

**Unofficial translation**

**Order N74/04 of the President of the National Bank of Georgia**

**March 29<sup>th</sup> , 2024, Tbilisi**

**On the Approval of Rule on Regulation of Securitization**

In accordance with Subparagraph "g" of Paragraph 1 of Article 15 and Article 52<sup>7</sup> of the Organic Law of Georgia on "National Bank of Georgia," and "The Law of Georgia on Securitization", Paragraph 6 of Article 7, Paragraph 9 of Article 8, Paragraph 2 of Article 10, Paragraph 4 of Article 11, Paragraph 12 of Article 13, Paragraphs 3 and 5 of Article 21, Paragraph 5 of Article 23, Paragraphs 1 and 3 of Article 26, and Paragraph 5 of Article 27, **I hereby order:**

**Article 1.**

Rule on Regulation of Securitization shall be approved.

**Article 2.**

This order shall enter into force upon publication.

**Acting President of the National Bank of Georgia**

**Natela Turnava**

**Rule on Regulation of Securitization**

**Chapter I. General Provisions**

**Article 1. Purpose and Scope**

1. The Rule on Regulation of Securitization (hereinafter referred to as "the Rule") establishes requirements for the National Bank of Georgia (hereinafter referred to as "the National Bank") regarding the notification and presentation of information on securitization, the procedure and additional requirements for authorization of a securitization special purpose vehicle, additional requirements for the liquidation of an authorized special purpose vehicle and its compartments, the calculation methodology of securitization material net economic interest, additional requirements applicable to institutional investors, qualification criteria of non-performing underlying assets, and additional transparency requirements.

2. Documents issued by a foreign country, to be submitted to the National Bank under this Rule, must be legalized or certified with an apostille, unless exceptions specified by the legislation of Georgian. Documents in a foreign language must be provided with a notarized official Georgian translation, except for exceptions stipulated by this Rule.

## **Article 2. Definition of Terms**

1. For the purposes of this Rule the terms referred to herein shall have the following meanings:

a) Law - Law of Georgia on Securitization;

b) Developed country – A developed country defined by Order N16/01 of February 19, 2010 of the President of the National Bank of Georgia "On Approval of the List of Developed Countries";

c) National Bank – The National bank of Georgia;

d) Entity under Liquidation- An authorized special purpose vehicle or its compartment subject to liquidation;

e) Contingent form of retention of material net economic interest - The retention of a securitization material net economic interest through the use of guarantees, letters of credit and other similar forms of credit support ensuring an immediate enforcement of the risk retention;

f) Synthetic form of retention of material net economic interest - The retention of a securitization material net economic interest through the use of a derivative;

g) Credit Facility - A loan where the terms allow the borrower to borrow a predetermined amount of money over a predetermined period of time;

h) Participant of Securitization- Originator, original lender, securitization special purpose vehicle and asset management company;

i) Special Purpose Vehicle (SPV)- A securitization special purpose vehicle as defined by Article 2, Paragraph 1, Subparagraph "b" of the Law;

j) Revolving Securitization - A securitisation where the securitisation structure itself revolves by underlying assets being added to or removed from the pool of underlying assets irrespective of whether the underlying assets revolve or not;

k) Revolving Underlying Assets - An underlying asset whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit;

l) First Loss Tranche - The most subordinated tranche in a securitisation that is the first tranche to bear losses incurred on the securitised underlying assets and thereby provides protection of the higher ranking tranches from the losses;

m) Non-performing claim (underlying asset) – A claim (underlying asset) that is qualified as a third stage credit risk financial instrument or as purchased or originated credit-impaired (POCI) according to the Rule on Determining Risk Categories of Financial Instruments and Expected Credit Losses approved by the Order N192/04 of 29<sup>th</sup> of December 2022 of the Governor of the National Bank of Georgia;

n) Overcollateralization - Any form of credit quality improvement by means of which the underlying assets are added to the extent that their value exceeds the value of the tranches / securitization instruments;

o) Risk retention – Retention of securitization material net economic interest;

p) Underlying asset – Underlying asset (securitized credit claim/exposure ) as determined by Article 2, Paragraph 1, Subparagraph “s”.

2. Other terms used in this Rule shall have the meaning ascribed to them under the Law and legislation of Georgia.

## **Chapter II. Authorization of a Special Purpose Vehicle**

### **Article 3. Conditions of authorization**

1. In order to authorize a special purpose vehicle, the applicant, in addition to the documents/information defined by Article 8, Paragraphs 3 and 4 of the Law, must submit the corresponding application form (Annex N1) and the following documents/information to the National Bank:

a) Identification data of the securitization participants and the latest extracts from the Register of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Entities of the National Agency of the Public Registry;

b) Information and documents confirming that the place of registration and management of the special purpose vehicle seeking authorization is located in Georgia;

c) In the case of a securitization fund, the decision taken by the asset management company to establish the securitization fund;

d) Description of organizational structure of the securitization company;

e) Information on all members of the management body of the securitization company and the owners of a significant share, confirming their compliance with the requirements provided in Paragraphs 2 and 3 of this Article (Except for the case provided in Article 8, Paragraph 4 of the Law). This information shall include:

e.a) A declaration filled in according to Annex N2 of this Rule and copy/copies of identity document(s);

e.b) Information about the education and experience of the member of the governing body (including copies of document(s) confirming the education and personal resume);

e.c) Notice of conviction;

e.d) The statement by the member of the management body of the securitization company affirming compliance with the requirements set forth in Paragraph 2 and 3 of this article and the information provided is accurate and not misleading;

e.e) A written confirmation from the securitization company verifying the information about the member of the management body, confirming compliance with the requirements established by this Rule and

that this information is accurate and not misleading;

