

LAW OF GEORGIA ON THE NATIONAL BANK OF GEORGIA

(as amended to October 13, 1998)

(With the amendments and additions specified in the Laws of Georgia No.805-II s of September 19, 1995 and No.245-II s of May 28, 1996)

Chapter I. General Provisions

Article I. The National Bank of Georgia*

1. The National Bank of Georgia (hereafter "the National Bank") is the central bank of Georgia, the bank of banks, the banker and fiscal agent of Georgian Government, shall have the capacity of a juridical person. The National Bank proceeding from the rules and customs of international banking practice and following directions of the Constitution of Georgia, this Law, and the Georgian legislation is entitled to enter into agreements, to acquire, to hold and to manage movable and immovable property, and to be a plaintiff and defendant at legal proceedings.
2. The property of the National Bank is the state property of Georgia.
3. The National Bank shall be established by the Highest Representative Body of Georgia.
4. The National Bank shall have its head office in Tbilisi.

Article 2. Objectives and basic tasks of the National Bank*

1. The primary objective of the National Bank shall be to achieve and maintain the purchasing power of the national currency and price stability, to ensure the liquidity, solvency and proper functioning of a stable market based financial system.
2. According to main directions of financial and monetary policy formulated by the Parliament of Georgia and aimed at maintenance of price stability, tasks of the National Bank shall be:
 - a) to formulate, adopt and execute the monetary policy;

** As specified by the Law of Georgia No.245-II s of May 28, 1996*

- b) Carry out supervision and licensing of the banking activities;*
- c) to own, hold and manage the state international reserves;*
- d) to act as banker and adviser to, and as fiscal agent of Georgia;*
- e) to promote the efficient operation of payments systems;*
- f) to promote the safe and sound development of the financial system.*

Article 3. Independence of the National Bank

1. Within the limits of authority established by this Law, the National Bank shall be independent in its operations. No legislative or executive body shall have the right to interfere in its activities, except the cases specified by this Law.
2. The National Bank is economically independent and shall cover all expenses by its own incomes. The National Bank shall not be responsible for the liabilities of the Georgian Government, likewise the Georgian Government shall not be responsible for the liabilities of the National Bank, except the cases when the National Bank and the Government commit themselves for such liabilities.
3. The assets of the National Bank, its property and incomes, as well as its activities and operations shall be exempted from all taxes.

Article 4. International Cooperation

1. The National Bank shall represent Georgia in all international meetings, councils and organizations concerning monetary policy, bank licensing and supervision, and the other matters that are within its fields of competence.
2. The National Bank may provide banking services for the benefit of foreign governments, foreign central banks and monetary authorities, and for the benefit of international organizations in which it or the Government of Georgia participates.
3. The National Bank may participate in international organizations that pursue financial and economic stability through international monetary cooperation*.
4. As agent of Georgia, the National Bank may undertake responsibilities and perform transactions concerning Georgia's participation in international organizations.

Chapter II. Organization and Administration of the National Bank

Article 5. Organization of the National Bank

1. The National Bank shall be an integral centralized system.
2. The National Bank shall determine the regulations for the establishment, functioning and abolishment of its subordinated bodies.

Article 6. Management of the National Bank*

1. The supreme body of the National Bank is the Council of the National Bank which shall be composed of nine members.
2. The Council of the National Bank formulates the financial and monetary policy of Georgia and supervises its execution according to provisions of Article 2 of this Law.

3. Members of Council must be citizens of Georgia; they must be persons of recognized integrity and professional experience in monetary and banking matters.
4. The President of the National Bank shall chair the Council. The Council of the National Bank shall be composed besides the Chairmen of three vice-presidents and five other members.
5. Members of the Council of the National Bank are elected by the Parliament of Georgia by a simple majority of the votes according to the list of its members at the suggestion of the President of Georgia for a seven year term.
6. According to Article 64 of the Constitution of Georgia members of the Council of the National Bank shall be removed only by a resolution of the Parliament of Georgia.
7. Council members shall be eligible for reappointment. In the event of prematurely termination of a member's commission instead of him a new member shall be elected.
8. Of the members of the Council of the National Bank the President of Georgia appoints to and dismisses from their posts the President of the National Bank, at the suggestion of the Council of the National Bank, and the Vice-presidents, at the suggestion of the President of the National Bank.

** As specified by the Law of Georgia No.245-III of May 28, 19969*

The President of the National Bank shall be dismissed if he:

- a) according to Article 64 of the Constitution of Georgia is removed from the Council of the National Bank by a resolution of the Parliament of Georgia.
- b) becomes ineligible to serve on the Council pursuant to Article 10 of this Law;
- c) has engaged in serious misconduct in the office, substantially prejudicing the interests of the National Bank.
- d) is unable to perform the official functions because of an infirmity of body or mind;
- e) has become insolvent or has been declared bankrupt and has not been rehabilitated;

Analogous regulation shall be used to relieve the vice-president of the National Bank of his post.

Article 7. Functions of the Council

1. The Council shall perform the management and supervising of the National Bank's activities.
2. In carrying out its functions, the Council must periodically assess the monetary and economic situation. To that end, the management of the National Bank shall report, not less than once every quarter, to the Council on the operations of the National Bank, on the conduct of its monetary policy, on the soundness of the financial system including stability of the national currency, and on the state of the money, capital and foreign exchange markets.

