

THE LAW OF GEORGIA ON NON-BANK DEPOSITORY INSTITUTIONS - CREDIT UNIONS

CHAPTER I General Provisions

Article 1. Definitions

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

- a) Non-bank depository institution - credit union - an enterprise registered in an organizational-legal capacity of a co-operation, which receives deposits from its members only, provides lending to its members, undertakes banking activities allowed under this Law, and the ultimate goal of which is not to gain profit.
- b) Deposit - funds deposited by a member of a of a non-bank depository institution - credit union, the ownership right on which is obtained by the credit union, and on which, as a rule, an interest is accrued.
- c) Share -- a monetary contribution of a member of a credit union made to the issued capital of the of a non-bank depository institution -a credit union, which grants such member certain rights towards a credit union, defined under this Law and the Law of Georgia on Entrepreneurs.
- d) Banking activities - the activities listed in article 3 of this Law;
- e) Loan -any liability of a non-bank depository institution -credit union - related to the issuance of funds by a credit union to its members on the principles of repayment, valuation and maturity.
- f) Management body -General Meeting, Supervisory Council, executive board of a non-bank depository institution - a credit union ;
- g) investment - investment of excess liquid resources in short-term tangible and intangible assets, for the purpose of obtaining possible profit;
- h) excess liquidity - funds which remain with a non-bank depository institution -a credit union - after timely settlement of members' and other financial claims, as well as after the satisfaction of the members' demand on loans.
- i) commercial bank - a legal entity licensed by the National Bank of Georgia which takes deposits and, using these deposits, carries out the banking activities defined under the Georgian banking legislation on its behalf.
- j) license -the right granted at the decision of the National Bank of Georgia to a non-bank depository institution - a credit union - to carry out the banking activities defined under this Law, with observation of pertinent conditions.
- k) license certificate - a document certifying the possession of a license.
- l) reserves - property which is created by a non-bank depository institution - a credit union, for a certain objective, and does not represent a shared possession of its members.
- m) corrective actions - measures exercised by the National Bank of Georgia and/or the Supervisory Council of a credit union, for purposes of supervising and regulating the activities of the non-bank depository institution -credit union.
- n) family member - spouse, parents, children, adopted children and other legal dependants of a member of a non-bank depository institution - a credit union.
- o) close relative - a family member, other relatives of direct upward and downward chain, step-child, sister, brother, as well as step-children of parent and child, of a member of a non-bank depository institution - a credit union.
- p) business partner - a person connected by commercial interests with a non-bank depository institution - a credit union.

Article 2. Purpose and Applicability of the Law

1. This Law shall apply to non-bank depository institutions - credit unions (hereinafter to be referred to as "credit union"). The purpose of the Law is to provide legal regulation of its activities in accordance with the Organic Law on the National Bank of Georgia, this Law, the Law of Georgia on Entrepreneurs, other legislative acts, and normative acts of the National Bank of Georgia (hereinafter to be referred to as "National Bank").

2. When formulating company names, credit unions shall include the term "credit union", as well as consider the requirement of the Law of Georgia on Entrepreneurs. No credit union has the right to use the word "bank" in their company names.

3. No one has the right to use the term "credit union" or any other word combination using this term, in their business names, unless this entity possesses a pertinent license issued by the National Bank, except the cases when it is so set or recognized under an international agreement, or it is obvious from the business name that the entity does not carry out banking activities defined under this Law.

Article 3. Principles and Powers Governing the Activities of Credit Unions

1. The principles governing the activities of credit union are as follows:

- a) voluntary membership;
- b) membership of individuals being a common bond;
- c) immediate participation of members in the management of a credit union;

2. A credit union is authorized to carry out the following kinds of banking activities:

- a) attract deposits from its members only;
- b) extend loans to its members only;
- c) engage in investment activities in accord with the requirements of article 17 of this Law;
- d) render services related to the above activities, including loan commitments.

Article 4. Registration of Credit Unions

1. Credit Unions shall be registered in accord with the requirements of the Law of Georgia on Entrepreneurs.

2. Credit Unions are obligated to notify the National Bank on any changes made in the Business Register within 3 business days after registration.

CHAPTER II Conditions for Membership of Credit Unions; Rights and Duties of Members

Article 5. Membership of a Credit Union

1. Only individuals shall be entitled to become members of a credit union.

2. A person enrolled in a credit union is obligated to invest a share within the time-limit and in the amount defined under the Bylaw of Credit Union ("bylaw").