- e.f) For a member of the executive governing body, the job description and information about the functions and duties assigned;
- e.g) Description of all circumstances that may lead to a conflict of interest and compromise the independence, objectivity, and impartiality of the member of the governing body;
- f) The last year's financial statements of the originator and original lender, prepared by an auditor authorized to audit the financial statements of public interest entity;
- g) Agreement or draft of the agreement on the storage of liquid assets and/or securities concluded/to be concluded between the securitization special purpose vehicle and the servicing commercial bank;
- h) Description of underlying assets and their valuation methods;
- i) Information about the securitization instrument(s) to be issued by the special purpose vehicle, including information on their riskiness;
- j) Information on the alignment of payment obligations arising from the securitization instruments issued by the special purpose vehicle with their underlying assets;
- k) Information about the (servicing) auditor of the special purpose vehicle authorized to audit the financial statements of public interest entity;
- l) Copies or drafts of the contracts concluded by the special purpose vehicle with the servicing persons;
- m) Information about the additional activities to be undertaken by the special purpose vehicle for the purpose of securitization or participation in the securitization;
- n) The identification data of the person providing service within the securitization and the agreement(s) or draft agreement(s) concluded with them, including special purpose vehicle's investor representation agreement(s) or their draft(s), if available;
- o) Description of the terms and conditions of the securitization, including information on potential investors;
- p) The current balance sheet of the special purpose vehicle and the relevant notes for the latest available date;
- q) Information on the commissions and expenses;
- r) Information on whether the special purpose vehicle intends to take a loan, indicating its purpose;
- s) Information of the risk retention, including the reference to the method chosen for the retention of material net economic interest;
- t) For the cases determined by Article 26, Paragraph 1 of the Law, information about the credit rating granted to the special purpose vehicle and/or the relevant securitization instrument by one of the international rating agencies (Standard & Poors, Moody's, Fitch, Scope Ratings);
- u) Information on the distribution of obligations provided for in Chapter V of this Rule between the special purpose vehicle and the originator;
- v) The indication of the website, through which the information as determined by Article 19 of this Rule shall be published.

2. Each member of the management body of the securitization company must have at least 4 years of experience in a relevant position within the financial sector. Additionally, a person is prohibited from being a member of the management body of a securitization company or the owner of a significant share if:

a) in case of the member of the governing body, they are deprived of the right to participate in the governing body;

b) they participated in an operation that caused significant damage to the securitization participant and/or another financial institution, violated the rights of the securitization participant's clients, and/or caused the insolvency or bankruptcy of the securitization participant or another financial institution;

c) they misused their rights while performing their work duties in the securitization participant or another financial institution;

d) they were a member of the management body of a securitization participant or another financial institution or the owner of a significant share, and as a result of their activities, the securitization participant/financial institution became insolvent;

e) they failed to fulfill one or more financial obligations towards the securitization participant or another financial institution;

f) they have been convicted of a serious or extremely serious crime, including but not limited to financing of terrorism and/legalization of the illegal income money or other economic crimes;

g) within the last 5 years, they were subjected to an administrative sanction for a gross violation of the regulatory legislation of the financial sector;

h) in the case of a member of the governing body they have been recognized by a court as a recipient of the support.

3. The requirements established by Paragraph 2 of this article for the members of the governing body also apply to those persons who directly or indirectly have the power and responsibility for planning, management and control of activities of special purpose vehicle.

4. If after the submission of initial application before the granting of the authorization by the National Bank, there is a material change in the documents/information submitted to the National Bank, the applicant shall immediately notify the National Bank thereof. In such a case, the time for the review of the application will reset and begin anew.

5. If the National Bank deems additional information necessary for making a decision, it has the authority to request any additional information and/or documentation, including confidential information, and determine the form and timeframe for presenting such information and/or documents

6. If the applicant does not submit the complete information/documentation required by the legislation of Georgia and/or requested by the National Bank, the National Bank will deem the application defective and set a deadline, form, and procedure for the applicant to submit the requested documents or information. The deadline for submitting the mentioned information/documentation cannot be less than 5 (five) working days.

7. The decision of the National Bank on the authorization of the special purpose vehicle or the refusal to grant authorization will be made according to Article 10 of the Law.

#### **Article 4. Modification of authorization conditions**

1. Prior to altering the authorization conditions of a special purpose vehicle, the authorized special purpose vehicle or asset management company acting on its behalf must adhere to the National Bank as stipulated by Article 11 of the Law and submit all necessary documents/information reflecting the proposed changes.
2. The decision of the National Bank regarding approval or refusal of the proposed changes to the authorization conditions outlined in Paragraph 1 of this Article shall be rendered within one month of notification. This period may be extended by up to one month if the National Bank informs the applicant in advance.
3. The National Bank has the authority to request additional documents and/or information, as well as determine the deadline, form, and procedure for their submission. The deadline for submitting the mentioned information/documentation cannot be less than 5 (five) working days.
4. In case of the expiration of the term set by Article 11 Paragraph 2 of the Law or upon receiving approval from the National Bank for modifying the authorization conditions of the special purpose vehicle, the special purpose vehicle or the asset management company acting on its behalf must ensure that details of the impending change are published in advance in both the founding document and the prospectus (if the prospectus has not expired), if the changes concern the data referred to in the founding documents/prospectus. This change can only become effective no sooner than two months following its publication. However, except for the cases determined by the law, the publication of the changes is not necessary if the information on these changes is communicated to all investors through a durable medium. In such a case, the change can take effect no sooner than 30 (thirty) days after they have been notified to the investors.

### **Chapter III. Notification on Securitization Activity**

#### **Article 5. Submission of securitization notice and information to the National Bank**

1. Before commencing activity by the special purpose vehicle, the entities outlined in Article 7, Paragraphs 1 and 2 of the Law must submit an application in the form of Annex N1 and the following documents/information to the National Bank:
  - a) Main characteristics of the securitization instrument and information about the offer;
  - b) Information on the type, credit risk, and quality of the underlying asset(s) of the securitization instrument;
  - c) Description of the main risks related to holding the securitization instrument;
  - d) Information about the organizational structure of the special purpose vehicle and its asset management company;
  - e) Information on the identity of the members of the management body of the securitization participants and the beneficial owners who directly or indirectly own a significant share (10% or more) of the securitization participant;

