

LAW OF THE NATIONAL BANK OF THE REPUBLIC OF GEORGIA

Chapter 1. General Provisions

Article 1. National Bank of the Republic of Georgia

1. The National Bank of the Republic of Georgia. (hereinafter, the National Bank or the NBG) is the central bank of the Republic of Georgia and a legal entity. It shall act in accordance with this Law and the legislation of the Republic of Georgia, basing on the rules and procedures adopted in the international banking practice. It shall have the right to make agreements and contracts, purchase, own and dispose of real estate and movable, property, be a plaintiff and a defendant in the court of law.
2. The location of the National Bank shall be the city of Tbilisi.

Article 2. Basic tasks and functions of the NBG

1. The main task of the NBG shall be to achieve and maintain the purchasing power of the national currency unit and the stability of prices by working out and pursuing an adequate monetary policy, as well as to ensure liquidity, solvency and stable functioning of the monetary system based on market relations.
2. The basic functions of the NBG shall be to:
 - a) work out, approve and pursue the monetary policy of the Republic of Georgia;
 - b) work out, approve and pursue the currency policy of the Republic of Georgia;
 - c) carry out licensing and supervision of banking activity and currency exchange offices at banks);
 - d) own, keep and dispose of official international reserves;
 - e) be the banker, advisor and fiscal agent of the Republic of Georgia;
 - f) facilitate effective functioning of the taxation system;
 - g) facilitate establishing of a reliable and stable monetary system aiming at defending the interests of depositors.

Article 3. Independence of the NBG

1. The NBG shall be independent in its activity in the framework of the rights granted to it by the law. The legislative and executive bodies shall not have the right to interfere in the activity of the NBG, except in the cases provided for by this Law.
2. The NBG shall be independent economically and shall bear all its expenses from its own revenues. The NBG shall not be responsible for the commitments of the Cabinet or Ministers, and the Cabinet of Ministers shall not be responsible for the

commitments of the NBG, apart from the cases when either the NBG or the Cabinet of Ministers undertakes the commitments on its own accord.

3. The assets, property and income as well as the activity and transactions of the NBG shall be tax exempt.

Article 4. International co-operation

1. The NBG shall represent the Republic of Georgia at all international meetings, boards and organizations that deal in monetary policy Issues, the issues of granting licences to banks and the banking activity supervision, as well as other Issues within the competence of the NBG.

2. The NBG may render banking services to the governments, central banks and monetary bodies of other countries, as well as to international organizations, of which either the NBG or the Cabinet of Ministers of the Republic of Georgia is a member.

3. The NBG may participate In the work of those international organizations. whose elective is to facilitate economic stability In the monetary field. employing international co-operation.

4. Being a representative of the Republic of Georgia. the NBG may undertake commitments and perform transactions related to participation of the Republic of Georgia In the work or international organization.

Chapter 2. Organization and Management of the NBG

Article 5. Organization of the NBG

1. The NBG shall be a unified and centralized system.

2. The NBG shall define the rules and procedure of establishing, functioning and closing up of subordinate organizations.

Article 6. Management of the NBG

1. The activity of the NBG shall be carried out by the Board or the Bank, consisting or nine members.

2. The Board shall be headed by a Chairman - the President of the Bank. The Board shall consist of three Vice-Presidents of the Bank- and 5 other members.

3. Members of the Board shall be elected by the Parliament of the Republic of Georgia, where the President of the NBG shall be nominated by the Head of State for the term of 7 years, Vice-President shall be nominated by the Parliamentary Fiscal Commission.

4. Members of the Board must be citizens of the Republic of Georgia, known for their honesty and recognized professionalism in the field of monetary and banking activities. They shall not be subject to Article 10 of this Law.

5. The term of office for each member of the Board shall be 7 years, on condition that the date of expiry of authority of each member will be regulated, as far as possible, equally for each seven-year period.

Members of the Board may be appointed for not a full term, when defining the first membership of the Board. Members of the Board may also be appointed for a second term, if Article 11 has not been applied to them, as a basis for dismissal. In the case of resignation of a Board member before the appointed time, a new Board member shall be elected for the term of office of his predecessor.

Article 7. Functions of the board

1. The Board shall carry out supreme management and supervision of all the activity of the NBG.

2. While fulfilling its functions, the Board shall periodically evaluate the monetary policy and the economic situation. With this aim, the management of the Bank shall at least quarterly report to the Board on the situation in the fields of the activities of the NBG, carrying out of the monetary policy by the NBG, stability of the banking and fiscal system and the national currency unit, money, hard currency and capital markets.

Article 8. Powers of the board

The powers of the Board shall include:

- a) defining the monetary policy of the Republic of Georgia, including limits for transactions of the Bank in the open market, interest rates according to accounting and lending operations of "the Bank, hard currency reserve requirements of the banks at the NBG and their level;
- b) defining the rule of determining the exchange rate of the currency of the Republic of Georgia in relation to the currencies of other countries;
- c) approving instructions, directives and other normative acts binding on all the banks;
- d) approving all the basic reports and recommendations in the field of monetary activities to be submitted by the NBG to legislative or executive authorities of the country;
- e) taking decisions on nominal value of banknotes, working out the conditions of putting into and withdrawing from circulation banknotes and coins;
- f) approving permission of recording the loan commitments, the term of repayment of which exceeds 3 months from the day of their acquisition by the NBG, in accordance with Article 32 of this Law, and approving the loans to be granted by the

NBG to other banks, or conditional commitments in favour of banks, in accordance with Article 62 of this Law;

g) approving internal regulations of the work of the Bank and defining the conditions and amount of remuneration of the employees of the NBG;

h) defining the organizational structure of the Bank;

i) establishing and closing branch offices, divisions and representation offices of the NBG;

j) approving the budget of the NBG;

k) submitting suggestions on introducing changes into the amount of the Authorized Fund of the NBG;

l) establishing special reserves;

m) considering and approving annual reports and financial statements of the NBG.

