

Order of the President of the National Bank of Georgia

No. 56/04

15 March 2023

Tbilisi

On the Approval of the Rule on Mortgage Covered Bonds

On the basis of Subparagraph “z” of Paragraph 1 of Article 15, Subparagraph “n” of Paragraph 1 of Article 49 of the Organic Law of Georgia on the National Bank of Georgia, and Articles 2, 4, 7, 8, 10, 11, 13, 15, 26 and 27 of the Law of Georgia on Mortgage Covered Bonds, **I hereby order:**

Article 1

The Rule on Mortgage Covered Bonds, together with the annexes thereto, shall be approved.

Article 2

This Order shall enter into force upon publication.

Vice-President of the National Bank of Georgia

(Acting)

Archil Mestvirishvili

Rule on Mortgage Covered Bonds

Article 1. General Provisions

1. The Rule on Mortgage Covered Bonds (hereinafter – the Rule) determines issues related to granting authorization by the National Bank of Georgia (hereinafter – the National Bank) to commercial banks for the issuance of mortgage covered bonds (hereinafter – mortgage bonds), granting permission to implement a mortgage bond program, and regulation of the issuer of mortgage bonds / debtor of a refinancing bank, including:

- a) requirements to be met by a commercial bank for the purpose of obtaining authorization to issue mortgage bonds and obtaining permission to implement a mortgage bond program;
- b) the rules and periodicity of reporting by the issuing commercial bank; and

c) issues related to securing the liabilities of the mortgage bond program with relevant assets and compliance with liquidity requirements (liquidity buffer).

2. Information/documents provided for by this Rule shall be submitted to the National Bank in electronic form to the following e-mail address: CB@nbg.gov.ge. The National Bank is authorized to request submission of information/documents in physical form as well. Unless otherwise provided by the legislation of Georgia, information/documents submitted in electronic form outside of working hours shall be deemed submitted on the following working day.

3. Terms used in this Rule shall have the meanings defined by the Law of Georgia on Mortgage Covered Bonds (hereinafter – the Law) and the legislation of Georgia.

Article 2. Obtaining Authorization to Issue Mortgage Bonds. Obtaining Permission to Implement a Mortgage Bond Program

1. For the purpose of obtaining authorization to issue mortgage bonds, a commercial bank shall submit to the National Bank an application and information/documents in accordance with the requirements set out in Annex No. 1 to this Rule. Together with the application for authorization, the National Bank shall also be provided with the application and information/documents stipulated by Paragraph 2 of this Article for the purpose of obtaining permission to implement a mortgage bond program.

2. For the purpose of obtaining permission to implement a mortgage bond program, a commercial bank shall submit to the National Bank an application and information/documents in accordance with the requirements set out in Annex No. 2 to this Rule. If a commercial bank intends to issue mortgage bonds as a refinancing bank, the information/documents envisaged by this paragraph shall contain relevant data both for the mortgage bond program and for each refinancing program.

3. An authorized commercial bank that has obtained permission to implement a mortgage bond program is entitled to submit to the National Bank an application to obtain permission to implement a new mortgage bond program in accordance with Paragraph 2 of this Article.

4. Prior to adoption of a decision by the National Bank regarding the application, a commercial bank shall be obliged to immediately notify the National Bank in writing of any change in the data prescribed by Annex No. 1 and/or Annex No. 2 to this Rule.

5. The National Bank is authorized, in addition to the submitted information, to request from the applicant other information and/or documentation necessary for making a decision and to determine the form and deadline for submission of such information and/or documentation.

6. The National Bank is authorized to identify a deficiency in the documentation submitted by the applicant and to determine the deadline, form and procedure for rectifying it.

7. The National Bank shall refuse to grant authorization/permission to the applicant if at least one of the following grounds exists:

a) the application and/or submitted documents do not comply with the requirements established by the Law or this Rule, are incomplete, misleading or incorrect, and the applicant has not rectified them within the deadline set by the National Bank;

b) implementation of the mortgage bond program may pose a threat to the stable or sound functioning of the financial institution or to effective supervision by the National Bank.