- f) Information on compliance with Paragraph 4 of Article 7, Articles 19, 21, 24, and 26 of the Law, including reference to the method chosen for the retention of material, net economic interest;
  - g) The latest extracts of securitization participants from the Register of Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities of the National Agency of Public Registry;
  - h) Founding documents of securitization participants;
  - i) If available, the identification data of the persons providing service within the securitization and the agreements or draft agreements concluded with them;
  - j) Information about the subscription agent, if available;
  - k) For cases determined by Article 26, Paragraph 1 of the Law, information about the credit rating granted to the special purpose vehicle (or in the case of securitization without special purpose vehicle – to the originator) and/or the relevant securitization instrument by one of the international rating agencies (Standard & Poor's, Moody's, Fitch, Scope Ratings);
  - l) Information on the distribution of obligations provided in Chapter V of this Rule between the special purpose vehicle and the originator;
  - m) Statement on the accuracy and completeness of the provided information and signatures of the persons responsible for the preparation of the documents..
2. The National Bank examines the submitted notification and the content of the securitization activity to be implemented only for the purpose of ensuring compliance with Paragraph 4 of Article 7, Articles 19, 21, 24, 26 of the Law.
3. Within 30 (thirty) working days after receiving the notification from the persons mentioned in the Paragraph 1 of this article, the National Bank shall review it and inform the applicant in writing whether the notification meets the requirements of the legislation. If necessary, this period may be extended by no more than 10 (ten) working days, provided that the National Bank notifies the applicant of this extension in advance.
4. If, during the period of review of the notice by the National Bank, there is a significant change in the documents/information provided to the National Bank, the persons specified in the Paragraph 1 of this article must immediately inform the National Bank thereof. In such instances, the term outlined in Paragraph 3 of this article will start anew.
5. If the applicant does not submit the complete information/documentation required by the legislation of Georgia and/or requested by the National Bank, the National Bank will deem the notification defective and set a deadline, form, and procedure for the applicant to submit the requested documents or information. The deadline for submitting the mentioned information/documentation cannot be less than 5 (five) working days.
6. If the National Bank deems additional information necessary for making a decision, it has the authority to request any additional information and/or documentation, including confidential information, and to specify the form and deadline for its submission.

## **Chapter IV. Requirements for the Retention of Material Net Economic Interest**

### **Article 6. General Principles of Risk Retention**

1. The originator or original lender of a securitization shall retain on an ongoing basis a material net economic interest in the securitization of not less than 5 %. That material net economic interest shall be measured at the moment of securitization of underlying assets and shall be determined by the notional value for off balance sheet items.

2. The material net economic interest shall not be split amongst different persons. The division of net economic interest is permitted only amongst:

a) Multiple originators;

b) Multiple original lenders.

3. For the purposes of this Rule, an entity shall not be considered to be an originator where the entity has been established or operates for the sole purpose of securitizing underlying assets. It is considered that the sole purpose of establishment and operation of an entity is not securitization of underlying assets, where the following conditions are met:

a) An entity has a strategy and the capacity to meet payment obligations consistent with a broader business model that involves material support from capital, assets, fees or other sources of income, by virtue of which the entity does not rely on the assets to be securitized, on any interests retained or proposed to be retained in accordance with the Law and this Rule or on any corresponding income from such assets and interests as its sole or predominant source of revenue;

b) the members of the management body have the adequate experience to enable the entity to pursue the established business strategy, as well as adequate corporate governance arrangements.

4. When measuring the material net economic interest any fees that may in practice be used to reduce the effective material net economic interest shall be taken into account.

5. Where multiple originators or multiple original lenders fulfill the retention requirements, it shall be fulfilled by each on a pro rata basis.

6. Originators shall not select assets to be transferred to the special purpose vehicle with the aim of rendering losses on these assets, measured over the life of the transaction, or over a maximum of 4 years where the life of the transaction is longer than four years, higher than the losses over the same period on comparable assets held on the balance sheet of the originator.

7. Retention of the material, net economic interest defined by the Paragraph 1 of this article can be carried out using one of the methods defined by Article 7 of this Rule, including on the basis of a contingent or synthetic form of the retention of the material net economic interest. In such case, the originator/original lender must meet the following requirements:

a) The retained amount of the material net economic interest must correspond to the volume provided by the selected method provided by Article 7 of this Rule;



b) The originator/original lender must clearly disclose in the offer document, prospectus and/or other transaction documents the method provided by Article 7 of this Rule according to which it will retain the material net economic interest on the basis of contingent or synthetic form of the retention.

8. If a material net economic interest is retained by an entity not covered under Article 2, Paragraph 1, Subparagraph "q" of the Law, the retained material net economic interest must be fully secured by cash, deposited into a separate account.

9. The retention of material net economic interest is not required, where the securitized claims are fully, unconditionally and irrevocably guaranteed by:

- a) Government or National Bank of Georgia;
- b) By the developed country or its central bank;
- c) International Financial Institution.

#### **Article 7. Methods of Risk Retention**

The retention of material net economic interest may be carried out using one of the following methods:

- a) the retention of not less than 5 % of the nominal value of each of the tranches sold or transferred to investors;
- b) in case of revolving securitization or securitization of revolving underlying assets, the retention of not less than 5 % of the nominal value of each of the securitized underlying assets;
- c) the retention of the first loss tranche and, where such retention does not amount to 5 % of the nominal value of the securitized underlying assets, additionally, retention of other tranches having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total not less than 5 % of the nominal value of the securitized underlying assets;
- d) the retention of a first loss exposure of not less than 5 % of every securitized underlying asset in the securitization.

#### **Article 8. Retention equivalent to not less than 5 % of the nominal value of each of the tranches sold or transferred**

The retention of the material net economic interest within the meaning of Article 7, Subparagraph "a" of the Rule may be implemented using one of the following methods:

- a) Direct retention of not less than 5 % of the nominal value of each of the tranches sold or transferred to investors;
- b) The retention of an underlying asset which exposes its holder to the credit risk of each issued tranche of a securitization transaction on a pro-rata basis of not less than 5 % of the total nominal value of each of the issued tranches;

c) The retention of not less than 5 % of the nominal value of each of underlying assets, provided that the retained credit risk ranks pari passu with or is subordinated to the credit risk securitized in relation to the same underlying asset.

#### **Article 9. Retention of the originator's interest in a revolving securitization or securitization of revolving underlying assets**

The retention of the material net economic interest shall only be considered in compliance with the requirements of Article 7 Subparagraph "b", where the retained credit risk ranks pari passu, or is subordinated to, the credit risk securitized in relation to the same underlying asset.

#### **Article 10. Retention of the first loss tranche**

1. The retention of the first loss tranche referred to in Article 7, Subparagraph "c" shall be fulfilled by any of the following methods:

a) holding either on-balance sheet or off-balance sheet positions;

b) by overcollateralization, if that overcollateralization operates as a 'first loss' position of not less than 5 % of the nominal value of the securitized underlying assets.