Article 8. Powers of the Council of the National Bank

The Council shall have the following powers:

- a) to determine the monetary and exchange rate policy of Georgia (including open markets) the limits of operations by the National Bank, the interest rates for discounts and loans by the National Bank, and the required reserves and levels of reserves that banks are required to maintain with the National Bank;
- b) to establish the procedure for determining the exchange rate of the Georgia's currency' against other currencies;
- c) to approve the budget of the National Bank;
- d) to propose changes in the authorized capital of the National Bank;
- e) to establish special reserves;
- f) to consider, approve and submit to the Parliament of Georgia the annual reports and financial statements of the National Bank;

Article 9. Additional Compensation of Council Members

The members of the Council of the National Bank shall receive additional compensation as determined by the Parliament of Georgia.*

Article 10. Ineligibility to Serve on the Council

No person shall serve on the Council while he is the President, or the member of the Parliament, or the Government of Georgia.

Article 11. Reason for Removal of Council Members**

Article 12. Resignation of Council Members

Any Council member may resign from office on giving not less than two months' notice in writing to the Chairmen of Parliament of Georgia.

Article 13. Vacancy on the Council

Any vacancy on the Council shall be filled by the appointment of a new Council member to serve the remaining period of the term of the member replaced.

* As specified by the Law of Georgia No.245-III of May 28, 1996

** Removed by the Law of Georgia No.245-III of May 28, 1996

Article 14. Meetings of the Council

1. The President, or, in his absence, the vice-president acting as a President, must chair the meetings of the Council.
2. The Council shall meet as often as the business of the National Bank may require but not less frequently than three times in each calendar quarter.
3. Normally, meetings of the Council are convened by the President or the vice-president, acting as a President. Council meetings may also be convened at the written request of any three Council members or, in the event of an emergency, any two Council members.
4. Council meetings shall be convened by communicating the time, venue and agenda of the meeting to all Council members at least five working days before the date set for the meeting, except that, in the event of an emergency, Council meetings may be so convened at shorter notice.
5. Each Council member shall have one vote. A quorum at any meeting of the Council shall consist of the presence of more than one half of the members of the Council, one of which shall be the President or the vice-president, acting as a President.

Subject to the quorum requirement of this Section, no act or proceeding of the Council shall be invalidated merely by reason of the existence of a vacancy or vacancies on the Council.

6. Except as otherwise provided by this Law, decisions of the Council shall be adopted by a simple majority of the votes cast by the Council members present. Only Council members present in person shall have the right to vote.

In the event of a tie, the President or, in his absence, the vice-president acting as a President, shall have the casting vote.

8. All acts done by a person acting in good faith as President, vice-president or other member of the Council shall be valid notwithstanding that some defect in his appointment is afterwards discovered (failure to meet some criteria of eligibility or qualification).

Article 15. Proceedings of Council Meetings and Council Decisions

1. The proceedings of the meetings of the Council shall be confidential. The Council may decide to make the outcome of all or part of its deliberations public.
2. There shall be minutes of each Council meeting signed by the person chairing the meeting, and by the Council Secretary.
3. The Council Secretary shall be appointed by the President from among the senior staff of the National Bank; he shall not be a Council member.
4. Decisions of the Council shall be signed by the Chairman of the Council or by a person acting in this capacity.

Article 16. Disclosure by Council Members

1. Upon joining the Council and annually thereafter until the expiration of their respective terms, Council members shall periodically disclose to the Council in full their significant commercial interests which they or members of their household may have. Such disclosures shall comply with guidelines adopted by the Council. Besides, the Council members or members of their households have no right to be founder or shareholder of any banks.
2. Whenever any matter related to such interest comes up for Council discussion, the Council member concerned shall disclose his interest at the beginning of the discussion and shall not participate in the discussion and decision on such matter; his presence shall not be counted for the purpose of constituting a quorum.

Article 17. Subsequent Service

After their departure from the National Bank former President and vice-presidents shall retain their privileges during a period of next two years and shall be forbidden to serve for other banking organizations of Georgia except for the cases when they retire at their own will before the expiration of their lawful term.

Article 18. Powers of the Management of the National Bank of Georgia

The President shall serve as the chief executive officer of the National Bank in charge of the day-to-day business of the National Bank. If the President is absent the vice-president, performing the duties of the President, shall act as chief executive officer of the National Bank or the vice-president who have performed last the duties of this vice-president.

Article 19. Internal Audit Service of the National Bank

1. A head of the internal audit service of the National Bank shall be appointed for a term of seven years by a simple majority of the Council from candidates who are citizens of Georgia and to whom no ground for removal specified in Article 10 of this law applies. He shall be eligible for reappointment. His salary and other emoluments shall be determined by the Council.
2. The head of the internal audit service may resign from office on giving not less than three months' notice to the President of National Bank. Besides, he shall be removed from office by a decision of the Council.
3. The duties of audit service are as follows:
 - a) to exercise internal control over the administration of the laws and regulations that apply to the National Bank, to ensure strict execution of National Bank's decisions, and to perform periodic audit of the operations of the National Bank and activities of its departments and divisions.
 - b) to submit to the Council reports about conducted work and to prepare recommendations on the accounts and records as well as the budgetary and accounting procedures and controls of the National Bank;

- c) to audit the periodic financial statements and related documents of the National Bank and, if these have been properly prepared, to issue certifications to that effect.