8. The National Bank shall adopt a decision on granting authorization/permission or refusing to grant authorization/permission within one month from receipt of the application and shall notify the applicant thereof in writing. In case of refusal, the National Bank shall be obliged to immediately notify the applicant in writing with a reasoned response.

9. Any information required for obtaining authorization/permission that is publicly available or has already been submitted to the National Bank may be incorporated into the application by reference. Incorporated information shall be clearly identifiable; in particular, the source of the information, the page number of the document, the point/paragraph and other characteristics shall be indicated. Information that is difficult to access shall be submitted directly.

10. After obtaining authorization/permission, any change in the data prescribed by Annex No. 1 and/or Annex No. 2 to this Rule may be made only with the prior consent of the National Bank.

11. Upon granting authorization/permission to a commercial bank, the National Bank shall publish information on its official website. The application submitted by the commercial bank to the National Bank and the attached information/documents, are also subject to publication, except for personal data of those natural persons who are not members of the supervisory board or management body of the commercial bank. Upon the applicant's request, the National Bank is authorized not to publish specific information if:

a) disclosure of the information contradicts the public interest;

b) disclosure of the information would significantly damage the commercial bank and, at the same time, refusal to publish would not be misleading for potential investors.

12. A commercial bank is entitled to carry out a public offer of mortgage bonds, in which case the requirements established by the legislation on securities regarding the public offer of securities shall additionally apply.

Article 3. Submission of Information to the National Bank and Program Creditors

1. No later than 3 working days prior to issuance of mortgage bonds, a commercial bank shall be obliged to submit to the National Bank the following information/documents:

a) a notification regarding the mortgage bond program in the format provided for by Annex No. 3 to this Rule;

b) written confirmation by the cover pool monitor in accordance with Paragraph 3 of Article 15 of the Law.

2. A commercial bank shall be obliged to submit to program creditors and the National Bank the following information/documents:

a) within 30 calendar days after the end of each calendar year, a written confirmation by the commercial bank regarding the compliance of the mortgage bond program with the requirements of the legislation of Georgia, and a report of the cover pool monitor on the inspections carried out by the latter during the last calendar year;

b) within 30 calendar days after the end of each quarter, a notification on the mortgage bond program in the format provided for by Annex No. 3 to this Rule.

3. If the issuer is a refinancing bank, the information/documents prescribed by Paragraphs 1 and 2 of this Article shall contain relevant data both for the mortgage bond program and for each refinancing program.

4. A commercial bank shall be obliged to notify the National Bank and program creditors in writing of:

a) any material change to be made in the terms of issuance of mortgage bonds, at least 3 months prior to making such change. The notification shall contain the substantiation and description of the proposed change;

b) cancellation of the mortgage bond program, at least 1 month prior to cancellation, if the commercial bank no longer has any liabilities to be fulfilled towards the program creditors;

c) any event or information that may materially affect the fulfillment by the commercial bank of the requirements established by the Law or this Rule.

5. The cover pool monitor shall be obliged to notify the National Bank in writing if it has a well-grounded suspicion that the issuer / debtor of a refinancing bank does not meet the requirements established by the Law or this Rule, or if the issuer / debtor of a refinancing bank has not provided in a timely manner all necessary information or explanations.

6. The National Bank is authorized, where there is a well-grounded suspicion of violation of the requirements of the Law or this Rule, to request from the issuer / debtor of a refinancing bank submission of a current (special) report of the cover pool monitor regarding the status of the cover assets.

7. In case of a public offer of mortgage bonds, a commercial bank shall be obliged to publish on its website all notifications and reports prescribed by Paragraphs 1–4 of this Article (within the same time limits), which it submits to the National Bank, as well as information on where the prospectus and other relevant documents are available.

8. Unless otherwise provided by the legislation of Georgia or the terms of issuance, a commercial bank is not obliged to individually distribute to each program creditor the notification or report prescribed by this Article if it publishes such information on its website.