2. Where the first loss tranche exceeds 5 % of the nominal value of the securitized underlying assets, the originator/original lender may choose to retain a pro-rata portion of such first loss tranche, provided that that portion is equivalent to at least 5 % of the nominal value of the securitized underlying assets.

#### **Article 11. Retention of a first loss exposure of not less than 5 % of every securitized underlying asset**

1. The retention of a first loss exposure at the level of every securitized underlying asset as referred to in Article 7, Subparagraph "d" shall only be considered to be fulfilled where the retained credit risk is subordinated to the credit risk securitized in relation to the same exposures.

2. By way of derogation from Paragraph 1 of this Article, the retention of a first loss exposure at the level of every securitized exposure may also be fulfilled through the sale by the originator/original lender of the underlying exposures at a discounted value where each of the following conditions is met:

a) the amount of the discount is not less than 5 % of the nominal value of each exposure;

b) the discounted sale amount is refundable to the originator/original lender only if that discounted sale amount is not absorbed by losses related to the credit risk associated to the securitized exposures.

#### **Article 12. Measurement of the level of risk retention**

1. When measuring the level of retention of the net economic interest, the following criteria shall be applied:

a) the date of securitization of underlying assets shall be one of the following:

a.a) the date of the issuance of securities;

a.b) the date of the signature of the credit protection agreement between the originator and the investor;

b) where the calculation of the level of retention is based on nominal values, the acquisition price of assets shall not be taken into account for the purpose of that calculation;

c) within a traditional securitization, the finance charge collections and other fee income received in respect of the securitized underlying asset shall not be taken into account when measuring the material net economic interest;

d) The method and calculation methodology used to maintain a material, net economic interest must not be changed during the (existence) of the relevant securitization, unless the change is due to special circumstances and its purpose is not to reduce the retained interest. The approval of the National Bank is required for the change in the method used to maintain a material net economic interest.

2. The originator/original lender shall not be required to constantly replenish its retained material net economic interest to at least 5 % when losses are realized on its retained exposures or allocated to its retained positions.

### **Article 13. Measurement of risk retention for a credit facility**

The calculation of the net economic interest to be retained for credit facilities shall be based on amounts already drawn, realized or received only and shall be adjusted in accordance with changes to those amounts.

### **Article 14. Prohibition of hedging or selling the retained interest**

1. It is prohibited that the retained material, net economic interest be the subject of credit mitigation or hedging.

2. It is prohibited to sell, transfer or otherwise surrender all or part of the rights, benefits or obligations arising from the retained material net economic interest.

3. Prohibitions provided for in Paragraph 2 of this article do not apply:

a) in the event of the insolvency of the originator/original lender;

b) if the powers of the governing bodies of the originator/original lender are limited based on the regime as defined by Article 2, Paragraph 1, Subparagraph "x" of the Law.

### **Article 15. Requirements on the allocation of cash flows and losses to the retained interest. Calculation of the fees.**

1. Originators/original lenders shall not use any means/mechanisms in the securitization by virtue of which the retained material net economic interest at the moment of securitization would decline faster than the interest transferred. In the allocation of cash flows, the retained interest shall not be prioritized to preferentially benefit from being repaid or amortized ahead of the transferred interest.

2. The amortization of the retained interest via cash flow allocation in accordance with the Subparagraph 1 of this Article or through the allocation of losses that, in effect, reduces the level of retention over time, shall be allowed.

3. Any agreement related to fees intended to compensate the originator/original lender for services in the securitization process shall be deemed to comply with the requirements of Paragraphs 1 and 2 of this Article, if it meets all of the following conditions:

a) the amount of the fees is set on an arm's length principle having regard to comparable transactions in the market; for the purpose of this subparagraph, in the absence of comparable transactions in the relevant market, when calculating the amount of the fees on the basis of the arm's length principle, fees payable in similar transactions in other markets or valuation metrics that appropriately take into account the type of securitization and the service being provided shall be taken into account;

b) the fees are structured as a consideration for the provision of the service and do not create a preferential claim in the securitization cash flows that effectively declines the retained interest faster than the transferred interest.

4. The conditions in the Paragraph 3, Subparagraphs "a" and "b" of this article, shall not be considered to be met when the fees are guaranteed or payable up-front in any form, in full or in part in advance of the service being provided and the effective material net economic interest after deducting the fees can no longer meet the requirements defined by the law.

#### **Article 16. Risk retention for resecuritisation**

1. In cases provided under Article 19 Paragraph 2 of the Law, a originator/original lender shall retain the material net economic interest in relation to each of the respective transaction levels.

2. The originator of a resecuritisation shall not be obliged to retain a material net economic interest at the transaction level of the resecuritisation where all of the following conditions are met:

a) the originator of the resecuritisation is also the originator of the initial securitization and has already retained material net economic interest for this transaction;

b) the resecuritisation is backed by a pool of underlying assets comprising of the excess amount of the minimum required net economic interest prior to the date of origination of resecuritization;

c) there is a maturity match between resecuritization and the initial securitization instruments/positions.

3. For the purposes of Paragraphs 1 and 2 of this article, retransferring by the securitization's originator of an issued tranche into contiguous tranches shall not constitute a resecuritisation.

#### **Article 17. Transfer of assets to the special purpose vehicle**

1. For the purposes of Article 6, Paragraph 6 assets held on the balance sheet of the originator that according to the documentation of the securitization meet the eligibility criteria, shall be deemed to be comparable to the assets to be transferred to the special purpose vehicle where, at the time of the selection of the assets, both of the following conditions are met:

a) the expected performance of both the assets to be further held on the balance sheet and the assets to be transferred is determined by similar factors;

b) on the basis of indications, including past performance and applicable models, it can be reasonably expected that the performance of the assets to be further held on the balance sheet will not be significantly better during the time period referred to in Article 6, Paragraph 6 than the performance of the assets to be transferred.

2. The assessment whether the originator has complied with Article 6, Paragraph 6 shall take into account whether the originator has put in place any internal policies, procedures and control mechanisms to prevent

the systematic or intentional selection for securitization purposes of assets of a worse average credit quality than comparable assets retained on its balance sheet.

3. An originator shall be deemed to have complied with requirements determined by Article 6, Paragraph 6, where after the securitization, there are no assets left on the originator's balance sheet that are comparable to the securitized assets, other than the assets which the originator is already contractually committed to securitize, and provided that this fact has been clearly disclosed to the investors.