Article 20. Staff of the National Bank and Conflicts of Interest

1. The President of the National Bank shall appoint and terminate the appointment of the National Bank's employees. The President designate and dismiss the agents and correspondents of the National Bank in accordance with working conditions.
2. The Council shall adopt regulations of the structural units of the National Bank.
3. During their employment by the National Bank, staff of the National Bank shall not receive credit from any bank other than the National Bank.
4. During their employment by the National Bank, staff of the National Bank shall devote the whole of their professional services only to the National Bank, and none of them shall occupy any other office or employment, whether remunerated or not.
5. No member of the Council, management or staff of the National Bank shall accept any gift or credit for himself, or on behalf of any person with whom he has family, business, or financial connections.
6. No employee of the National Bank or member of his households shall have the right to be founder or shareholder of any banks.
7. No salary, fee, or other remuneration paid by the National Bank shall depend on its net income.

Article 21. Secrecy

1. No person who serves as an officer, employee, auditor, agent or correspondent or has served as a member of the Council of the National Bank shall permit access to confidential information, disclose or publicize such information or use it for personal gain.
2. Such persons may disclose nonpublic material information only to the Chamber of Control of Georgia. In connection with budget settlements such information may also be disclosed outside the National Bank by decision of the Council or the President of the National Bank, but only if such disclosure would serve to provide evidence of a legal act committed by a person requesting such disclosure from the National Bank in writing.
3. Statements about the operations and accounts of physical and juridical persons may be disclosed also to the judiciary and investigation bodies only on the grounds of the prosecutors authorization or the court's decision when an action is brought against these physical and juridical persons.

Chapter III. Financial Provisions

Article 22. Capital of the National Bank

The authorized capital of the National Bank shall be 1,300,000 (one million three hundred thousand) lari and may be changed by such amounts as may be proposed by the Council of the National Bank and approved by the Parliament of Georgia. The entire authorized capital of the National Bank shall not be transferable or subject to encumbrance.

The authorized capital of the National Bank shall be formed by deduction of 25 percent from the National Bank's net income, provided that such deduction will be terminated as soon as the paid-up capital equals the determined amount of the authorized capital.

Article 23. Coverage of Deficits of the National Bank

Whenever on the balance sheet of the National Bank the value of its assets falls below the sum of its liabilities and its unimpaired capital and Reserve Fund, the Minister of Finance of Georgia shall deliver to the National Bank debt securities in bearer form, issued by the Ministry of Finance of Georgia on terms and conditions similar to those in other government securities and bearing interest at market rates, in such amount as shall be necessary to remedy this deficit. Such allocation of securities shall be reflected in the state budget.

Article 24. Calculation of Net Income of the National Bank

The net income of the National Bank for each financial year shall be calculated after deducting from revenues the operating expenditures for the year in question and after making transfers to that reserve funds which should be used:

- a) for covering bad and doubtful debts, full depreciation of fixed assets, and ensuring the staff's social security and insurance;
- b) subject to the approval of the Council, for such other purposes as it may deem necessary. Provided, however, that gains and losses arising in the valuation of assets or liabilities in gold, foreign exchange or special drawing rights shall not be computed for determining ordinary gains or losses in accordance with Article 51 of this Law.

Article 25. Allocation of Net Income of the National Bank

1. After making deductions to the authorized capital the National Bank shall establish a Reserve Fund to which shall be allocated, at the end of each financial year of the National Bank, an amount not more than equivalent to fifty percent of the remaining net income for that year until the amount in the Reserve Fund equals the amount of the paid-up capital of the National Bank. By authorization of the Council the amount to be transferred to the Reserve Fund for any one year may exceed 50 percent. The total amount in the Reserve Fund may be increased beyond the paid-up capital of the National Bank. The Reserve Fund may only be used to offset losses of the National Bank. For the purpose of this Article, "losses" shall mean the excess of operating expenditures over revenues, and any Valuation Reserve Account balances that fall below zero.

2. The National Bank may establish special reserves for specific purposes, into which funds may be transferred that are available after making the allocation required under Section I.
3. The amount of net income for the financial year remaining shall be used by the National Bank to redeem any securities issued by the Ministry of Finance of Georgia pursuant to Article 23 of this Law and held by the National Bank, before transfers to the Reserve Fund and any special reserve are made.

Article 26. Transfer of Net Profits

The net profits for the financial year remaining after the transfers and redemption made pursuant to Article 25 of this Law shall be paid to the Ministry of Finance of Georgia within four months after the end of the financial year of the National Bank.

Article 27. Restrictions on Allocation of Net Income

No transfer, redemption or payment pursuant to Article 25 or 26 of this Law shall be made if, as a result thereof, in the National Bank's opinion, the assets of the National Bank would be less than the sum of its liabilities and paid-up capital.

Chapter IV. Monetary Functions and Operations of the National Bank

Article 28. Monetary Policy

The National Bank shall be solely responsible for the formulation, adoption and execution of the monetary policy of Georgia, except for case specified by second paragraph of this Article.

If, after consultation with the National Bank, the Parliament of Georgia or the President of Georgia is of the opinion that the monetary policies being pursued by the National Bank are not adequate for the achievement of main objective of price stability set forth in Article 2 of this Law, the Parliament of Georgia or the President of Georgia may submit a recommendation for a change in monetary policy and after consultation with the National Bank it shall be determined whether a change in monetary policy must be adopted by the National Bank. If the Parliament decides that a change in monetary policy must be adopted by the National Bank, the National Bank shall thereupon give effect to such change in monetary policy while the decision of the Parliament remains in effect. The decision of the Parliament shall be specifying the change in monetary policy, the essential policy reasons for the change in monetary policy and the period during which the change in monetary policy shall be effective unless withdrawn or amended by the Parliament.