CHAPTER III Management of Credit Union

Article 6. Management Bodies of Credit Union

1. Activities of credit unions shall be governed by the General Meeting, the Supervisory Council and the Executive Board.

2. Members of the Management Body of a credit union, except hired Executive Director, shall be the members of the same credit union. No more than one family member shall be a member of the same Managing Body, except the case when all members of the credit union are members of the same family, or the majority of credit union members is represented by members of the same family.

Article 7. General Meeting

1. The supreme body of a credit union is the General Meeting, which, in compliance with the rights granted under the legislation and bylaw, shall make important decisions on activities of the credit union. Except the cases considered under this Law, the General Meeting shall be summoned at least once a year, for the annual balance to be discussed and approved within the first half of the financial year.

2. The General Meeting of credit union has the special authority to:

- a) Approve the bylaw of a credit union and make amendments to it.
- b) Elect and re-elect the members of the Supervisory Council and Executive Board;
- c) Approve the Annual Report submitted by the Executive Board regarding the activities of the Credit Union and the decisions of the Supervisory Council.
- d) Adopt decisions regarding the utilization of revenues of the Credit Union or indemnification of damages;
- e) Establish general reserves, determine of their scope and the procedures of utilization.
- f) Establish branches;
- g) Adopt any decision regarding the reorganization and liquidation of the credit union;
- h) Adopt decisions regarding sale or purchase of real property of the credit union, as well as distribution of unused funds;
- i) Make decisions regarding other issues provided under the Georgian legislation and the bylaw;

3. For decisions regarding the issues considered under subparagraphs f) and g) of this article, it is necessary to obtain prior consent of the National Bank.

4. The General Meeting is authorized to make decisions if it is attended by no less than 60% of its members, for extraordinary meeting - 40%. If the general meeting is re-summoned, it shall be considered to have decision-making power, irrespective of the number of members attending. The General Meeting shall be called within one to three weeks period, with the notice to be published in a newspaper or other means, as defined under the bylaw.

Article 8. Supervisory Council

1. The Supervisory Council shall control the activities of the credit union. It shall be accountable to the General Meeting.

2. The Supervisory Council shall be elected by the General Meeting for the term of two years . The number of members of the Supervisory Council shall be odd - no less than three, and no more than fifteen.

3. The Supervisory Council shall be authorized to:

- a) Monitor the implementation of the policy of the credit union;
- b) Initiate the invitation of audit, at the request of the General Meeting or 10% of its members, in order to audit the activities of the credit union;
- c) Immediately summon the extraordinary meeting in order to take measures to avoid dissatisfactory work or anticipated aggravation of its activities, to make decisions regarding the deprivation or suspension of powers of the members of the Supervisory Council and Executive Board, or in other cases considered under this Law.
- d) Decide on other issues considered under the Georgian legislation and the bylaw.

4. Members of the Executive Board shall have no right to be members of the Supervisory Council.

5. The General Meeting shall have no right to approve the Annual Report without findings of the Supervisory Council.

6. The Supervisory Council shall issue authorization on the issuance of loans to each member of the Executive Board.

7. The Supervisory Council shall have the right to suspend the authority of a member of the management body, before an extraordinary meeting is summoned.

8. The decisions of the Supervisory Council shall be based on simple majority of votes.

Article 9. Executive Board

1. The executive Board shall be elected by the General Meeting for the term of 2 years. The number of members of the Executive Board shall be odd - no less than three and no more than nine members. Executive director, designated from the Executive Board, shall chair the Board and represent it vis-à-vis third parties.

2. The Executive Board shall be authorized to:

- a) Elect the Credit Committee;
- b) Determine the policy of the credit union;
- c) Accept new members, suspend their authority and expel them;
- d) Designate and dismiss the executive director;
- e) Determine the services to be rendered to the members of the credit union, including the conditions and procedures for receipt of deposits.
- f) Approve write-offs of non-recovered loans in accord with the procedure established by the National Bank.
- g) Use the reserves considered under this Law with observance of the procedure established by the normative acts of the National Bank.
- h) Prepare the Annual Report and submit it to the General Meeting for discussion.
- i) Develop investment procedures;
- j) Exercise other powers granted under the Georgian legislation and the bylaw.

Article 10. Credit Committee

1. Credit Committee is a special body accountable to the Executive Board which is responsible for lending activities of the credit union. It is obligated to submit the comprehensive report of its activities to the Executive Board and the Supervisory Council on a monthly basis.