## **Chapter V. Reporting and Transparency Requirements**

### **Article 18. Quarterly reporting and information to be disclosed**

1. Originator and/or the special purpose vehicle of a securitisation shall make at least the following information available to holders of a securitisation instruments, to the National Bank and upon request, to potential investors:

a) No later 30 (thirty) calendar days after the closure of each quarter, a quarterly report on the underlying assets must be submitted. This report should be prepared in accordance with the form determined by the National Bank and must include, at a minimum, the following information/data:

a.a) All materially relevant data on the credit quality and performance of underlying assets;

a.b) Information on events which trigger changes in the priority of payments or the replacement of any counterparties;

a.c) Information on cash flows arising from underlying assets and securitization liabilities;

b) Upon the request, all underlying documentation that is essential for the understanding of the transaction, including:

b.a.) The final offering documents and/or the prospectus;

b.b.) In the case of traditional securitization, the contract for the sale/transfer of the underlying assets and the changes made in such contract;

b.c) The derivatives and guarantee agreements, as well as any relevant documents on collateralisation;

b.d) Detailed explanation of the payment prioritization and subordination structure inherent to the securitization, as well as the agreements established among investors (creditors);

b.e) Agreements on services, including banking services, cash management and representation, if available;

b.f) Where a prospectus has not been drawn up in compliance with legislation of Georgia, a transaction summary or overview of the main features of the securitisation, including, where applicable:

b.f.a) Details regarding the structure of the deal, including the structure diagrams containing an overview of the transaction, the cash flows and the ownership structure;

b.f.b) Details regarding the exposure (underlying asset) characteristics, cash flows, loss waterfall, credit enhancement and liquidity support features;

b.f.c) Description of investors' voting rights and the order of their satisfaction;

b.g) All events in the documentation provided in this paragraph, which may have a significant impact on the securitization process;

b.h) Any insider information relating to the securitisation that the originator or the special purpose vehicle is obliged to make public in accordance with the Law of Georgia on Securities Market and the relevant Rules of the National Bank or where these requirements do not apply, any significant event such as:

b.h.a) A material breach of the obligations provided for in the documents made available in accordance with this paragraph;

b.h.b) Any material changes to the transaction documentation or structural features;

b.h.c) A change in the risk characteristics of the securitisation or of the underlying assets that can materially impact the performance of the securitisation.

2. The originator and the special purpose vehicle of a securitisation shall comply with the legislation of Georgia governing the protection of confidentiality of information. If the disclosure of information or a document violates requirements of the legislation, their presentation/disclosure may be carried out in the aggregated form.

3. The person responsible for the production and reporting of the information specified in the Paragraph 1 of this article is the originator and/or the special purpose vehicle, in accordance with their agreement. The person(s) responsible for the disclosure of information and the scope of their obligations shall be determined through the authorization of the special purpose vehicle or through the notice submitted in accordance with Article 5 of this Rule. The National Bank shall be notified in advance of changes in the person(s) responsible for information disclosure and/or their obligations.

#### **Article 19. Publication and storage of information**

1. The information specified in the Article 18, Paragraph 1 of this Rule, pertaining to the authorized special purpose vehicle, taking into account the stipulations of Paragraph 2 of the same article, shall also be published on a website that guarantees data protection, integrity, and prompt storage.

2. The entity designated in accordance with Article 18 Paragraph 3 of this Rule is required to maintain the information and documents determined by Paragraph 1 of the same article for a minimum of 5 (five) years following the end of the securitization transaction.

### **Chapter VI. Requirements for Institutional Investors**

#### **Article 20. Additional obligations of institutional investors**

1. For the purpose of Article 23, Paragraph 3, Subparagraph "a" the institutional investor is obliged to conduct written procedures that include monitoring the following data: underlying asset type, default rates, prepayment rates, loans in foreclosure, recovery rates, repurchases, loan modifications, payment holidays, collateral type, frequency distribution of credit scores or other measures of credit worthiness across underlying assets and frequency distribution of loan to value ratios. Where the underlying assets are

themselves securitisation instruments, the investor is obliged to monitor the underlying assets of these instruments as well.

2. An institutional investor is obliged to regularly perform, stress tests on the cash flows and collateral values supporting the underlying assets or, in the absence of sufficient data on cash flows and collateral values - stress tests on loss assumptions, having regard to the nature and complexity of the securitization instrument;

3. An institutional investor is obliged to conduct internal reporting to the governing bodies, so that the members of the governing body have comprehensive information about the material risks arising from the securitization instrument and can manage these risks appropriately.

## **Chapter VII. Liquidation of Authorized Special Purpose Vehicle and Its Compartments**

### **Article 21. General principles of liquidation**

1. The purpose of liquidation is realization of the assets of a special purpose vehicle and/or its compartment and satisfaction of the demands of creditors in compliance with the Chapter IV of the Law.

2. In the process of liquidation, the special purpose vehicle is represented by the liquidator in relations with third parties. The liquidator enters into transactions on behalf of the special purpose vehicle and carries out activities only in accordance with applicable legislation.

3. Based on the individual administrative legal act issued for the initiation of its liquidation process and the appointment of the liquidator, the liquidation account of the entity under liquidation is opened in one of the commercial banks and all the existing accounts of the entity under liquidation in the financial institutions are blocked, after which funds are accumulated in the liquidation account. Payments will be made through this account. All and any expenses related to the conduct of the liquidation process shall be reimbursed from the liquidation account.

4. Assets/property acquired after the start of the liquidation process are included in the assets of the special purpose vehicle and/or its compartment and are subject to sale in accordance with Chapter IV of the Law and this Rule.

### **Article 22. Appointment and dismissal of liquidator**

1. Except for the cases provided by Paragraphs 7 and 8 of Article 13 of the Law, the liquidator of the securitization special purpose vehicle or its compartment is the asset management company of the respective special purpose vehicle or, in the case of a securitization company that does not have an appointed asset management company - a person appointed by the securitization company.

2. In the case provided by Paragraph 1 of this article, the application for the initiation of liquidation shall be submitted to the National Bank, which must include a request for the consent on the appointment of a liquidator, indicating their identification data and suitability. If a third person is appointed as the liquidator by the securitization company, then the consent of the person to be appointed as the liquidator shall be attached to the application submitted to the National Bank.