In the event if the National Bank refuses to obey the Parliament's decision, the question of re-election of the Council of the National Bank ahead of schedule will automatically arise.

Article 29. Open Market Operations

In the conduct of its monetary policy, the National Bank has the right to operate in the open market by purchasing and selling, outright (spot and forward) or under repurchase agreements, debt securities issued by the Ministry of Finance of Georgia and securities issued by the National Bank; no other securities shall be used for this purpose.

Article 30. Minimum Required Reserves

1. In the conduct of its monetary policy, the National Bank shall determine the minimum required reserves for all banks and legal persons, who have the right to accumulate and allocate savings and deposits; such reserves shall be determined in percentage to accumulated sums and are subject to be maintained the National Bank.
2. The rules for the determination and calculation of minimum required reserves shall be established by the National Bank according to the country's economic situation.
3. The National Bank may take decision about the payment of interest on the amount of minimum reserves. No interest shall be charged on free reserves held in the National Bank.

Article 31. Failure to Maintain Required Reserves

The National Bank may impose on and collect from any legal person that fails to maintain required reserves at the minimum levels prescribed pursuant to Article 30 of this Law, a levy on the shortfall in such bank's required reserves, until the shortfall is corrected; or use the sanctions pursuant to Article 59 of this Law. The National Bank shall determine the rate of the fine.

Article 32. The National Bank Discount Operations

1. The National Bank may discount only the following instruments and only when they are presented by a bank account holder:
 - a) bills of exchange and promissory notes, denominated in the national currency and payable within the territory of Georgia, bearing the signature of at least three solvent parties of which at least one shall be a bank, and maturing within three months from the date of their acquisition by the National Bank. Provided, however, that in exceptional circumstances the National Bank may discount such instruments if they bear the signature of only two solvent parties including one bank and if they mature more than three months but not more than six months from the date of their acquisition by the National Bank;
 - b) debt securities issued or guaranteed by the Ministry of Finance of Georgia or the National Bank, payable within the territory of Georgia, denominated in national currency, forming part of a public issue, intended for sale to natural and legal persons and maturing within three months from the date of their acquisition by the National Bank.
2. The discount operations of the National Bank shall be subject to such other terms and conditions, including the discount rate, as the National Bank may establish by regulation.

3. The National Bank may, without stating a reason, refuse to discount any of the before mentioned instruments.

Article 33. The National Bank Loans to Banks

1. The National Bank may, on such terms and conditions as it may determine, grant to banks that hold an account on the books of the National Bank, for periods not exceeding three months, loans that are secured by any of the following assets:
 - I. international reserve instruments as specified in Section 1 of Article 52 of this Law;
 - II. other debt securities issued or guaranteed by, and payable within the territory of Georgia, denominated in national currency, forming part of a public issue, and intended for sale to natural and legal persons;
 - III. warehouse receipts and documents of title issued in respect of raw materials or other goods duly insured against risk of loss or damage;
 - IV. deposits with the National Bank or with a depository acceptable to the National Bank of any assets which the National Bank is permitted to buy or sell or deal in under this Law, including without limitation gold and other precious metals.
2. Loans granted by the National Bank shall be made only to the head offices of banks.

Article 34. Rates for Discounts and Loans

The rates for discounts and loans of the National Bank, shall be established by regulation of the National Bank.

Article 35. Credit and Interest Rate Controls

1. In the conduct of its monetary policy, the National Bank may, by regulation, prescribe temporary conditions and restrictions within the limits determined by law with respect to the principal amount, of any type of credit or guaranty extended by financial institutions, guaranties, or the rate of interest, and other charges payable on any type of credit or guaranty extended or on any type of deposits received by these banks or financial institutions.

Such conditions and restrictions may be prescribed only if and to the extent that the National Bank's monetary policy objectives cannot be achieved with other instruments.
2. Regulations issued pursuant to Section 1 of this Article shall specify that they shall apply only to transactions concluded after the date of their publication.

Chapter V. Monetary Unit, Bank Notes and Coins

Article 36. Monetary Unit*

1. The monetary unit of Georgia shall be the "Lari", divided into one hundred "Tetri".
2. The "Lari" shall be the only legal tender on the territory of Georgia.
3. The National Bank shall determine and regulate the exchange rate for lari against other foreign currencies. If the National Bank does not declare any foreign exchange value for the lari, the exchange rates for lari against other currencies shall be determined in the market on the basis of free demand and supply.
4. Lari (cash in circulation, demand and time deposits, and current bank accounts) are guaranteed by gold reserve, currency loans of foreign countries and other assets of the National Bank.

* As specified by the Law of Georgia No.805-Is of September 19,1996

Article 37. Authority to Issue National Bank Notes and Coins

1. The National Bank shall have the exclusive right to issue bank notes and coins as legal tender within the territory of Georgia.
2. The emission of bank notes and coins for the purpose of covering the state budget deficit is prohibited.

Article 38. Legal Tender

Bank notes and coins issued as legal tender by the National Bank and not withdrawn from circulation shall be accepted, at their face value, in payment of all public and private debts in Georgia.

Article 39. Currency Features

The National Bank shall determine by regulation the face value, measures, weights, designs, and other features of the bank notes and coins that are legal tender in Georgia.

