities, bank shall operate in accordance with the regulations, guidelines or instructions issued by the National bank of Georgia that apply to more international norms and standards.

2. Banks and other credit institutions shall maintain adequate capital and sufficient liquid resources, and shall ensure that their assets are diversified as to risk of loss, in accordance with the regulations issued by the National Bank of Georgia.
3. The interaction between the bank and customers are regulated by the conditions of agreement. In the event of violation of the terms of money transfer agreements the bank shall pay to the customers not less than 0.5 percent of the amount outstanding for each day overdue.

#### **Article 20. Banking Activities**

1. Banks may engage only in the following activities:
  - a) Receiving money deposits (in the form of demand deposits, time deposits or other forms of deposit) or other repayable funds, bearing interests or not;

- 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) Minimum amount of authorised capital stock, including minimum amount in cash form;
  - b) The maximum ratios to be maintained by a bank concerning its assets, risk-weighted assets and off-balance sheet items in relation to various categories of capital and reserves;
  - c) The maximum ratios of deposits received by bank to the subscribed bank capital;
  - d) The ratio of aggregate amount of credits and other obligations issued to any single person, insider or outsider, to the bank capital;
  - e) The ratio of aggregate amount of credits and other obligations, issued to all insiders (persons, closely related to the bank or to each other), to the bank capital;
  - f) The maximum aggregate amount of credits, expressed as a percentage of the aggregate amount of all its credits, that a bank shall be permitted to have extended to ten biggest borrowers ( including the insiders and interrelated persons).
2. Banks and other credit institutions shall observe the following requirements of economic standards when 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 amount or change in amount of liabilities in general, or specific categories of liabilities, provided, however, that banks shall be permitted to meet the requirements concerning liquid resources by maintaining with the National Bank of Georgia money deposits of an equivalent value;
- b) Requirements concerning the maximum aggregate amount of credits and investments, or specific categories thereof;
- c) Requirements concerning the classification and evaluation of assets and provisions to be made on the basis of such classification and evaluation against doubtful and non-performing loans, and the time when earnings on non-performing loans may no longer be accounted for income except as received in cash;
- d) Prohibitions, restrictions or conditions concerning:
  1. The types or forms of credits and investment made;
  2. Matching as to maturity and interest in respect of assets and liabilities (off-balance sheet or otherwise);
  3. Unhedged positions, exceeding a specified size, in foreign currencies, precious metals or precious stones.

## **Article 22. Prohibited Transactions and Practices**

Banks shall refrain from entering into transactions or engaging in practices of any kind that provide them, alone or together with others, a position of dominance on the money, financial or foreign exchange markets, and from engaging in manipulative practices that could result in an unfair advantage for themselves or for third parties, will create restrictions for competitions in banking activities, possibilities or danger for establishing of fixed interest rate or fixed brokerage fees.

According to the banking legislation the antimonopolistic policy in banking activities is implemented by the National Bank of Georgia, which defines permissible parameters, evaluation criteria, and regulatory measures in this field.

## **Article 23. Records of Transactions and Commitments**

1. Banks and other credit institutions shall keep on file for a prescribed by the National Bank of Georgia period of time the pertinent documents for each one of their transactions, namely:
  - a) The application and all contract documents pertaining to the transaction (including credit, guarantee and collateral agreements);
  - b) The financial records of the bank's counterparts (including borrowers and guarantors), and any other documentary evidence, on which the bank relied in approving the transaction;
  - c) A signed written record of the decision of the bank approving the transaction;

- 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

### **Chapter V. ACCOUNTS, AUDIT, REPORTING AND INSPECTION**

#### **Article 26. Accounts and Financial Statements**

1. Banks and other credit institutions and their subsidiaries shall maintain at all times accounts and records, and prepare annual financial statements, adequate to reflect in accordance with sound accounting practices their respective operations and financial condition, in such form and detail and in accordance with such accounting standards as shall be prescribed by regulations of the National Bank of Georgia.
2. The accounts, records and financial statements of a bank shall also reflect the operations and financial condition of its subsidiaries on a consolidated basis.

#### **Article 27. Audit**

1. Each bank, other credit institutions and their subsidiaries shall appoint an independent external auditor to assist it in maintaining proper accounts and records, to prepare an annual report together with an audit opinion concerning its financial statements, and to inform the bank about any fraudulent act by an employee of the bank or subsidiary and any irregularity or deficiency in its administration or operations that should be expected to result in a material loss for bank or the subsidiary.
2. Each bank and other credit institution shall, promptly upon their completion, publish in a national newspaper its balance sheet and external auditor's report for the preceding financial year.

#### **Article 28. Foreign Bank Branches**

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 bank having its head office in that country,
3. In their inspections of banks and their subsidiaries, the National Bank of Georgia and its auditors may:
  - a) Examine the accounts, books, documents and other records of the bank or its subsidiaries;
  - b) Require Administrators, employees and agents of the bank or credit institution or the subsidiary to provide all such information on any matter relating to its administration and operations as they shall reasonably request.
4. According to the legislation, each bank shall submit to tax administration information, required for auditing the taxation of bank or, upon request, shall admit tax administration to audit trustworthiness of such information.

