LAW OF GEORGIA

ON MICROFINANCE ORGANISATIONS

Article 1 - Purpose of the Law

The purpose of this Law is the legal regulation of the activities of microfinance organisations, and the creation of a healthy environment for their development.

Article 2 - Definition of terms used in this Law

1. The terms used in this law have the following meaning:

a) micro leasing - leasing whose value is defined by an established limit of a micro credit;

b) registration - voluntary registration at the National Bank of Georgia of a legal entity created in accordance with the legislation of Georgia;

c) (deleted);

d) significant share - 10 per cent or more of declared or paid-in capital of a microfinance organisation, which is owned by a person though direct or indirect participation.

2. Other terms used herein have the meanings that are defined by the legislative acts of Georgia.

Law of Georgia No 5924 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 44

Law of Georgia No 1682 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 165

Law of Georgia No 5528 of 1 December 2011 – website, 28.12.2011

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 3 - Microfinance organisation

1. A microfinance organisation is a legal entity founded in the organisational and legal form of a limited liability or a joint-stock company, which, on the basis of its own application, is registered by the National Bankof Georgia, and which performs activities established by this Law under the supervision of the National Bank of Georgia.

2. A microfinance organisation is obliged to create a supervisory board, which shall be subject to the rules established by the Law of Georgia on Entrepreneurs with regard to supervisory boards of joint-stock companies.

3. Only a microfinance organisation shall be entitled to use the term 'microfinance organisation' or its abbreviation MFO in its corporate name, apart from the denomination established by the Law of Georgia on Entrepreneurs.

4. If, as a result of inspection, the National Bank of Georgia determines that a microfinance organisation has breached the norms established by the legislation of Georgia, the National BankFinancial Supervisory Agency of Georgia shall be entitled to give it a warning, impose a monetary penalty on it, or take a decision to cancel the registration of the microfinance organisation in accordance with the procedures established by the Financial Supervisory Agency of Georgia.

Law of Georgia No 5924 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 44

Law of Georgia No 1682 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 165

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 4 - Microfinance activities

1. A microfinance organisation shall be entitled to perform the following activities only:

a) issue micro loans, including consumer, pawn, mortgage, unsecured, group or other loans (credits), to legal and natural persons, and issue credit payment cards for such purpose;

b) invest in state and public securities;

c) carry out money remittance services;

d) fulfil the function of an insurance agent;

e) provide consultation services related to micro crediting;

f) obtain loans (credits) from resident and non-resident legal and natural persons;

g) hold in ownership shares in an authorised capital of legal persons, the total amount of which does not exceed 15% of the authorised capital of such microfinance organisation;

h) provide other financial services and operations determined by the legislation of Georgia: micro leasing, factoring, currency exchange, issuance, sale and redemption of bonds and bills of exchange, and other operations related to such financial services and operations.

2. A microfinance organisation shall be entitled to perform the activities stipulated in this Law only after it is registered as a microfinance organisation by the National Bank of Georgia, the procedures and conditions of which shall be established by the National Bank of Georgia.

2^1. A microfinance organisation shall be entitled to perform the functions of an insurance agent referred to in paragraph 1(d) of this article, in accordance with the procedures established by the Legal Entity under Public Law called the Insurance State Supervision Service of Georgia.

3. A microfinance organisation shall be prohibited from receiving deposits from natural and legal persons.

Law of Georgia No 5924 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 44

Law of Georgia No 1682 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 165

Law of Georgia No 263 of 6 March 2013 – website, 20.3.2013

Law of Georgia No 356 of 20 March 2013 - website, 4.4.2013

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 5 - The concept and the amount of a micro credit

1. A micro credit is an amount of money issued by a microfinance organisation to a borrower or a group of borrowers on conditions of maturity, repayment, valuation and purpose of the credit as provided for by the credit agreement.

2. The maximum total amount of a micro credit issued by a microfinance organisation to a single borrower shall not exceed GEL 50 000 (fifty thousand).