Article 40. Currency Production and Safekeeping

The National Bank shall arrange for the printing of bank notes and the minting of coins, for the security and safekeeping of unissued bank notes and coins, and for the custody and destruction, as necessary, of plates, dies, and retired bank notes and coins.

Article 41. Currency Exchange

Upon request, the National Bank shall exchange without charge or commission bank notes and coins that are legal tender in Georgia.

Article 42. Unfit Currency*

1. Unfit currency shall be withdrawn from circulation, destroyed, and replaced with bank

* As specified by the Law of Georgia No.805-Is of September 19,1996

notes or coins by the National Bank.

2. The National Bank of Georgia shall determine the regulations for replacing of national currency, bank notes and coins unfit for circulation.

Article 43. Currency Inventory and Issue Plan

The National Bank shall directly administer the currency reserve inventory, make issue plans, and ensure the regular supply of bank notes and coins, in order to meet the currency requirements of the economy of Georgia.

Article 44. Accounting Treatment of Currency Issued

The aggregate amount of circulating bank notes and coins shall be noted in the accounts of the National Bank as a liability of the National Bank; such liability shall not include bank notes and coins in the currency reserve inventory.

Article 45. Currency Recall

1. The National Bank may decide to call in and withdraw from circulation any bank notes or coins that are circulating within the territory of Georgia, by issuing in exchange therefor other bank notes or coins in equivalent amounts; the decision shall be publicly issued in the form of an official regulation of the National Bank and shall specify the period during which the bank notes or coins must be presented for exchange and the offices of the National Bank where they are to be so presented.
2. At the end of the exchange period referred to in Section 1, bank notes and coins called in for exchange shall, notwithstanding the provisions of Article 38 of this Law, cease to be legal tender.

Article 46. Counterfeiting of Currency

1. Whoever:
 - a) falsely makes, forges, counterfeits or alters any banknote or coin that is legal tender, whether in Georgia or abroad, or any check, security or payment card, denominated in any currency;
 - b) possesses, transports or issues any such banknote, coin, check, security or payment card when he know that it was falsely made, forged, counterfeited or altered;

- c) manufactures, possesses or transports any plate, stone, paper, die or other object or substance when he knew that it was destined to be used in falsely making, forging, counterfeiting or altering any such banknote, coin, check, security or payment card; shall be subject to prosecution in accordance with the Criminal Code of Georgia.
2. Any reproduction of bank notes, coins, checks, securities or payment cards, whether denominated in Georgian legal tender or in another currency, shall require the prior written authorization of the National Bank.
3. The National Bank of Georgia shall be a main expert in the matters of establishing the authenticity of national currency and other bank notes. *

Chapter VI. Exchange Rate Policy, International Reserves, Valuation Reserve Account and Exchange Control

Article 47. Exchange Rate Policy

1. The exchange rate policy of Georgia shall be formulated and executed by the National Bank.
2. The National Bank shall be in charge of administration of any law in force relating to exchange control. All statements, accounts and other information required by the provisions of any such law shall be presented to the National Bank.

Article 48. Responsibilities of the National Bank

The National Bank shall be responsible for:

- a) elaborating rules and regulations of foreign currency market transactions;
- b) elaborating rules, regulations, instructions, and accounting forms for foreign currency transactions on the territory of Georgia;
- c) setting foreign currency position limits for banks carrying out foreign currency transactions;
- d) owing, keeping and managing official international reserves.

* *Added by the Law of Georgia No.805-Is of September 19, 1996*

natural and legal persons;

- e) owing, holding and managing the international reserves of Georgia.

Article 49. Clearing and Payments Agreements

The National Bank may, either for its own account or for the account and by order of Georgia, enter into clearing and payments agreements or any other contracts for the same purpose with public and private central clearing institutions domiciled abroad.

Article 50. Official International Reserve

1. The National Bank shall own, hold and manage an official international reserve which shall consist of all or any of the following assets, excluding any such assets that are illiquid, encumbered, or otherwise unavailable for use within a short period of time by the National Bank:
 - a) gold;
 - b) foreign exchange in the form of notes and coins, bank balances held abroad in foreign currencies;
 - c) any other internationally recognized reserve asset, including the entitlement to make reserve tranche purchases from the International Monetary Fund and the holdings of the Government of Georgia of special drawing rights of the International Monetary Fund;
 - d) bills of exchange and promissory notes, denominated and payable in foreign currencies;
 - e) debt securities issued or guaranteed by, and forward purchase or repurchase agreements concluded with or guaranteed by, foreign States or Central Banks or international financial organizations, denominated and payable in foreign currencies.
2. The National Bank shall use its best endeavors to maintain its international reserve at a level which, in the National Bank's opinion, shall be adequate for the execution of the monetary and exchange rate policies of Georgia and for the prompt settlement of the country's international transactions.
3. If said international reserve has declined or, in the opinion of the National Bank, is in danger of declining to such an extent as to jeopardize the execution of the monetary or exchange rate policies of Georgia or the prompt settlement of the country's international transactions, the National Bank shall submit to the Parliament a report on the international reserve position and the causes which have led or may lead to such a decline, together with such recommendations as it considers necessary to remedy the situation.
4. Until such time as, in its opinion, the situation has been rectified, the National Bank shall make further such reports and recommendations to the Parliament as it shall deem advisable.

