

Regulation on Financial Collateral Management of NBG

(Nonofficial translation)

Article 1. The purpose of this regulation

This regulation defines the issues regarding commercial banks and micro banks (bank) assets used as a financial collateral for National Bank of Georgia (NBG) loans.

Article 2. Definitions

Definitions of terms that have been used in the provision.

1. Bond - Debt Securities;
2. Corporate bonds – Debt securities that have been issued by legal entities, except covered bonds and bonds issued by International Financial Institutions (IFI);
3. NBG loan – Consists of the loans issued by NBG within the monetary operations, additional liquidity instruments, the loan of last resort;
4. Loan assets – loans issued by banks and its accrued interest;
5. Collateral portfolio – unity of pledged assets based on this regulation and used by banks as a collateral for NBG loans;
6. Pledged loan assets – banks claims to its loan assets which is pledged for the benefit of NBG as a pledger;
7. Pledged assets registry – NBG electronic records that books information about banks pledged assets to NBG;
8. Financial Collateral contract – agreement between NBG and banks about pledging the assets as a collateral to NBG loans;
9. Contract update day – every 2nd Wednesday of each month (or the previous business day if Wednesday is a holiday), when I banks updates/changes the underlying loan assets and the value of underlying loan assets of this agreement;
10. Loan assets data – data file published on NBG web page consisting of template file of loan assets, which is used during the pledging process, this template file “Electronic data of loan assets” is located on the following link:
11. Haircut – Risk controlling measurement that is determined and used by NBG against the pledged assets for its issued loans, which reduces the value of particular pledged assets by haircut (%);
12. Financial collateral change level – maximum percentage change of the value of the assets defined according to the article 3 of this regulation, when it is required to increase the collateral or collateral surplus is returned.
13. Covered Bond – debt securities issued under the Georgia law of “mortgage secured loans”. TIBR – interest rate Approved by the Decree of the President of NBG, N164/04, 12/10/2021 on NBG Regulation on Calculation of the TIBR Indices

Article 3. Acceptable Assets for Collateral

1. The acceptable assets for NBG loans are divided into six main groups: A, B, C, D, E and F.
2. A group of assets include GEL denominated debt securities issued by NBG, Georgian Government and IFI:
 - a. NBG Certificate of Deposits;
 - b. Georgian Government Treasury Bills;
 - c. Georgian Government Treasury Notes;
 - d. Georgian Government Bonds;

- e. IFI bonds.
3. B group of assets include corporate bonds, which satisfies all the following criteria:
 - a. Issued by residents and/or non-resident legal entities that are placed as public offering according to the “Georgian Law on Securities Market” with exempt of bonds issued by the banks
 - b. registered in Georgia; Currency denomination is Georgian Lari (GEL) and denomination cannot be changed solely by the issuer according to the issue prospectus;
 - c. Directly and/or indirectly is not linked to the foreign currency exchange rate and/or to the exchange rate index;
 - d. Issuer of the corporate bond must have minimum risk rating acceptable by NBG;
 - e. All other conditions and criteria formulated by NBG.
 4. C group of assets include all GEL denominated loan assets that are defined by the 4th article of the regulation.
 5. D group of assets include GEL denominated loan assets that are not included in C group and that are used as collateral for particular type of operations determined by NBG legal act.
 6. E group of assets include I bank deposits at NBG, which are used as collateral for particular type of operations determined by NBG legal act.
 7. F group of assets include following bank assets:
 - a. Foreign currency denominated loan assets that are used as collateral for particular type of operations determined by NBG legal act;
 - b. Assets determined by NBG Board that are used as collateral for NBG Loans of Last Resort. Noteworthy, those assets are not included in A, B, C, D and E groups.
 8. For particular bank that pledge their loan assets as collateral of NBG loans, NBG can take into account:
 - a. Adequacy of bank assets quality;
 - b. Adequacy of risk management quality and practice;
 - c. Financial condition of a bank;
 9. NBG monetary policy committee and NBG president defines:
 - a. Acceptable rating agencies for NBG and minimum credit rating for issuers of debt securities;
 - b. Haircut of each group or each type of assets defines by this regulation;
 - c. Financial collateral change level for pledged assets;
 - d. Maximum volume for loan assets that a bank can pledge in favor of NBG;
 - e. Concentration limits, which are maximum amount of a corporate bond issued by one issuer, that can be used by single I banks as collateral for NBG loans;
 - f. Asset interest rate (including loan assets and covered bonds) indexation on TIBR in case of floating rate;
 - g. Other type of limits, which can be used by NBG to reduce existing or potential risks.
 10. Monetary policy committee of NBG determines and defines the acceptable issuers of corporate bonds used as collateral for NBG loans. Information about the issuers are placed on NBG web page;
 11. The assets that are submitted by banks as a collateral for NBG loans, should not be used as collateral for other legal arrangement.