3. In the cases provided for in Paragraphs 7 and 8 of Article 13 of the Law, an employee of the National Bank may be appointed as a liquidator, and if the candidate for the liquidator is not an employee of the National Bank, an employment contract is signed between the National Bank and the candidate for the liquidator, where, along with all other essential conditions, the liquidator's remuneration must be determined.

4. The same person may be appointed as liquidator of several special purpose vehicles and/or several of their compartments.

5. Change and dismissal of the liquidator is possible only by the National Bank or with its consent, if one of the following conditions are met:

a) He/she grossly violates the legislation and/or the terms of the contract concluded with him/her;

b) He/she no longer meets the suitability requirements established by Article 23 of this Rule;

c) There is another justified reason that prevents the liquidator from performing his/her functions;

d) In cases provided by Article 13, Paragraphs 7 and 8 of the Law, there is a conflict of interest that prevents the liquidator from performing his/her functions independently and impartially.

6. The National Bank shall issue an individual administrative legal act on the appointment, change, and dismissal of the liquidator, which shall be submitted to the registration authority for registration on the same day and published on the official website of the National Bank and in the "Legislative herald of Georgia".

### **Article 23. Liquidator's suitability requirements**

1. The liquidator must possess mandatory qualifications and professional experience for conducting financial transactions.

2. It is prohibited for an individual to serve as a liquidator of a special purpose vehicle or its compartment if they are implicated in serious or aggravated crimes, terrorism financing, and/or illegal income legalization or other economic offenses.

3. The liquidator to be appointed must have the higher education in one of the specialties such as economics, finance, banking, business administration, auditing, or accountancy.

4. The liquidator must have at least 4 years of experience in the financial sector.

5. If the liquidator is an employee of the National Bank, they must not be in close connection with the securitization participant.

### **Article 24. Rights, obligations and responsibilities of the liquidator**

1. The liquidator conducts transactions and activities on behalf of the special purpose vehicle and/or its compartment only in accordance with this Rule and the applicable legislation, aiming to complete the liquidation process.

2. In order to conduct the liquidation process of the special purpose vehicle and/or its compartment timely and correctly, the liquidator has the right to:



- a) manage cases related to the liquidation, conclude court and arbitration cases, or settle disputes;
  - b) sign relevant agreements with various persons and/or relevant services to ensure the registration/storage and archiving of relevant documentation as prescribed;
  - c) from the date of appointment until the completion or termination of the liquidation process, terminate any binding transaction in accordance with legislation;
  - d) Take all measures deemed necessary by current legislation to satisfy the creditors and meet other financial requirements of the entity under liquidation.
3. Only with the written preliminary consent of the National Bank, the liquidator has the right to:
- a) open liquidation accounts in a commercial bank in different currencies;
  - b) temporarily keep the current accounts in the financial institutions open;
  - c) take a loan or assume a financial obligation to a third party in another equivalent form;
  - d) if deemed necessary, during the liquidation of the special purpose vehicle or its compartment, request any seal and stamp (if any available) from the member(s) of the management body of the special purpose vehicle within the period determined by him/her.
4. The liquidator is accountable to the National Bank for his/her activities. The liquidator must act in good faith, properly, and in the best interests of the investors throughout the process. In case of non-fulfillment or improper fulfillment of duties, the liquidator shall be liable according to the legislation.
5. In the event that the liquidator is substituted in accordance with the legislation, the former liquidator is obliged to hand over the affairs of the entity under liquidation to the new liquidator within the time limits specified by the National Bank and the new liquidator, from the date of his/her appointment, must document and take over the cases within the time limits specified by the National Bank.
6. In the event that the former liquidators of an entity under liquidation avoid handing over the cases, the new liquidator must document and compile an inventory act of the cases and simultaneously take appropriate measures to address the responsibility of the mentioned persons.
7. Within ten (10) working days after the individual administrative legal act by the National Bank on the initiation of the liquidation process comes into force, the liquidator is obliged, to:
- a) send notices to relevant financial institutions, where the assets of the entity under liquidation are held, instructing them not to dispose of these assets without the liquidator's permission. Such notifications must also be sent to any financial institution after the expiration of the term specified in this paragraph if the liquidator later becomes aware of additional assets belonging to the special purpose vehicle;
  - b) notify the National Agency of Public Registry and the Service Agency of the Ministry of Internal Affairs of Georgia to prevent the disposal of property (real estate, motor vehicles, etc.) belonging to the entity under liquidation without the liquidator's consent;
  - c) in the case of complete liquidation of the special purpose vehicle, send notices to the former member(s) of the governing body of the entity under liquidation, requesting them to hand over all seals and stamps (if any available) within 10 (ten) working days.
  - d) publish a statement on the initiation of liquidation along with the individual administrative legal act of the National Bank in the "Legislative herald of Georgia" and on the official website of the National Bank.

This statement must be republished within 1 (one) month after the first publication. The statement must indicate that creditors have the right to submit to the liquidator a substantiated written request stating the amount and grounds of their claims within 1 (one) month after the repeated publication of the said statement through the same means.

8. In order to conduct the liquidation of the entity under liquidation in a timely and correct manner, the liquidator is obliged to:

- a) conduct accurate accounting and reporting by making correct accounting records;
- b) within 30 calendar days from the start of the liquidation process, draw up the initial balance of the entity in liquidation based on the existing daily accounting reporting forms or other relevant documents and submit it to the National Bank;
- c) within three months from the appointment, carry out the inventory and accounting of all assets and liabilities of the entity under liquidation, and if necessary, their audit assessment;
- d) within three months from the appointment, compile a specified list of assets and liabilities (balance);
- e) ensure the verification of the legality of all claims made by creditors to the entity under liquidation;
- f) report to the National Bank upon detection of facts of misappropriation or embezzlement of the property of the entity under liquidation and/or signs of other crimes, after which the case will be handed over to the law enforcement authorities with a request to take appropriate measures;
- g) appeal any decision, including the court's decision on the seizure or sale of the property of the entity under liquidation, which may be unfavorable for meeting the financial requirements of creditors;
- h) submit to the National Bank the statement of the entity under liquidation in the form determined by the National Bank no later than the 15th date of the month following the reporting month;
- i) submit to the National Bank the report of the performed activities, any information, and documents at the established periodicity or upon request;
- j) implement all measures specified in this Rule, which will contribute to the maximum and timely satisfaction of the demands related to the return of cash belonging to creditors, including, in case of non-fulfillment of obligations by the debtors, implement all measures stipulated by the legislation, including filing a lawsuit in court;
- k) act in the good faith and in compliance with ethical norms while performing his/her duties;
- l) when necessary, refer to the National Bank in order to open an account of unclaimed funds;
- m) transfer to the National Bank the unclaimed funds (if any), which will be held on the account of unclaimed funds in the National Bank and also deliver the related documents;