### **Chapter VI. INFRACTIONS AND PENALTIES**

#### **Article 30. Infractions and Penalties**

1. The penalties provided for infractions described in this Article shall be determined in particular cases by the National Bank of Georgia. Any party aggrieved may appeal such determination to the courts of law.
2. The National Bank of Georgia may take the following actions or impose the following penalties with respect to a bank or credit institution if it determines that the bank or credit institution or any of its owners or Administrators is guilty of an infraction consisting of:

- 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;
3. In the case of determining aforementioned infractions the National Bank of Georgia may:
- a) Issue to the bank written warnings;
  - b) Issue to the bank written instructions to cease and desist in the future from such infractions and to undertake remedial action;
  - c) Impose fines according to prescribed instructions and amounts, but not in excess of bank's own means;
  - d) Demand from the Board of Supervisors of the bank to suspend temporarily or permanently an Administrator from duties in the bank or credit institution;
  - e) Demand from the Board of Supervisors to call a General meeting of the bank or credit institution for discussion of the remedial measures to be taken;
4. In case, if this measures have not provided necessary results, the National Bank of Georgia may:
- a) In agreement with the Board of Supervisors place under Temporary Administration the current management of the bank in accordance with the provisions of Chapter 7 of this Law. In the case of disagreement with the Board of Supervisors the National Bank of Georgia appoints the Temporary Administration;
  - b) Revoke the banking license;
5. In particular case, when the interest of depositors or partners (shareholders) are endangered, the National Bank of Georgia is authorised to terminate the active operations of the bank.
6. Penalties shall be applied in accordance with the seriousness of the offence and its impact on the assets of the bank or credit institution.
7. Amounts of fines imposed in accordance with this Article shall be transferred to the income of the National Bank of Georgia.

## **Chapter VII. TEMPORARY ADMINISTRATION AND LIQUIDATION**

### **Article 31. Temporary Administration**

In the event of a bank's or credit institution's repeated or continued failure to comply with several of the requirements specified by or issued pursuant to this Law, the National Bank of Georgia, in accordance with the provisions of Section 4 of Article 30, is authorised to place under the Temporary Administration the current administrative management of the bank or credit institution in order to preserve, remedy or resolve its financial position.

If through the fault of the Temporary Administration the financial position of the bank will be deteriorated, all losses shall be compensated 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 Temporary Administration, no action is permissible on behalf or for the account of the bank or credit institution, without the prior approval in written of the Temporary Administration;
3. The appointment of the Temporary Administrator shall, until the end of his administration, suspend the powers of the General meeting and the Administrators of the bank or credit institution.
4. The Temporary Administrator shall as soon as possible apply for the necessary changes in the list of authorised officials of the bank or credit institution that is kept by the National bank of Georgia.

### **Article 34. Powers of Temporary Administrator**

1. The Temporary Administrator appointed by the National bank of Georgia have the power to take all actions required to normalise the situation of the bank or credit institution, including the sale or closure of branches, agencies, and such other offices and the dismissal of employees of the bank.
2. If required for the rehabilitation of the bank or credit institution, the Temporary Administrator may at any time declare deposits and investments by the public in the bank or credit institution to be totally or partially blocked for a maximum period of one year, provided that measures are taken which will preserve the initial value of these deposits and investments.

### **Article 35. Cessation of Temporary Administration**

The Temporary Administration shall be ceased:

- 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**

If during or at the end of the Temporary Administration the bank or credit institution turn out to be insolvent, it shall be declared insolvent and be liquidated in accordance with provisions of this Law.

### **Article 37. Liquidation**

1. The provisions of this Article shall be used in that case when the National bank of Georgia decides to liquidate a bank or credit institution. The functions of the Liquidator shall be fulfilled by the person, appointed by the court upon the recommendation of the National bank of Georgia.
2. The Liquidator must prepare in the time period of 3 months after his appointment a list of assets and liabilities and submit its copy to the National Bank of Georgia for publishing.
3. The Liquidator sells out the assets of the bank or the credit institution by public auction.
4. The Liquidator within 3 months after his appointment may terminate:
  - a) A labour contract of any employee of the bank;
  - b) Service agreements, in which the bank was engaged;
  - c) Any liability of the bank, concerning the renting of immovable property, if the owner, which shall be warned before 60 days that the bank is going to discontinue the renting agreement, claims no other rent fee, then the amount due on the termination date and do not asserts damages caused by such termination.
5. The Liquidator within 2 months after his appointment shall:
  - a) Take necessary measures for termination of all trust functions fulfilled by bank, return to owners all trusted assets and valuables and settle all trustees accounts;
  - b) Send with insured letter, to the addresses listed in the bank fail, to all depositors, creditors and customers, whose valuables are safekept in the vault of the bank and also to that depositors, whose property is managed by the bank, statements of their accounts.  
  
In the statement shall be indicated that the Liquidator will receive all applications within 1 month after receiving the letter and that customers can receive their valuables kept in the bank.
6. The property kept on the territory of the bank and not demanded within the specified in the statement period of time, not demanded cash amounts and property, held by the bank under

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):
  - a) Creditors, which extended their credits to the bank after appointment of the Liquidator;
  - b) Public deposits, which do not exceed the minimum non-taxed income more then hundred times;
  - c) Public deposits, which are not paid out in accordance with the subsection "b";
  - d) Other claims to the bank.

If the existing funds can not cover all claims listed in one of subsections, then claims of this class shall be paid out in equal proportions.

## **CHAPTER VIII. TRANSITIONAL PROVISIONS**

### **Article 38. Licenses of Existing Banks**

1. After entering this Law into force, the National bank of Georgia shall notify to each of institutions, which are already engaged in the banking activities, in writing the restrictions, if any, that shall apply to its operations; after such notification, these shall be treated as restrictions attached to the banking license of the institution concerned.
2. Institutions that operate as a bank or credit institution pursuant to any applicable law of Georgia at the time that this Law enters into force, shall be deemed to posses a banking license for a period of 1 year. Within this time period banks must set their its activities in accordance with this Law.

*President of Georgia*

*Eduard Shevardnadze*

*Tbilisi,*

*February 23, 1996*

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