2. Credit Committee shall be elected by the Executive Board for the term of two years. It shall consist of no less than three members, the rights and duties of which shall be defined under the legislation.

3. Credit Committee shall be authorized to:
- a) Consider loan applications submitted by members of credit union and make appropriate decisions; consider loan applications submitted by members of the Executive Board and submit proposals to the Supervisory Council.
 - b) Periodically control and discuss loan portfolio, appraise all collateral or other means of security, verify documentation related to any loan, design and implement loan collection efforts.
 - c) Take measures to cover losses in case of default on loan;
 - d) Classify loans and create reserves for possible losses in accord with the procedures established by the National Bank.
 - e) Control the repayment of loans;
 - f) Decide on other issues considered under the Georgian legislation and the bylaw.

4. Members of the Executive Board and the Supervisory Council of the credit union, as well as hired individuals shall have no right to be members of the Credit Committee.

5. The meeting of the Credit Committee shall be summoned at least once a month. The issues discussed and decisions made shall be reflected in the minutes which shall be forwarded to the Executive Board for feedback, when needed.

Article 11. External Audit and Accounting

Credit Unions are obligated to:

- a) invite an external auditor annually, in order to conduct audit in accord with the procedures established by the National Bank.
- b) Maintain accounting and financial reporting in accord with the accounting procedures established by the National Bank.

Article 12. Conflict of Interests

A member of the Supervisory Council or the Executive Board of the credit union shall not be a member of the Supervisory Council or the Executive Board of any bank or other credit union. In addition, a person shall be prohibited to be a member of the Executive Board of the credit union, if such person:

- a) Has participated in a transaction which caused significant damage to a commercial bank or other credit union.
- b) Has misused his/her powers when working at a commercial bank, or other credit union.
- c) Previously held an administrative position of a commercial bank or other credit union, and as a result of his/her doings, the commercial bank or other credit union became insolvent;
- d) Has not discharged his/her financial liability to a commercial bank or other credit union.
- e) Other prohibitions considered under this Law apply to him/her.

Chapter IV Deposit

Article 13. Deposit

1. Deposits attracted by a credit union shall represent the main source of formation of the credit union's funds. Credit unions receive deposits only from their members. Deposits can be term, or demand. A savings book may be issued for term deposits. Issues regarding the savings book shall be regulated by the Georgian legislation.

2. Credit unions shall ensure the management of assets and liabilities so that the interest rate set for the deposit should not exceed the interest rate accrued to the extended loan.

3. For the purpose of securing a loan, a credit union may require the recipient of the loan to pledge or block the deposit.

4. Credit unions may, at any time, offset the deposit of a loan recipient against a delinquent loan, in accord with the requirements of the Civil Code of Georgia.

Article 14. Withdrawal of Deposit

Deposits shall be withdrawn in accord with an agreement. Requests of members of the credit union to withdraw their deposits fully or partially, may be rejected if they are liable to the credit union in terms of a loan, warranty, or otherwise.

Chapter V Loan

Article 15. Conditions and Purpose of Extending Loans

1. Credit unions shall extend loans only to their members, in accord with this Law and the requirements set by the National Bank, and following the timeframe and conditions defined periodically by the Credit Committee.

2. A loan extended by a credit union may be secured or not secured. A share or deposit of a member, his/her personal or immovable property, as well as the warranty and/or bank guarantee of other solvent person may serve as a security.

Members of the Executive Board, the Supervisory Council or the Credit Committee of a credit union, shall have no right to provide direct or indirect warranty, or act as a guarantor for any loan extended by the credit union.

Article 16. Confidentiality

1. Information on a deposit of a member of the credit union, as well as on the loan transaction, shall be confidential for those who are not members of a credit union, and shall be issued only at the pertinent decision of the court.

2. In order to fulfill its supervisory function, the National Bank has the right to receive any information and document related to the activities of the credit union, as indicated in paragraph 1 of this article.

Chapter VI Investments

Article 17. Permissible Investments

1. A credit union has the right to make the following types of investments, in consideration of excess liquidity:

- a) in treasury bills;
- b) in commercial banks in the form of short-term deposits;
- c) in the form of short-term loans to other credit unions;

2. In consideration of excess liquidity, a credit union can also make other investments permitted by the National Bank.

3. According to the types of investments considered under paragraphs 1 and 2 of this article, total investment at a single institution shall not exceed 15% of the assets of a credit union.