Article 4. The Criteria of C Group of Assets

1. C group of assets are supposed to satisfy conditions and criteria that are defined by this article.
2. Covered bonds should satisfy following criteria:
 - a. Covered bonds must be issued in accordance to the Georgia law of “mortgage secured loans” and NBG presidents decree on “Covered bond regulation”;

- b. Covered bond are issued in local currency (GEL) and denomination must not be changed;
- c. Covered bond issuer must have minimum credit rating assigned by NBG and if issuer hasn't such rating, bond itself must have minimum rating equaled to the sovereign rating of the Country;
- d. Rate of the floating covered bond must be indexed to TIBR;
- e. Heterogeneous types of loans shall not be used to secure the covered bonds. Accordingly, mortgage backed loans issued to individuals and mortgage backed loans issued to small and medium-sized businesses should not be used to secure the same covered bond;
- f. At least once per year before and after issuance of covered bonds, the supervisor of collateral assets must check the compliance of the covered bond program with the requirements established by the Law of Georgia "On Mortgage Secured loans", and the "Regulatory Rule on Covered Bonds" approved by the decree of the President of the NBG and submit the report to the NBG;
- g. Other conditions and criteria determined by the legal acts of the NBG, if any.

3. Loans granted to individuals included in the collateral assets of covered bonds must meet the following criteria:

- a. A loan granted to an individual must comply with the requirements defined by the decree of the President of the NBG "On the approval of the regulation on lending to an individual" at the time of inclusion of mortgage bonds in collateral assets;
- b. The income of an individual must be confirmed on the basis of at least one of the following:
 - 1. Statement from the bank account;
 - 2. reference/information from the State Revenue Service;
 - 3. Statement confirming remittance received from abroad;
- c. The loan must be denominated in GEL and the loan agreement must not allow unilateral change of denomination;
- d. Payment of principal and/or interest of the loan must not be directly and/or indirectly anchored to the foreign currency exchange rate and/or exchange rate index;
- e. The total amount of unpaid balances of principal amounts of loans granted to one individual should not exceed 1 million GEL;
- f. It should not be a revolving (renewable) loan;
- g. Credit risk of the loan must be classified in accordance with the "Regulatory Rule for Covered Bonds" approved by the order of the President of the NBG;
- h. Other conditions and criteria determined by the legal acts of the NBG, if any.

4. Small and medium business loans included in covered bond collateral assets must meet the following criteria:

- a. The residual nominal value of small and medium business loans issued to one person and/or related persons should not exceed 10% of the residual nominal value of covered bonds;
- b. The loan must be denominated in GEL and the loan agreement must not allow unilateral change of denomination;
- c. Payment of principal and/or interest of the loan must not be directly and/or indirectly anchored to the foreign currency exchange rate and/or exchange rate index;
- d. It should not be a revolving (renewable) loan;
- e. Credit risk of the loan must be classified in accordance with the "Regulatory Rule for Covered Bonds" approved by the order of the President of the NBG;
- f. Other conditions and criteria determined by the legal acts of the NBG, if any.

5. In the event that the bank becomes aware that the loan included in the collateral of the covered bond does not meet the requirements established by paragraphs 3 and 4 of this article, the bank is obliged to replace such loan with a loan that meets the requirements of this provision.

6. When pledging the loan assets, loans included in loan assets must meet the following criteria:

- a) A loan granted to an individual must comply with the requirements defined by the decree of the President of the NBG "On the approval of the regulation on lending to an individual";
- b) The loan must be denominated in GEL and the loan agreement must not allow unilateral change of denomination;
- c) Payment of principal and/or interest of the loan must not be directly and/or indirectly anchored to the foreign currency exchange rate and/or exchange rate index;

- d) The total amount of unpaid balances of principal amounts of loans granted to one individual should not exceed 1 million GEL;
- e) The real estate (estates) used as collateral for the loan must be in favor of the bank encumbered with a first-order mortgage;
- f) Credit risk of the loan must be classified in accordance with the "Regulatory Rule for Covered Bonds" approved by the order of the President of the NBG;
- g) It should not be a revolving (renewable) loan;
- h) The loan must be denominated in GEL and the loan agreement must not allow unilateral change of denomination;