Article 4. Appropriateness of Cover Assets; Coverage of Program Liabilities

1. In addition to the requirements prescribed by Articles 3 and 5 of the Law, the assets to be included in the cover pool shall additionally meet the following requirements:

a) mortgage loan shall be classified as a Stage 1 credit risk category financial instrument in accordance with the Rule approved by Order No. 192/04 of 29 December 2022 of the President of the National Bank of Georgia “On the Approval of the Rule on Methodology of Financial Instruments Expected Credit Losses Assessment and Credit Risk Category Determination”;

b) in the case of a substitute asset and a derivative, a credit rating assigned by any of the international rating agencies (Standard & Poor’s, Moody’s, Fitch, Scope Ratings) shall be available for the counterparty/issuer or the relevant instrument.

2. Subject to Paragraph 3 of this Article, after inclusion of a mortgage loan in the cover pool, a change in classification of the mortgage loan shall not constitute a ground for excluding it from the calculation established by Paragraph 1 of Article 7 of the Law.

3. The outstanding principal amounts of assets that, after their inclusion in the cover pool, have defaulted and/or no longer meet the requirement prescribed by Subparagraph “a” of Paragraph 1 of this Article may be taken into account in the calculation established by Paragraph 1 of Article 7 of the Law, in an amount not exceeding 5% of the aggregate nominal value of outstanding principal amounts of mortgage bonds. Notwithstanding the foregoing, uncollateralized claims in default and mortgage loans that, in accordance with the Rule approved by Order No. 192/04 of 29 December 2022 of the President of the National Bank of Georgia “On the Approval of the Rule on Methodology of Financial Instruments Expected Credit Losses Assessment and Credit Risk Category Determination”, are classified as Stage 3 credit risk category financial instruments or purchased or originated credit-impaired financial instruments (POCI), shall not be taken into account in the calculation established by Paragraph 1 of Article 7 of the Law.

4. The issuer shall be obliged to check on each working day whether the requirement established by Paragraph 1 of Article 7 of the Law (taking into account the restrictions determined by Paragraphs 3–5 of the same Article) regarding coverage of program liabilities is met. If, as a result of the check (including, based on the decision of the commercial bank, application of a relevant stress test), it is determined that the assets placed in the cover pool are insufficient, the issuer shall be obliged to eliminate the non-compliance (in the case of a stress test – by filling the largest deficit resulting from the simulation) within 10 working days.

5. Within the calculation established by Paragraph 1 of Article 7 of the Law, forward-looking assumptions/stress tests may be taken into account. Such assumptions/stress tests and their use shall be duly documented and described.

6. If a derivative is included in the cover pool, in the calculation prescribed by Paragraph 1 of Article 7 of the Law it shall be taken into account at its market value.

7. For the purposes of Subparagraph “i” of Paragraph 1 of Article 2 of the Law, this Article and Article 5 of this Rule, a cover asset shall be deemed in default if a delinquency of more than 90 days is recorded in relation to such asset.

8. This Article shall also apply accordingly to a debtor of a refinancing bank and its cover assets. If the debtor of a refinancing bank is a financial institution that is not a commercial bank, for the purposes of meeting the requirements of Subparagraph “a” of Paragraph 1 and Paragraph 3 of this Article, mortgage loans of equivalent quality of the financial institution shall be taken into account.

Article 5. Liquidity Requirements (Liquidity Buffer)

1. In order to meet the requirement established by Paragraph 1 of Article 8 of the Law, the cover pool, as a liquidity buffer, shall at any stage contain substitute assets, the market value of which (taking into account the restriction determined by Paragraph 2 of Article 8 of the Law) shall be equal to or exceed the net liquidity outflow of the program (if any) for the next 180 days.

2. Only those substitute assets shall be taken into account in the liquidity buffer that are considered high quality liquid assets in accordance with Order No. 70/04 of 15 May 2017 of the President of the National Bank of Georgia “On the Approval of the Regulation on the Liquidity Coverage Ratio of Commercial Banks”.

3. The calculation of the liquidity buffer shall take into account forward-looking assumptions/stress tests (including, where relevant, possible changes in the exchange rate and interest rate). Such assumptions/stress tests and their use shall be duly documented and described.