4. The sum of investments considered under paragraphs 1 and 2 of this article, shall not exceed 30% of the assets of a credit union.

5. The limits considered under paragraphs 3 and 4 of this article may be exceeded at the decision of the General Meeting.

Chapter VII Reserves

Article 18. General Reserve

A credit union is required to create a general reserve. General reserve shall be formed of contributions from annual earnings, and shall be no less than 90% of the distributable earnings.

Article 19. Utilization of General Reserve

General reserve shall be primarily utilized to cover the loss of a credit union.

Article 20. Asset Loss Reserve

Beside general reserve, a credit union, shall, in accord with the procedures set by the National Bank, create asset loss reserve, which shall not be a constituent of general reserve.

Chapter VIII Capital and Dividends

Article 21. Capital of Credit Union

1. Capital of a credit union shall consist of issued capital, additional monetary contributions, monetary donations, general reserve considered under this Law, last year's retained earnings and financial year's earnings.

2. Issued capital shall be formed of the shares deposited by the members of a credit union. Minimum amount of a share, as well as the procedure for depositing the shares, shall be defined under this Law, the Law of Georgia on Entrepreneurs, and bylaw.

3. The National Bank shall periodically define for credit unions the minimum amount of issued capital in cash form. Issued capital of a credit union may be reduced only at the consent of the National Bank, but it shall be no less than the minimum amount of issued capital defined by the National Bank.

Article 22. Dividends

1. Dividends may be accrued on a share. Dividends shall be accrued only to the fully-paid shares. The amount of dividends shall be defined by the General Meeting after considering the proposals of the Executive Board and the Supervisory Council.
2. Dividends shall be accrued on shares on proportional basis. Installments made during the reporting year, shall be considered in earnings distribution, in proportion with the time passed after making such installments.
3. Dividends shall be accrued on shares only after making contributions to the general reserve, set by the law, in accord with the results of the financial year. The amount of dividends shall not exceed 10% of the distributable earnings.

Chapter IX Licensing

Article 23. License Applications

1. A credit union shall apply to the National Bank for obtaining a license. The license application package shall include:
 - a) identity of an applicant, legal address, including branches;
 - b) request for obtaining a license;
 - c) date of submission of the application and signature of an authorized person;
 - d) list of documents attached to the application;
 - e) data of registration in a business register;
2. The license application shall be attached by:
 - a) originals or notarized copies of the bylaw and other registration documents registered in a court;
 - b) certificate on authorized and paid-in capital;
 - c) a document certifying the payment of a licensing fee;
 - d) documentation certifying the ownership of the real estate where a credit union is located, or other rights related thereto;
 - e) any other information that the National Bank may reasonably require in each concrete case.
3. If a license application is rejected, the applicant shall not be refunded the paid licensing fee.

Article 24. Decision on Granting a License

1. Within one month after the receipt of license application, the National Bank shall make reasoned decision on granting or rejecting a license, and inform the applicant in a written form within ten business days after making such decision.
2. The National Bank shall issue a license in the form of a license certificate only to those credit unions who are registered in accord with the set procedure, have their issued capital formed in the amount required by the National Bank, and submit the license application package consistent with the requirements of this Law.
3. A license shall not be issued if the documentation submitted by a credit union does not meet the requirements of this Law and the National Bank.
4. A license shall be issued for an indefinite term. The license shall not be passed to other person.
5. The National Bank shall maintain an institutional register of issued licenses, and is obligated to insert in this register the data on license issuance and revocation, as well as issuance of copy of license, within two business days after making pertinent decisions.

Article 25. Revocation of License

Only the National Bank is authorized to revoke a license, if:

- a) a credit union has applied to the National Bank with a reasoned written application and received the consent from the National Bank;
- b) a credit union did not commence activities allowed under this Law, within one year after the receipt of a license;
- c) it is ascertained that the license has been issued on the basis of the documents containing false or inaccurate data;
- d) it is ascertained that the credit union is insolvent;
- e) a credit union is being reorganized;
- f) a credit union has changed the focus of activities;
- g) a credit union no longer has the minimum amount of paid-in capital set by the National Bank;
- h) a credit has been removed from the Business Register;
- i) a credit union systematically violates the requirements of this Law and the National Bank's normative acts;