9. The liquidator is responsible for:

- a) conducting the liquidation process in violation of the legislation of Georgia and the requirements of this Rule regarding the liquidation process, as well as for intentionally delaying the liquidation activities and measures;
- b) In case of discovering facts of misappropriation and/or embezzlement of the assets of any person or entity during the liquidation process, failing to transfer the cases to the relevant law enforcement bodies;

- c) The misuse of funds received from a third party;
- d) The accounting of the entity under liquidation - for the accuracy and correctness of accounting records in the reports and information about the activities performed;
- e) for financial violations;
- e) preparation and provision of accurate information regarding the assets and liabilities of a special purpose vehicle or its corresponding compartments;
- f) failure of commencement of court proceedings for the fund recovery of debts and claims from lenders and other debtors;
- g) Non-ethical behaviour towards investors of special purpose vehicles.

10. The liquidator shall not be held personally liable for any actions or inactions directed towards any activity, if such actions were undertaken in good faith in accordance with the law of Georgia. If the liquidator is an employee of the National Bank, the National Bank shall ensure the protection of the liquidator's interests in disputes connected with the performance of his/her service obligations, which may include legal services, reimbursement of expenses related to disputes, and other measures deemed necessary by the Board of the National Bank, provided that the actions or omissions of such liquidator were due to the performance of his/her obligations in good faith. This provision applies exclusively within the scope of rights granted by the National Bank to the liquidator.

## **Article 25. Satisfaction of the Creditors**

1. The claims of the creditors of the special purpose vehicle/its compartment will be satisfied from the liquidation mass, which consists of the assets belonging to the special purpose vehicle/its compartment at the moment the individual administrative legal act of the National Bank on the initiation of liquidation comes into force and the assets acquired during the liquidation process.
2. The creditor, whose grounds for the claim arose before the entry into force of the individual administrative legal act of the National Bank on the initiation of liquidation, is obliged to submit a substantiated written request to the liquidator indicating the amount and grounds of their creditor's request within the time limit provided for in Article 25, Paragraph 7, Subparagraph "d" of this Rule. A request submitted in violation of this deadline will be considered a late claim.
3. A creditor's claim is any debt or demand for the fulfillment of an obligation that can be expressed in monetary terms, including, without limitation, due claims, unspecified claims, conditional claims, and unexpired (future) claims.
4. Obligations that existed before the start of the liquidation and for which the obligation to fulfill them arose after the start of the liquidation process are considered to have arisen before the start of the liquidation process. A demand specified in a court decision is considered to have arisen from the moment the creditor's demand for the subject of the dispute arose, which was to be satisfied by the entity under liquidation, taking into account the factual circumstances specified in the court decision.
5. The creditor will bear the expenses related to the satisfaction of the claims.

6. Before satisfaction of the claims, the liquidator is obliged to verify whether the person is included in the list of terrorists or persons supporting terrorism or whether the transfer of funds to them will lead to a violation of the legislation on the prevention of money laundering and financing of terrorism.
7. The liquidator is obliged to ensure that the claims are satisfied in such a way that the liquidation process is not jeopardized.
8. Each subsequent ranking claim will be satisfied only after the full settlement of prior ranking claims. Should the assets in the liquidation estate be insufficient to fully satisfy the claims of a given ranking, all corresponding claims must be proportionately satisfied based on the volume of each creditor's claim within that ranking.
9. During the liquidation process, the claims of the creditors will be satisfied according to the rules and ranking established by Article 16 of the Law.

#### **Article 26. Return of the unclaimed funds**

1. Before the completion of the liquidation process, if creditor claims on funds are not presented, and/or in cases where the creditor fails to provide the information requested by the liquidator and is not related to the countries determined by Order No. 240/04 of 2019, dated December 18th, by the President of the National Bank, "On the Approval of the List of High Risk Jurisdictions for the Purposes of the Law of Georgia on the Prevention of Money Laundering and Terrorism Financing," and/or the countries sanctioned by the United States of America and the United Nations, the unclaimed funds existing in the liquidation mass will be transferred by the liquidator to an account opened by the National Bank in the Georgian currency or the reserve currency of the National Bank.
2. In the cases determined by Paragraph 1 of this Article, for the purpose of returning funds to a creditor of the special purpose vehicle or its compartment, they will refer to the National Bank with an application, which shall include the identification data of the claimant, the content of the claim, and the identification data of the liquidated special purpose vehicle and/or its compartment towards which a creditor holds a claim.
3. The application defined in Paragraph 2 of this article, accompanied by the account details issued and verified by the commercial bank or microbank, should also be accompanied by:
  - a) In the case of a natural person - a copy of the personal identification document and, in cases where the claimant delegates representation, a power of attorney or its notarized copy;
  - b) In the case of a legal entity – an extract of registration issued by the registration authority and a power of attorney for the person authorized to represent the legal entity, and, in cases where the claimant's representation powers cannot be proved based on the extract - a document verifying representation or its notarized copy;
  - c) In the case of an entity without legal personality - equivalent documents to those specified in Subparagraph "b" of this paragraph.
4. The bank account details must belong to the creditor, and the creditor/banking account must not be included in the sanctioned countries/persons list of the United States of America and the United Nations. Additionally, the presented bank account details should not be of banks/microbanks licensed in countries determined by Order No. 240/04 of 2019, dated December 18th, by the President of the National Bank, "On

the Approval of the List of High-Risk Jurisdictions for the Purposes of the Law of Georgia on the Prevention of Money Laundering and Terrorism Financing."

5. The National Bank shall review the application of the creditor within 30 (thirty) calendar days.

6. If the application of a creditor satisfies the requirements of Paragraphs 2-4 of this article and is in compliance with the data stated in the documents presented to the National Bank by the liquidator, the National Bank shall meet the decision to return the unclaimed funds in the amount specified in the data referred to by the liquidator.