Article 51. Foreign Exchange Gains and Losses of the National Bank

Gains or losses arising for the National Bank in any financial year from changes in the valuation, recorded on the balance sheet of the National Bank, of assets or liabilities in, or denominated in, gold, special drawing rights, or foreign currencies and resulting from any change in the values or exchange rates of gold, or foreign currencies in terms of national currency, shall be treated as follows:

- a) the net aggregate amount of such foreign exchange gains or losses shall be offset by a corresponding amount in account named "Valuation Reserve Account" on the balance sheet of the National Bank;
- b) as long as the amount recorded in the Valuation Reserves Account corresponds to net foreign exchange losses, that amount shall be covered by debt securities, bearing interest at market

rates, issued by the Ministry of Finance to the National Bank and held by the National Bank in off-balance sheet "Reserve Securities Account". Within four months after each financial year, the aggregate principal account of such securities held by the National Bank shall be increased or decreased as required to restore the equivalency between that amount and the amount recorded in the Valuation Reserve Account as net foreign exchange losses as of the end of that financial year;

- c) neither net gains nor net losses referred to in this Article shall be included in the computation of annual net profits of the National Bank.

Chapter VII. Relations of the National Bank with the State

Article 52. National Banker, Adviser and Fiscal Agent

1. The National Bank shall act as banker and adviser to, and as fiscal agent of, the Government of Georgia, provided, however, that no transaction carried out by the National Bank may serve to extend financial assistance to or for the benefit of the Government of Georgia or any of its State agencies, except as authorized by Article 57 of this Law.
2. It shall be the duty of the National Bank to render advice to the President or Minister of Finance of Georgia, on all significant matters that relate to activities of the National Bank or that otherwise are within its fields of competence.*
3. Each year, the Minister of Finance of Georgia shall be consulted by the National Bank on the occasion of the preparation of the state budget and shall submit a written report to the Minister of Finance on economic and financial matters pertinent thereto.

Article 53. Consultations and Reporting on Public Sector Borrowing

The Minister of Finance of Georgia shall consult with the National Bank on its plan for domestic and external public sector borrowing during the next following financial year, including the amounts to be contracted and disbursed under such borrowing and the expected terms and conditions of such borrowing. All borrowing transactions by State agencies shall be reported to the National Bank in such detail as the National Bank shall specify by regulation with the approval of the Minister of Finance.

Article 54. Depository Function

1. The National Bank shall accept deposits from such State agencies as the Minister of Finance of Georgia shall determine. As depository, the National Bank shall receive and disburse money and keep account thereof and provide other financial services related thereto. The National Bank shall pay to the limits of the deposited amounts against orders to pay from such accounts. The National Bank may agree to pay interest on such deposits.
2. The National Bank may authorize other financial institutions to receive such deposits in compliance with conditions prescribed by the National Bank.

Article 55. Fiscal Agent Function

The National Bank may, act as fiscal agent for the account of the Government of Georgia and its State agencies, in the following matters:

** As specified by the Law of Georgia No.245-III of May 28, 1996*

- a) marketing of debt securities issued by them, or as transfer agent therefor, or to act in such other administrative capacity that may be necessary therefor;
- b) payment of principal of, and interest and other charges on, such securities;
- c) execution of payment transactions concerning their accounts;
- d) such other matters as shall be consistent with the objectives and the basic tasks of the National Bank.

Article 56. Information to be Provided to the National Bank

The ministries, agencies, enterprises, institutions, and organizations of Georgia shall submit to the National Bank all the statistical reports, accounting data, and other materials necessary for it to perform the functions assigned to it.

Article 57. The National Bank Loans

1. Except as otherwise specifically authorized by this Law, the National Bank shall not grant any financial assistance to the State agencies of Georgia.
2. Subject to the overall limits specified by this Article, the National Bank may make loans to the Ministry of Finance of Georgia with maturities not exceeding six months.
3. Notwithstanding the foregoing, the National Bank may make special loans with longer maturities to the Ministry of Finance of Georgia, on account of subscriptions and similar payments resulting from, or incidental to, the membership of the Ministry of Finance of Georgian in an international organization.
4. The National Bank loans shall be disbursed, denominated and made payable in legal tenders only. All such loans shall bear interest at market rates, and shall be collateralized by debt securities in bearer form that also bear interest at market rates. Such collateral in the form of debt securities shall have maturities corresponding to the maturities of the loans that they secure, and shall be issued and delivered by the Ministry of Finance of Georgia to the National Bank. For each loan there must be a written loan agreement executed between the Ministry of Finance of Georgia and the National Bank. The agreement shall clearly state the principal amount of the loan, its maturity, and the applicable rates of interest and other charges.
5. At no time shall the aggregate principal amount disbursed and outstanding on the National Bank loans to the Ministry of Finance of Georgia exceed the equivalent of five percent of the annual average of the State's revenue for the previous three financial years. For the purposes

of this Article "revenue" shall not include borrowings, grants and other forms of financial assistance.

6. Notwithstanding the foregoing, the National Bank may, in exceptional circumstances, grant by regulation a temporary waiver of the limit specified in Section 5 of this Article, but only if such waiver would not be inconsistent with the monetary policy objectives of the National Bank and only if such waiver would not cause the aggregate principal amount disbursed and outstanding on all the National Bank loans to exceed the equivalent of eight percent of the annual average of the State's revenue for the three financial years immediately preceding.
7. If, in the opinion of the National Bank, the limit provided in Section 5 of this Article is in danger of being exceeded, the National Bank shall submit to the Parliament a report on disbursed and outstanding loans to the Ministry of Finance of Georgia, and the causes that may lead to such excess, together with such recommendations as it may deem appropriate to remedy the situation. If the limit provided in Section 5 of this Article is exceeded in accordance with Section 6 of this Article, the National Bank shall make further such reports and recommendations as it may deem appropriate in order to remedy the situation and avoid its recurrence in the following financial year.