4. For the purposes of calculating the liquidity buffer, the date of repayment of principal arising from a mortgage bond shall be deemed the date on which the obligation to pay principal becomes due in accordance with the terms of issuance in the event the principal repayment date of the mortgage bond is postponed.

5. The issuer / debtor of a refinancing bank shall be obliged to check on each working day whether the requirement of maintaining the liquidity buffer is fulfilled. If, as a result of the check, it is determined that the requirement has been breached, the issuer / debtor of a refinancing bank shall be obliged to eliminate the non-compliance (in the case of a stress test – by filling the largest deficit resulting from the simulation) within 10 working days.

Article 6. Valuation Requirements

1. Determination of the market value of immovable property used to secure a mortgage loan included in the cover pool shall be carried out in accordance with the Instruction approved by Order No. 84/04 of 14 May 2018 of the President of the National Bank of Georgia “On the Approval of the Instruction on Real Estate Valuation for Commercial Banks”.

2. In addition to fulfilling the requirements established by Article 4 of the Law, the issuer / debtor of a refinancing bank shall be obliged at least once a year to verify whether there is a ground for revaluation of the immovable property used to secure a mortgage loan included in the cover pool, in accordance

with Paragraph 7 of Article 4 of the Instruction approved by Order No. 84/04 of 14 May 2018 of the President of the National Bank of Georgia “On the Approval of the Instruction on Real Estate Valuation for Commercial Banks”.

3. No more than 12 months shall have elapsed from the valuation/revaluation of immovable property used to secure a mortgage loan included in the cover pool, or from the check carried out for the purpose of determining the need for revaluation, until inclusion of the mortgage loan in the cover pool.

Article 7. Maximum Limit of Cover Assets

The aggregate nominal value of outstanding principal amounts of the total cover assets (and, in the case of a derivative, taking into account its market value) of the issuer / debtor of a refinancing bank shall not exceed 4% of the balance sheet value of the total assets of the issuer / debtor of a refinancing bank as of the last reporting quarter.

Article 8. Rules for Recording Cover Assets and Maintaining the Register

1. The issuer shall be obliged to record all cover assets and maintain an appropriate register in such a manner that it is possible at any time to identify the cover assets and to monitor the fulfillment by the issuer of the obligations determined by the Law and this Rule. The issuer shall be responsible for completeness, accuracy and security of the information/data maintained by it.

2. The issuer shall be obliged to record cover assets and maintain the relevant register in dematerialized form in such a manner that it is possible to prepare extracts and reflect data in a standard format (Word; Excel; PDF).

3. The issuer shall ensure protection of the information/data maintained by it, as well as information and records on electronic media, against unlawful acquisition, modification, destruction, falsification and dissemination, as well as its loss or damage. The issuer shall have the means to restore the information/records stored by it in case of their damage or loss. For this purpose, the issuer shall be obliged to take relevant organizational and technical measures.

4. The issuer shall be obliged to ensure that, as of the last working day of each month, copies of the information/data maintained by it are transferred to a durable medium.

5. The issuer shall be obliged to keep the information/data maintained by it for at least 10 (ten) years after cancellation of the program.

6. The rules for recording cover assets and maintaining the register stipulated by this Article shall also apply to the debtor of a refinancing bank.

Article 9. Supervisory Measures and/or Sanction

In case of violation of the requirements stipulated by this Rule, the National Bank is authorized to apply supervisory measures and/or a sanction determined by the legislation of Georgia.

Annex No. 1

1. Confirmation letter of the management body/director in the attached format.
2. Description of the organizational structure, which shall, inter alia, include indication of members of the supervisory board, members of the management body and other persons who will participate in management and supervision of the mortgage bond program, as well as description of their respective rights and duties.
3. Information and documents confirming the adequate experience and knowledge of the persons indicated by Paragraph 2 of this Annex.
4. Description of the applicant's operational program, including adequate policies, processes, systems and methodologies to be used for implementing the mortgage bond program.
5. Description of adequate policies, processes and methodologies, oriented towards investor protection, for approval of mortgage loans used as cover assets, making amendments thereto, renewal and refinancing thereof.
6. Information and documents confirming that the applicant has sufficient resources for establishment, management and monitoring of the cover pool.
7. Description of the applicant's compliance and internal audit functions in relation to the mortgage bond program.