Article 5. Pledge Registration of Assets

1. NBG and banks make agreement about pledging loan assets.
2. Assets are registered as collateral for NBG loans in the corresponding registration system:
 - a. In Georgian Securities Settlement system (GSSS) – the bonds issued by NBG, Georgian Government, IFI's and corporates, according to the same system rules;
 - b. In national agency of public registry – loan assets;
 - c. In the core banking module of NBG – Foreign currency deposits made by banks at NBG.
3. For lending operations purposes, IFI bonds, corporate bonds and/or loan assets agreements and/or pledged deposits, in favor of NBG, the NBG can create in GSSS the technical facility (TF) analog to non-marketable securities, which value will be in line with amount stated in the agreement and/or GEL equivalent of the pledged foreign currency deposit.
4. Technical facilities, analog to non-marketable securities, created as a result of pledging foreign currency denominated deposits, is revaluated according to the exchange rate changes, once per week, every Wednesday (or previous business day, if Wednesday is holiday), in case, if exchange rate is changed 10% or more, accordingly.
5. Banks can use technical facilities, the analog to non-marketable securities, only for NBG loan operations.
6. NBG can examine the data and the information regarding the B, C, D, E and F group of assets provided by banks that are going to be pledged and/or already pledged, in order to verify if they meet requirements established by NBG regulations. The examination process done according the methodology and frequency set by NBG.
7. In order to examine the compliance with the NBG requirements, NBG can request from I banks any information and any documentation about B, C, D, E and F group of assets, which are going to be pledged and/or already pledged.
8. In case, if NBG identifies non-compliance of the pledged B, C, D, E and F group of assets with the this regulation and/or with NBG other requirements, or in case bank does not provide required documents, NBG is eligible to use one of the one of the following action:
 - a. Increase the haircut determined by the NBG on the particular asset and/or group of assets and/or type of assets of the banks;
 - b. Fully or partially temporarily suspend usage of particular assets and/or group of assets and/or assets as financial collateral;
 - c. Cancel the contract.

Article 6. Use of Groups of Assets as Financial Collateral by Loans

1. The NBG uses the assets of each group defined by this regulation as a collateral for NBG operations, namely:
 - a. A, B and C group of assets are used as a collateral of the following operations:

- i. Intra-day loan;
 - ii. Overnight loan;
 - iii. Refinancing loan;
 - iv. One-month open market instrument;
 - v. Loan of Last Resort
 - b. D and E group of assets are used as a collateral of the following operations:
 - i. Additional liquidity instrument defined by the NBG;
 - ii. Loan of Last Resort;
 - c. F group of assets are used only as a collateral of loan of last resort.
2. The legal act of the NBG shall determine the types of the operation, which can be used D and E group of assets defined by this regulation as a collateral.

Article 7. Pledging of Loan Assets

1. In order to use as a collateral for NBG loans, banks' loan assets should be pledged in favor of NBG in accordance with this regulation and other legal acts, and bank concludes a contract with the NBG.
2. No later than one business day before the contract is made or the amendment is made, the bank sends the electronic file to the NBG on the email address collateral@nbg.gov.ge, as of last calendar day of the previous month, which is confirmed by the NBG from the same email address after the initial review of this file. The electronic file certified in accordance of this regulation is the amendment of the contract and its appendix.
3. The electronic file certified by the NBG in accordance of paragraph 2 of this article means that the loan assets data in the electronic file is complete and corresponding to the criteria set by the NBG (initial review).
4. The object of the contract is the loan assets outlined in the electronic file, and the price - the total value of the loan assets, confirmed in accordance with paragraph 2 of this article.
5. The bank shall be obliged to renew the object of contract on "contract update day in accordance with the paragraph 2 of this Article.
6. Bank is fully responsible for authenticity and correctness of the information and documents of loan assets submitted to the NBG and their compliance with the criteria set by this regulation.
7. After the signing or amendment of the contract, the NBG shall retain the electronic registration of the right under the terms of the contract in the public registry.
8. After the completion of electronic registration in the public registry, the NBG shall reflect the changes of the value of the bank's collateral portfolio in the pledges assets registry.
9. Bank can use collateral portfolio for NBG loans from the moment of registration of the financial collateral in the public registry.
10. If the bank does not submit to the NBG the information in accordance with paragraph 2 of this article and/or if NBG disclose the non-compliances during the initial review and/or examination, the NBG shall be entitled to suspend the bank's right to use the pledged loan assets for NBG loans.
11. Until the renewal of the contract, if any loan asset no longer meets the established criteria and/or if loan assets is fully repaid, and/or if it is expected such events, which results in 10% and/or more changes of the amount of the collateral portfolio, the bank has to immediately notify the NBG.
12. The NBG can make any correction in the pledged assets registry based on information provided by the bank and any other information available to the NBG at any time.
13. In case of the cases stipulated in paragraphs 11 and/or 12 of this article, the bank is authorized to replace and/or add a new loan asset that meets criteria for the time being in accordance with paragraph 2 of this article.