Article 58. Purchases of Government Securities by the National Bank

Purchases by the National Bank for its own account of debt securities issued by the Ministry of Finance of Georgia shall be treated as the National Bank loans to the Ministry of Finance and therefore be subject to the overall limits specified by Article 57 of this Law, except if and to the extent that such purchases are consistent with the monetary policy objectives of the National Bank or are required for investing assets of the staff retirement fund of the National Bank and then only if such purchases are made in the secondary market.

Chapter VIII. Relations of the National Bank with Banks

Article 59. Licensing and Supervision of banks

- I. The National Bank shall be exclusively responsible for issue of banking licenses and for the supervision of banks and other legal entities that operate under a license. To that end, the National Bank shall be empowered:
 - a) to issue such regulations, guidelines and instructions and to take such other action as it shall deem necessary or advisable in order to ensure, through proper licensing and supervisory standards and procedures, the soundness of the financial system in accordance with provisions of law;
 - b) to visit any bank offices and to examine any accounts, books, documents and other records of banks, and to obtain necessary information from them.
 - c) to exact from a bank fines amounting to additional income gained from improper operations, to rise the limits of required reserves, to stop active transactions, to suspend the signing right of an executive officer of a bank and demand his dismissal from the post, to annul the banking license.
2. In particular, the National Bank may call for and examine the accounts, books, documents and other records of any legal or physical person who, it has reason to believe, is engaged in the business of receiving money deposits or other repayable funds from the public and organizations without a license issued by the National Bank.

Article 60. Cooperation with Foreign Banking Supervisors

1. The National Bank shall closely cooperate with any foreign banking supervisory authority with respect to the supervision of banks that operate in both their respective jurisdictions.
2. As part of such cooperation, the National Bank may exchange with such foreign banking supervisory authority information concerning any bank that operates in both their respective jurisdictions, provided that such authority undertakes to respect the confidentiality of the information so received.

Article 61. Bank Accounts on the National Bank Books

The National Bank shall be authorized to maintain accounts on its books for, and to accept deposits from banks, on such terms and conditions as it may prescribe by regulation.

Article 62. Lender of Last Resort

The National Bank may, on such terms and conditions as it may determine, act as lender of last resort for bank account holders, by granting to them or for their benefit, for periods not exceeding three months, loans other than those authorized by Article 33 of this Law and contingent commitments. Each such loan or commitment must be secured by assets specified in Article 33 of this Law unless the National Bank decides that an unsecured loan or commitment would be

justified by exceptional circumstances. Provided, however, that no such loan or contingent commitment shall be made by the National Bank unless, in the opinion of the National Bank, such loan or commitment is dictated by the liquidity requirements of the account holder and by the public interest. The period for such loan or commitment may be extended by the National Bank on the basis of a program acceptable to the National Bank that specifies the measures to be taken by the bank concerned to satisfy the National Bank's liquidity requirements.

Article 63. Clearing and Settlement Facilities

The National Bank may assist banks in organizing facilities for the clearing and settlement of interbank payments, and may establish such procedures and issue such regulations relating thereto as it shall deem appropriate.

Chapter IX. Accounts, Financial Statements, Audit and Reports of the National Bank

Article 64. Financial Year of the National Bank

The financial year of the National Bank shall begin on the first day of January and end on the last day of December.

Article 65. Accounting Practices

The National Bank shall maintain at all times accounts and records adequate to reflect in accordance with sound accounting practices its operations and financial condition.

Article 66. Financial Statements of the National Bank

The National Bank shall prepare financial statements for each of its financial years. They shall include a balance sheet, a profit and loss statement, and related statements, which financial statements shall provide comparative figures for the previous financial year.

Article 67. Audit of the National Bank Accounts

The accounts and records of the National Bank shall be audited by external auditors appointed by the Parliament of Georgia.

Article 68. Transmittal and Publication of the National Bank Statements and Reports

1. The National Bank shall, within three months after the close of each of its financial years, submit to the Parliament of Georgia following documents:
 - a) a copy of its financial statements certified by its auditors;
 - b) a report of its operations and affairs during that year;
 - c) a report on the state of the economy.

2. The National Bank shall, as soon as possible after the last working day of each month, but in any event within 10 working days, prepare and submit to the Parliament of Georgia preliminary (reference) financial statements as of the end of that month.
3. Upon their submission, the National Bank shall publish the financial statements and reports referred to in Sections 1 and 2 of this Article; it may publish such other reports and studies on financial and economic issues as it may deem appropriate.

Article 69. Determining of General Directions of Monetary and Exchange Rate Policy and Reporting*

1. Three months before the beginning of its new financial year the National Bank shall submit to the Parliament of Georgia the draft general directions of monetary and exchange rate policies. The Parliament must determine by its decree the general directions of these policies for the next year. If the Parliament can not determine general directions of

* As specified by the Law of Georgia No.245-III of May 28,1996

monetary and exchange rate policies before the beginning of the new financial year, the National Bank shall operate in accordance with its draft project.

