

PwC Georgia Tax and Law Brief

10 May 2019

Order # 74/ 04 of the President of National Bank of Georgia on „the requirements of commercial banks' pricing models”

General provisions

- Order #74/04 issued on 24 April 2019 by the President of National Bank of Georgia (“NBG”) determined healthy pricing requirements for banking products.

Principle of healthy pricing

- Under the order, healthy pricing principle includes, among others, adequate evaluation of certain risks and expenditures by commercial banks (banks) on the entire duration of the banking product.
- According to the order, banks shall have a documentary policy on pricing- procedures, models, limits and appropriate standards, which shall be integrated in the relevant uniform framework. This framework will be a guidance for banks' budget and strategic plan.
- Banks must apply detailed pricing on main products.
- Banks shall not impose financially loss-making prices on a product, by assuming that the loss will be compensated by other income received from other products.

Components of adequate pricing

- For adequate pricing, among others, banks shall consider the following requirements:
 - Capital expenditure - cost of raising capital for financing a product;
 - Funding expenses - shall be determined by the interest rates payable on funds;
 - Non-interest income and expenses - non-interest income and expenses related to the product during the term of the contract.
 - Interest rate risk – includes cases when the due date of interest rates of loan financing sources are different from the due date of revaluation of loan interest rates. In such cases, banks' interest margin can be negatively affected.

Source: Legislative Herald of Georgia, 05 May 2019

Ordinance #217 of the Government of Georgia on Establishment of the National Committee of International Trade Promotion

Main functions of the Committee

- Main functions of the National Committee of International Trade Promotion established under the mentioned ordinance issued on 01 May 2019, include:
 - Considering the national strategy for promotion of international trade, relevant reforms and the priority directions of the "Promotion of Trade";
 - Supporting implementation of provisions on "Promotion of Trade";
 - Developing recommendations on international trade and presenting them to the Government of Georgia.

Source: Legislative Herald of Georgia, 06 May 2019

Order No. 75/04 of the President of the National Bank of Georgia on "determining additional/different criteria for leasing out real estate by commercial banks"

Permitted cases of leasing out real estate

- Order No. 75/04 issued on 24 April 2019 by the President of the National Bank of Georgia ("NBG") determines additional / different requirements for leasing out real estate by commercial banks (banks).
- According to the Law of Georgia on "Commercial Bank Activities", banks are entitled to lease out real estate in the following cases:
 - To manage real estate obtained (acquired) in the course of fulfilling obligations towards banks;
 - To use real estate during the entire lease period only for banking and its related activities, or for banks' social projects;

Additional cases of leasing out real estate

- The mentioned new order determines additional cases when banks are permitted or prohibited from leasing out real estate.
- To maintain operational efficiency, banks are permitted to lease out the part of the real estate, when the substantial

***Additional
requirements prior to
leasing out real estate***

- part of this property is being used for banking activities and a sale/ separation of this part of the real estate is impossible or raises unjustifiable high costs for banks. In addition, requirements outlined in the NBG order №47/04, shall be satisfied.
- According to the order #75/04, banks are prohibited from:
 - Increasing space of owned real estate intentionally;
 - Acquiring real estate for future activities, which does not correspond to the bank's needs;
 - Buying real estate for the purpose of leasing it out.
- Banks shall notify the NBG before leasing out an immovable property and shall receive its consent. The notification shall include compliance analysis of the criteria established under the order #75/04.
- The NBG shall make a decision within one month from the date of receiving the bank's written request. NBG's consent is automatically implied, when it fails to provide an answer to the bank's request within the stipulated term.

Source: Legislative Herald of Georgia, 06 May 2019

Let's talk

For a deeper discussion of how this issue might affect your business, please contact PwC Georgia

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