Article 6 - Authorised capital of a microfinance organisation

Financial contributions to the authorised capital of a microfinance organisation shall not be less than GEL 250 000 (two hundred and fifty thousand). The total amount of authorised capital established by a statute may be paid-in above such contribution limit through monetary or/and non-monetary forms in accordance with the legislation of Georgia.

Article 7 - Criteria of suitability

1. A director (a member of the board of directors) of a microfinance organisation may not simultaneously be a partner (shareholder), a member of the supervisory board and/or board of directors of any commercial bank, non-bank depository institution – a credit union, or other microfinance organisation.

2. A person shall be prohibited from being a director of a microfinance organisation, if:

a) he/she has participated in an operation which caused significant damage to a commercial bank, non-bank depository institution - a credit union, or to any other microfinance organisation, or has violated the rights of the depositaries of a commercial bank or a non-bank depository institution - a credit union, or of other creditors, or has led to the insolvency or bankruptcy of a commercial bank, or a non-bank depository institution - a credit union, or any other microfinance organisation;

b) he/she was an administrator of a commercial bank, credit union or other microfinance organisation in the past, and as a result of his/her activities such commercial bank, credit union or microfinance organisation became insolvent;

c) he/she failed to fulfil financial liabilities towards any commercial bank, credit union or any other microfinance organisation;

d) he/she has been convicted of committing grave or especially grave crimes, terrorism financing and/or legalisation of illicit income, or other economic crimes;

e) he/she has no appropriate education and/or experience.

3. A director of a microfinance organisation shall be prohibited from participating in a decision-making process on matters in which he/she has a private

interest.

4. A person shall be prohibited from holding a significant portion of shares in a microfinance organisation if he/she has been convicted of committing grave or especially grave crimes, terrorism financing and/or legalisation of illicit income, or other economic crimes.

5. A person who intends to buy a significant portion of shares in a microfinance organisation is obliged to submit to the National Bank of Georgia an application and documents with regard to the compliance with the requirements set out in paragraph 4 of this article.

6. The National Bank of Georgia shall review the application within 15 days after its submission, and shall either give consent or a reasoned refusal to the interested person with regard to the implementation of the relevant operation.

7. If the National Bank Financial Supervisory Agency of Georgia fails to respond to the interested person within 15 days after the submission of the application, consent to the implementation of the respective operation shall be deemed to have been given.

8. A transaction on purchasing a significant portion of shares in a microfinance organisation shall be void, if an interested person fails to submit an application to the National Bank of Georgia, or if he/she has received a reasoned refusal from the National Bank of Georgia in relation thereto, and, notwithstanding said refusal, has purchased a significant portion of shares in a microfinance organisation.

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

Law of Georgia No 263 of 6 March 2013 – website, 20.3.2013

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 8 - Auditing, accounting and financial statements

1. A microfinance organisation is obliged to:

a) provide transparent financial and tax accounting and follow the principle of publicity;

b) develop and implement a system and procedures for internal control;

c) carry out an external audit annually and perform auditing in accordance with the legislation of Georgia;

d) provide accounting and financial statements in accordance with the International Accounting Standards and the legislation of Georgia;

e) present financial statements to the National Bank of Georiga, whose form and term of submission shall be established by a normative act of the National Bank of Georgia;

f) be responsible for the authenticity of the statements, and for the completeness of the information and statements submitted;

g) publish a financial statement in respect of the financial year and a report of the external audit in the print media annually.

2. If a microfinance organisation fails twice in succession to present financial statements established by this article to the National Bank of Georgia in accordance with the form and periodicity stipulated therein, the National Bank of Georgia shall be entitled to cancel the registration of the microfinance organisation.

3. A microfinance organisation shall keep the following documentation for a period of six years:

a) account books, inventory sheet, balance sheet, as well as their explanatory instructions, and other organisational documents;

b) accounting documents which confirm the entries in the accounting book.

Law of Georgia No 5924 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 44

Law of Georgia No 1682 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 165

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 9 - Terms and conditions for disbursing micro loans

1. A microfinance organisation and a borrower shall enter a written credit agreement on the disbursement of a micro loan in accordance with this Law and the Civil Code of Georgia.