2. The general directions of monetary and exchange rate policy shall determine the level of inflation, the amount of international state reserves, the maximum amount of loans extended by the National Bank to the government, the mechanisms of monetary regulations to ensure these parameters, exchange rate and foreign currency regimes, the actions for improvement of regulatory framework and monetary system.
3. Annually, within three months after the close of its financial year, the National Bank shall submit to the Parliament of Georgia a statement on the execution of the monetary and exchange-rate policies. The Parliament shall approve the submitted statement.
4. In the case, if the statement of the National Bank will not be approved, the Parliament adopts decree about improvement of the National Bank's activities, which includes the recommendations to the National Bank for rectifying of revealed shortcomings.

Chapter X. Miscellaneous Provisions

Article 70. Preferential Right of the National Bank

1. The National Bank shall have an unconditional preferential right to satisfy each of its claims from any cash balances and other assets that it holds for its own account or for the account of the debtor concerned, whether as collateral to secure its claims or otherwise, at the time that such claim becomes due and payable, except for bank assets held by the National Bank as required reserves.
2. The National Bank may exercise its preferential right by keeping cash balances and by selling other assets against a reasonable price and paying itself from the proceeds of the sale after deducting therefrom the costs associated with the sale.

Article 71. Prohibited Activities of the National Bank

1. Except, as otherwise specifically authorized by this Law, the National Bank shall not:
 - a) grant any financial assistance, whether in the form of a direct loan or grant or a contingent commitment, or by purchasing a loan, a loan participation or another instrument of indebtedness, or through the assumption of a debt or a contingent liability, or in any other form;
 - b) engage in commercial activities, purchase the shares of any corporation or company, including the shares of any financial institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking;
 - c) acquire by purchase, lease, or otherwise any partial or general rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduit of its administration and operations or for the performance of its functions under the provisions of this Law.

Article 72. Special Powers of the National Bank

The National Bank may:

- a) make loans to, or have an ownership share or otherwise participate in, any organization that is engaged in activities that are required for the proper discharge of the National Bank's own functions or responsibilities;
- b) invest its financial resources in liquid debt securities issued by creditworthy issuers;
- c) acquire, in the course of satisfaction of debts due to it, any interests or rights referred to in Article 71 of this Law; provided that all such interests or rights so acquired shall be disposed of at the earliest suitable opportunity;
- d) establish staff social security and insurance funds or similar arrangements for the benefit or protection of its employees.

Article 73. The National Bank Regulations

In carrying out its tasks, the National Bank shall enjoy autonomous regulatory powers. All regulations, guidelines and instructions issued by the National Bank that apply to more than one institution shall be published in the official paper and shall take effect on the date of such publication or on such later date as such document shall specify. The National Bank shall maintain a public register of such regulations, guidelines and instructions.

Article 74. Standards of Administration

1. The National Bank shall use the powers given it under this Law equitably and uniformly and in accordance with sound administrative practices. It shall refrain from using any such power to serve an objective for which the power was not given or in excess of what shall be required to achieve the objective for which the power was given.

2. The decisions of the National Bank taken pursuant to this Law shall be impartial and shall be motivated only by objective and rational considerations; they shall be executed in compliance with legal standards and serve formulated objectives.

Article 75. Definitions

Wherever used in this Law, the following terms shall have the following meanings:

- a) "bank" means any juridical person that is engaged in the business of receiving money deposits or other repayable funds from the public and institutions extending credits for its own account;
- b) "bank account holder" means any bank that holds an account on the books of the National Bank;
- c) "debt security" means any negotiable instrument of indebtedness and any other instrument equivalent to such instrument of indebtedness, whether in certificate or in book-entry form;
- d) "reservable liabilities" means those liabilities that are defined as such by the National Bank by regulation;
- e) "State agency" means any administrative or territorial subdivision or agency of the Government of Georgia.
- f) "deposit" means savings kept in a bank;
- g) "deposit sum" means amount of money, securities or other valuables kept in a banking or financial institution;
- h) "discount" means payment for the bill; interest deducted by payment for the bill;
- i) "emission" means to put money or securities into circulation;
- j) "credit" means any liability related to lending money on the principles of repayment, valuation, securing by collateral and maturity; *
- k) "clearing", "clearing agreement" means system of payments in written orders which is based upon mutual clearing of claims and obligations; is used in both domestic and international payments;

* As specified by the Law of Georgia No.245-III of May 28, 1996

- l) "spot operation" means foreign currency operation in cash or immediate fast settlement of transactions;
- m) "transhe" means series or part of international loan in obligations which are issued for the improvement of market conjuncture or for the placement of loans on credit markets of different countries;
- n) "transfer agent (operation)" means transfer of money from one financial institution or country into another, or transfer of securities from the account of one person to that of another;
- o) "forward operation" means termless deals of banks and industrial corporations out of the stock exchange which are made by telephone or telex;
- p) "fiscal agent" means operations related to the interests of State Treasury.

- q) "denomination" means an act of increasing the value of national currency through exchange of new bank notes against old ones by established proportion with the purpose to improve money circulation, accounting and facilitate financial settlements in a country. **

Chairman of Parliament,

Head of State

Eduard Shevardnadze,

Speaker of Parliament

Vakhtang Gogvadze,

*Tbilisi,
23 June 1995
764-II s*

** Added by the Law of Georgia No.245-IIs of May 28,1996