Article 26. Promulgation of Decision on License Revocation and Its Results

1. The decision on revocation of the license of a credit union shall be immediately promulgated in the National Bank and other printed media; it shall be simultaneously forwarded to the credit union which is obligated to return the license certificate to the National Bank within three days after making such decision. The decision shall be valid from the day it is made, or from the date defined under the decision itself.
2. From the day the license is revoked, a credit union is prohibited to carry out the activities allowed by the license, and shall be liquidated in accord with the procedure established by the National Bank. From the day the license is revoked, a credit union is obligated to repay all liabilities related to its activities within the shortest time. During the termination of activities, before all liabilities are redeemed, a credit union shall comply with the provisions of this Law, like any active credit union.
3. Decisions on insolvency and bankruptcy of a credit union shall be made solely by the National Bank. The National Bank shall commence the liquidation process immediately after the revocation of a license. Liquidator of a credit union shall be appointed only by the National Bank.

Chapter X National Bank Supervision over Credit Union Activities

Article 27. Supervision

1. The National Bank shall supervise the activities of credit unions. Supervision implies issuance and revocation of licenses, any examination and regulation, imposition of limitations and sanctions, placement under temporary administration or liquidation, in accord with the Organic Law of the National Bank of Georgia and normative acts of the National Bank.
2. In order to supervise the activities of credit unions, the National Bank shall issue the following normative acts:
 - a) on requirements for minimum paid-in capital and minimum number of members of credit union (considering the territorial principle);
 - b) on adequacy of capital ratio;
 - c) on levels of risk;
 - d) the procedure for formation of asset loss reserve;
 - e) on other limits and normatives established by the National Bank;
3. The National Bank shall periodically inspect credit unions (both on and off site) in order to study their financial condition and assess the compliance with this Law and normative acts of the National Bank.
4. In order to remedy violations and deficiencies identified during the implementation of supervisory function, and improve the financial condition of credit unions, the National Bank shall take corrective measures against these institutions, including temporary administration and license revocation.

Article 28. Reorganization

A credit union may be reorganized on the basis of prior consent of the National Bank, without changing its organizational and legal capacity and with full protection of the rights and interests of its members.

Article 29. Temporary Administration and Liquidation

1. If, after the implementation of supervisory function over the activities of the credit union, it is ascertained that the deposits of the credit union members are under threat, the National Bank is authorized to place the institution under temporary administration, in order to improve its financial condition.
2. Temporary administration, as well as liquidator, shall succeed to the full authority of all bodies of a credit union.
3. During the liquidation of a credit union, claims shall be repaid in the following order:
 - a) The National Bank and other creditors, the liability to which arose after the license revocation;
 - b) Depositors;
 - c) Other claims to the credit union;
4. If the available amount is not sufficient to fully satisfy the claims listed in paragraph 3 of this article, then all claims shall be paid on pro rata basis.
5. The National Bank shall define the procedures for temporary administration and liquidation.

Article 30. Violations and Sanctions

1. If the requirements of this Law and the National Bank normative acts, as well as the National Bank's written instructions are ignored, the National Bank is authorized to exercise the following sanctions against credit unions:

- a) send a written warning;
- b) issue an instruction for the credit union to suspend or terminate certain activities and, within the timeframe defined by the National Bank, take measures to remedy the violations;
- c) impose a penalty on the credit union, in accord with the procedure and at the amount defined by the National Bank;
- d) make the Executive Director or a member of the Executive Board pay monetary penalty, if their action had caused financial damage to the credit union;
- e) suspend the signature right from the Executive Director or accountant (if any) of the credit union;
- f) require the Supervisory Council to summon an unscheduled General Meeting in order to discuss violations, implement measures to remedy these, or renew the composition of management bodies;
- g) suspend or limit the asset growth, distribution of earnings, issuance of dividends, increase of salaries and attraction of deposits, issuance of bonuses and other awards;
- h) in special cases, when the interests of the credit union members or other creditors are under threat, place the institution under temporary administration;
- i) revoke a license of a credit union.

2. Penalties paid in accord with this article, shall be included in the revenues of the National Bank.

Chapter XI Transitional and Final Provisions

Article 31. Transitional Provision

Credit Unions created before the enforcement of this Law, are obligated, immediately after this Law is put in force, to carry out the pertinent banking activities only in compliance with the requirements of this Law.

Article 32. Enforcement of the Law

This Law shall be enforced from October 1, 2002.

Eduard Shevardnadze
President of Georgia
Tbilisi
July 4, 2002