7. If the application of a creditor does not satisfy the requirements of Paragraphs 2-4 of this article or if the data referred to in the application does not comply with the data presented to the National Bank by the liquidator, the National Bank shall meet the decision to refuse to satisfy the application and will inform the applicant in writing, stating the grounds for such decision.

**Article 27 . The procedure for carrying out a public (electronic) auction of the property/assets of a special purpose vehicle and/or compartment under liquidation:**

1. The liquidator may sell the assets belonging to the entity under liquidation through a public (electronic) auction via the auction system - [www.eauction.ge](http://www.eauction.ge). In such cases, the auction of the entity under liquidation shall be conducted in accordance with the procedures of the auction system – [www.eauctions.ge](http://www.eauctions.ge) and according to the following conditions:

a) During the public (electronic) auction, the liquidator determines the price of the property/asset to be sold, the amount of the deposit and the bids of the public (electronic) auction. The liquidator will post a brief description of the sale property/assets on the website [www.eauction.ge](http://www.eauction.ge). The auction runs for 10 calendar days;

b) the liquidator submits the draft of the statement on the holding of the public (electronic) auction to the National Bank for agreement at least 14 calendar days before the auction;

c) after paying the price of the property/asset purchased at the public (electronic) auction, the relevant contract is signed with the authorized person;

d) The winner of the public (electronic) auction can exercise its legal rights on the property/asset only after full payment of the price. The buyer will be included in the final settlement;

e) If the property/asset is not sold at the initial price during the first public (electronic) auction, then the liquidator shall appoint a repeated public (electronic) auction following the procedures provided for the appointment of the first auction. The initial sale price of the property/asset at the repeated public (electronic) auction can be determined within the limits of not less than 75% of the initial price at the first public auction;

f) In the event that at the repeated public (electronic) auction it was not possible to sell the property/asset within the limits of not less than 75% of the initial price, the initial price of the property/asset for sale at the next public (electronic) auction can be determined at not less than 50% of the initial price of the first auction.

2. The property/asset to be sold at the public (electronic) auction must be appraised by an independent auditor.

3. In addition to subparagraphs "e" and "f" of the Paragraph 1 of this article, taking into account the interests of the creditors, the liquidator, in agreement with the National Bank, may additionally conduct a public (electronic) auction for the purpose of realizing claim rights.

4. The liquidator is entitled to write off the assets from the balance sheet through accounting standards, which were not sold during any public (electronic) auction and are assessed as having zero value by an independent auditor.

#### **Article 28 . Completion of liquidation process**

1. The basis for ending the liquidation process may be one of the following cases:

a) All creditor claims are fully covered;

b) The entity in the process of liquidation has unsettled claims but no longer has assets to cover such claims.

2. The subject in the process of liquidation is considered to no longer have assets if:

a) All assets are realized (sold);

b) The market value of unrealized assets is equal to 0.

3. Upon completion of the liquidation process, the liquidator establishes a liquidation act, which should include:

a) Information about all assets sold by the liquidator after the start of the liquidation, showing the final price of their sale;

b) Evaluation of all unrealized assets by an independent auditor, on the basis of which it is confirmed that the market (sale) value of this asset is equal to 0;

c) A court decision confirming the bankruptcy of a legal or natural person in debt to the entity under liquidation;

d) Information on the repayment of creditors' demands;

e) Information about all other measures implemented by the liquidator.

4. The liquidator submits the liquidation deed, confirmed by his signature and seal, to the National Bank in order to make a decision to end the liquidation process.

5. Upon completion of the liquidation activities, the liquidator is obliged, together with the representatives of the National Bank, to destroy the seal and stamp of the entity under liquidation, on which the act of destruction is drawn up. The said act must be signed by the liquidator and the representatives of the National Bank.

6. One copy of the act of destruction, together with the labels of the destroyed (cut into parts) seals and stamps, samples of the seal and stamps on the paper, is kept in the National Bank, and the other is given to the liquidator.

### **Article 29. Expenses necessary for the smooth conduct of the liquidation process**

1. In a special case, when the special purpose vehicle/its compartment does not hold the funds to cover the liquidation costs, the National Bank is authorized to cover the expenses necessary for the smooth conduct of the liquidation process of the special purpose entity or its compartment.
2. In the case provided by the Paragraph 1 of this article, the liquidator must apply in writing to the National Bank. The liquidator must describe in detail the financial situation of the special purpose vehicle/its compartment, substantiate that the special purpose vehicle/its compartment does not have the funds to cover the liquidation costs and it is impossible to conduct the liquidation process smoothly, as well as indicate the complete list of expenses approved by Appendix No. 3 of this Rule , which will be covered by the fund provided by the National Bank.
3. In the first stage, the liquidator is entitled to demand only the costs of the first stage provided for in Appendix No. 3 of this Rule. If during the liquidation process, the expenses of the second stage, which are necessary for the smooth conduct of the liquidation of the special purpose vehicle/its compartment, have arisen, the liquidator shall apply to the National Bank in accordance with the procedure established by Paragraph 2 of this article.
4. The National Bank evaluates the application submitted by the liquidator and issues an individual administrative legal act on providing the funds to cover the expenses necessary for the smooth conduct of the liquidation process of the special purpose vehicle or its compartment, if it considers the request justified or on the refusal to provide the funds.
5. The funds provided by the National Bank in accordance with this article shall be used only to cover the costs specified in the individual administrative legal act issued by the National Bank. Before the end of the liquidation process and on a monthly basis, the liquidator is obliged to submit to the National Bank detailed information about the use of the funds provided in accordance with this article.

### **Article 30. Authority of the National Bank within the liquidation process**

1. The National Bank is entitled to:
  - a) check at any time the entity under liquidation;
  - b) dismiss the liquidator and appoint another person in his/her place;
  - c) check the activities of the liquidator;
  - d) request any information about the liquidation process;
  - e) request the suspension or cancellation of any action taken by the liquidator if it conflicts with the interests related to the monetary claims of the creditors.
2. In case of violations committed by the liquidator within the scope of his/her activities, the National Bank applies the measures established by the legislation, including, considering the nature of the committed violation, refers the case to the law enforcement authorities.