Confirmation of the management body/director

I hereby confirm that:

- the submitted information and documents are complete and true;
- before the National Bank of Georgia adopts a decision on this application, in case of any change related to the submitted information/documents, I will immediately notify the National Bank of Georgia thereof;
- the measures planned and to be implemented by the commercial bank in relation to the mortgage bond program ensure the compliance of the mortgage bond program with the requirements of the Law of Georgia on Mortgage Covered Bonds and subordinate normative acts issued on its basis.

Name of the commercial bank

Signature

Name, surname of the signatory

Position of the signatory

Date

Annex No. 2

1. Name of the mortgage bond program.
2. Decision of the supervisory board on implementation of the mortgage bond program.
3. Confirmation letter of the management body/director in the attached form.
4. Description of the structure of the mortgage bond program, including:
 - a) maximum share of cover assets in the issuer's total assets at any stage of the program;
 - b) type/kind of cover assets, currency (currencies);
 - c) maximum shares of small and medium size enterprise (SME) loans and corporate loans (to be indicated separately) in the cover pool, where such loans are used as cover assets;
 - d) the following information on mortgage bonds:
 - d.a) maximum aggregate volume of mortgage bonds to be issued during the term of the program;
 - d.b) currency (currencies);
 - d.c) maturity;
 - d.d) interest rate:
 - d.d.a) fixed;
 - d.d.b) variable (the relevant index shall also be indicated);
 - d.d.c) other.
 - d.e) description of the principal repayment structure:
 - d.e.a) full repayment of principal at maturity of the mortgage bond, without the terms of issuance providing for postponement of the principal repayment date;
 - d.e.b) full repayment of principal at maturity of the mortgage bond, but with the terms of issuance providing for postponement of the principal repayment date by no more than one year;
 - d.e.c) change of the principal repayment structure (including postponement of the principal repayment date for more than one year) after separation of the mortgage bond program, if the issuer does not repay the principal within the standard period set by the terms of issuance;
 - d.e.d) other (a relevant description shall be provided).
5. Criteria and decision-making process for inclusion of an asset in the cover pool (using as a cover asset) and exclusion of an asset from the cover pool.
6. Operational process for inclusion of an asset in the cover pool and exclusion of an asset from the cover pool.
7. Operational process for compliance with liquidity requirements.
8. If applicable, relevant tests (e.g., coverage, liquidity, interest rate, exchange rate tests, stress tests) to be conducted for the mortgage bond program, including:
 - a) who will conduct and review such tests;
 - b) how information obtained through conducting a test will be used;
 - c) how escalation of a breach of a test will be performed;

- d) what contractual consequences will follow a breach of a test;
 - e) what contractual consequences will follow failure to react to a breach of a test in a timely manner.
9. Cover pool monitor and its main obligations, as well as the agreement concluded with the cover pool monitor or a draft agreement.
10. Brief description of processes in case of the issuer's default or commencement of resolution.
11. Grounds for occurrence of the issuer's default.
12. Information on possible use of mortgage bonds issued within the program as collateral in monetary operations with the National Bank of Georgia.

Confirmation of the management body/director

I hereby confirm that:

- the submitted information and documents are complete and true;
- before the National Bank of Georgia adopts a decision on this application, in case of any change related to the submitted information/documents, I will immediately notify the National Bank of Georgia thereof;
- the measures planned and to be implemented by the commercial bank in relation to the mortgage bond program ensure the compliance of the mortgage bond program with the requirements of the Law of Georgia on Mortgage Covered Bonds and subordinate normative acts issued on its basis.

Name of the commercial bank

Signature

Name, surname of the signatory

Position of the signatory

Date

Annex N3

[Hereby attached]