2. The loan stipulated by this article may be a group or an individual loan, which may be secured or non-secured. The terms and conditions for the disbursement of a micro loan shall be established by a microfinance organisation.

3. Interest rates, commission fees and service fees shall be established by a microfinance organisation.

4. A microfinance organisation has the right to exercise control over the purposeful use of the loan by a borrower, and the borrower is obliged to provide the microfinance organisation with the opportunity to perform such control. If the borrower fails to fulfil the obligation to use the credit purposefully, the microfinance organisation shall have the right to refuse to fulfil the terms of agreement with regard to the disbursement of the portion of credit that has not been disbursed, and to demand the premature repayment of the portion of the credit that has already been disbursed.

5. The National Bank of Georgia shall be entitled to set the conditions and the maximum prepayment commission fees for microfinance organisations in the case of re-financing, or the prepayment from own resources of micro credits disbursed by such microfinance organisations.

Law of Georgia No 263 of 6 March 2013 – website, 20.3.2013

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 10 - Confidentiality of information

1. A microfinance organisation is obliged to protect the confidentiality of information. Such information may be submitted only to the tax authority on the basis of an agreement 'signed by the Government of the United States of America and the Government of Georgia for the improvement of the fulfilment of international tax obligations and for the fulfilment of foreign account tax compliance act (FATCA)'.

2. Information on borrowers existing in a microfinance organisation may be submitted only to the borrowers, their representatives, the National Bank of Georgia, and also to the Financial Monitoring Service of Georgia in the cases provided for by the legislation of Georgia. Such information may be submitted to other persons only on the basis of a respective decision of a court or on the basis of a preliminary written agreement with a borrower.

3. Judicial and investigative bodies, as well as tax services, shall be prohibited from giving information to other bodies, including to mass media, or to use such information publicly, before a court makes an appropriate decision thereon, except for the case referred to in paragraph 1 of this article, where such information has been submitted on the basis of an agreement 'signed by the Government of the United States of America and the Government of Georgia for the improvement of the fulfilment of international tax obligations and for the fulfilment of foreign account tax compliance act (FATCA).

Law of Georgia No 5924 of 14 March 2008 - LHG I, No 7, 26.3.2008, Art. 44

Law of Georgia No 1682 of 24 September 2009 – LHG I, No 29, 12.10.2009, Art. 165

Law of Georgia No 4198 of 3 September 2015 – website, 10.9.2015

Law of Georgia No 4465 of 28 October 2015 – website, 11.11.2015

Law of Georgia No 442 of 10 March 2017 – website, 22.03.2017

Article 11 - Transitional provisions

1. In the case of the establishment of limited liability or joint stock companies by microfinance organisations registered under the status of a non-entrepreneurial legal entity before the entry into force of this Law, the authorised bodies stipulated in the statutes of such microfinance organisations shall be entitled, at their discretion, to define the amount of the authorised capital of limited liability or joint stock companies in accordance with Article 6 of this Law (or to define the nominal value of shares of joint stock companies).

2. When making a non-monetary contribution to the authorised capital, microfinance organisations registered as non-entrepreneurial legal entities before the entry into force of this Law, shall conduct an audit of relevant assets before 30 November 2007.

3. The authorised bodies stipulated in the statutes of microfinance organisations registered as non-entrepreneurial legal entities before the entry into force of this Law, shall have the right to alienate the shares (stocks) of companies established by such microfinance organisations, and to determine the procedures for their alienation.

4. The requirements established by Article 33(2) of the Civil Code of Georgia shall not apply until 31 December 2007 to microfinance organisations registered as non-entrepreneurial legal entities before the entry into force of this Law.

Law of Georgia No 5254 of 11 July 2007 - LHG I, No 29, 27.7.2007, Art. 313

Article 12 - Final provision

This Law shall enter into force upon its promulgation.

President of Georgia M. Saakashvili

Tbilisi

18 July 2006