14. The NBG carries out the inspection of the data of pledged loan assets, submitted by the bank, with the requirement set by this regulation, according the methodology and frequency (selective inspection) developed by NBG.
15. In accordance with the results of selective inspection, the NBG shall correct the haircuts or suspends the right to use the pledged loan assets in collateral portfolio according paragraph 10 of this article.
16. In the event of non-submission of documents and information requested by the NBG in the process of inspection of loan assets, the NBG can suspend the bank's right for the full or partial use of the collateral portfolio.

Article 8. Bank Deposit in Foreign Currency

1. With the consent of the NBG, banks may use the foreign currency deposit as a collateral of NBG loans. Such a deposit shall be located at the NBG in the relevant deposit account in foreign currency determined by the NBG.
2. If the foreign currency deposit or part of it deposited at NBG is not used by the bank as a collateral for NBG loan, the NBG returns such amount to the bank to its corresponding account at NBG within two banking days.
3. In the case of exchange rate changes causes decrease of GEL equivalent of the foreign currency deposits used as a loan collateral more than margin call limits, the NBG request from bank the additional foreign currency deposit in two banking days, in order to meet to required financial collateral level.
4. In the case of exchange rate changes causes increase of GEL equivalent of the foreign currency deposits used as a loan collateral more than margin call limits, in case of bank request, NBG returns the additional foreign currency deposit in two banking days.
5. If the bank fails to repay the loan in time, the next business day the NBG will charge off the pledged foreign currency deposit from deposit account of bank. The GEL equivalent of the charge off foreign currency deposit should equal to full amount of debt of the loan. After this operation, the NBG returns the rest of the amount (in case of existence) to the bank the corresponding account at the NBG within two banking days.

Article 9. Realization of Pledged Securities

1. In case of non-repayment of the principal and accrued interest of the loan to the NBG by the bank, from next business day of the loan repayment day, the NBG starts the sale or appropriation and sale of the pledged securities according to this regulation.
2. In case of non-repayment of the loan to the NBG by the bank, the NBG sales the securities through the auction.
3. Banks have the right to participate in securities auctions.
4. If NBG sales various pledged or appropriated securities is one day, the auction may be held separately according the type and maturity of those securities.
5. The NBG sends the notification of securities sale auction to banks on the day of making decision on the sale or appropriation of securities.
6. Securities auction notification shall include:
 - a. securities type and ISIN;
 - b. quantity and face value of the securities;
 - c. remaining maturity of the securities;
 - d. date and time of conducting the auction and submitting bids;
 - e. auction platform;
 - f. settlement day;
 - g. Maximum interest rate at the NBG's discretion.
7. The number of bids submitted by each bank in the auction is not limited.

8. In the auction bid the bank indicates:
 - a. the number of securities to be purchased;
 - b. Interest rate.
9. In case if no bids have been submitted at the auction, no later than the next business day, the NBG announces a new auction in accordance with this regulation.
10. If the bank fails to provide a settlement according the auction deal in time, all of its bids are canceled and:
 - a. It is approved other bids with lowest interest rates submitted on the auction;
 - b. Bank should pay the penalty in favor of the NBG in the amount of 5% of the failed transaction.

Article 10. Realization of Other Pledged Assets

1. If the bank fails to repay the loan to the NBG in time, the NBG carries out the realization of the pledged assets in accordance with this regulation.
2. Amounts received from the realization of pledged assets shall be transferred to cover NBG loan of the bank.
3. After the NBG loan repayment from the realization amount of the pledged assets, the remaining surplus amount will be returned to the bank within two business days.
4. If the amounts received as a result of realization of the pledged asset is not sufficient to cover the debt amount to the NBG, the NBG shall be entitled to satisfy the remaining claims in accordance with Article 64 of the Organic Law of Georgia on the NBG.