Article 9. Remuneration of the board members

The amount of additional remuneration for the members of the Board of the NBG shall be defined by the Parliament of the Republic of Georgia.

Article 10. Persons not eligible to take up the post of a board member

A person, holding the post of Head of State, Member of Parliament or the Cabinet of Ministers shall not have the right to be a Board member.

Article 11. Grounds for relieving a board member of his/her post

1. The Parliament of Georgia shall relieve a Board member of his/her post, if the Board member:

a) loses his/her right to hold the post of a Board member in accordance with Article 10;

b) has been convicted in court for the violation of law, for which he/she has been sentenced to imprisonment without the fine option;

c) becomes insolvent or has been declared insolvent and has not been rehabilitated;

d) has been barred by the competent bodies concerned, either for good or temporarily, from working in the banking system for a misdemeanour not related to carrying out his/her office duties.

2. The Parliament of Georgia shall relieve a Board member of his/her post by recommendation of the Board of the NBG, if the Board member:

a) misses the Board meetings three or more times in succession without a plausible excuse;

b) cannot perform his/her duties due to disablement or incapability;

c) has committed a serious dereliction of duty that inflicted considerable losses on the NBG.

3. A Board member cannot be relieved of his/her post on other grounds.

Article 12. Resignation of a board member

A Board member may resign, if he/she addresses a written notice on that to the Chairman of the Parliament not later than 2 months in advance of his/her assumed resignation.

Article 13. Vacancy in the board

A vacancy in the Board shall have to be filled by appointing a new member for the rest of the term of office of the Board member being replaced.

Article 14. Board meeting

1. The Board meeting shall be presided at by the President of the NBG, and in the absence of the President - by the Vice-President, being acting President by the order.
2. Board meetings shall be held as often as is required by the state of affairs of the NBG, but at least three times a quarter.
3. Board meeting shall, as a rule, be called by the President of the NBG, or by the Vice-President, replacing him. The Board meeting may be also called any time at a written request of 3 Board members, or in the time of the declared state of emergency in the country - at a written request of 2 Board members.
4. While calling the Board meeting, all the Board members shall be given notice on the place, where the meeting is to be held, and agenda of the meeting with the necessary materials not later than 5 days in advance. In case of emergency, the Board meeting may be called more urgently.
5. Each Board member shall have one vote. The Board meeting shall have power, if more than a half of the number of the Board members are present, one of them being the President himself or the acting President.

In accordance with the quorum requirements of this paragraph, no act or resolution of the Board shall be considered null and void only on the grounds that there is one or more vacancies in the Board.

6. In the cases not envisaged by this Law, the resolution of the Board shall be taken by simple majority of votes of the Board members present. Only a Board member present at the Board meeting shall have the right to vote.

In the case when votes are divided equally, the President's vote, and in the absence of the President, the acting President's vote shall be deciding.

7. Activity of the persons, who honestly and conscientiously carry out the duties of the President, Vice-President or other Board members, shall be considered

legitimate, even if any infringement has been revealed after they had been appointed (non-observance of duty or professional qualification criteria).

Article 15. Procedure of holding board meetings and taking decisions

1. The Board meeting shall be confidential. The Board may take a decision on making public some or all of the results of its work.
2. The work of the Board meeting shall be legalized by minutes to be signed by the Meeting Chairman and the Secretary of the Board.
3. The candidature of the secretary of the Board shall be approved by the President out of the ranks of the NBG management. He/she shall not be a member of the Board.
4. The Resolution of the Board shall be signed by the Chairman or acting Chairman of the Board.

Article 16. Announcing his/her interests by a board member

1. At the moment of becoming a Board member and then annually until the expiry of his/her term of office, a board member shall regularly present to the Board comprehensive information on his/her commercial interests and on the interests of his/her family members. This kind of information shall be in compliance with the directives of the Board. At the same time, a Board member and his/her family members shall not have the right to be founders or shareholders of banks.
2. When any issue, related to such interests, is being discussed at the Board meeting, the Board member concerned shall be obliged to present comprehensive information on his/her interests at the beginning of the discussion. Such Board member shall not participate in the discussion and in taking decisions on the given issue. While determining the quorum, his/her presence shall not be taken into consideration.

Article 17. Future work

After being relieved of their posts, the President and Vice-Presidents of the NBG shall maintain their privileges for the next 2 years. It shall be forbidden for them to work at other banking institutions of the Republic, except in the cases when they are relieved of their posts on the basis of their personal requests before the expiry of the term envisaged by the law.

Article 18. Competence of the management of the NBG

The President shall be the managing director of the NBG and shall be responsible for the current activities of the Bank. In the absence of the President, the functions of the managing director of the NBG shall be performed by the Vice-President being

acting President or by the Vice-President that performed the functions of the abovementioned Vice-President of late.

Article 19. Internal auditor service of the NBG

1. The Head of the Internal Auditor Service of the NBG shall be appointed for the term of 7 years by simple majority of votes of the Board members' from among the nominees that are (citizens of Georgia and are subject to Article 10. The Head of the Internal Auditor Service may be appointed for a second term. His/her remuneration shall be defined by the Board.

2. The Head of the Auditor Service may resign, on which he/she must notify the President 3 months In advance. He/she may be relieved of his/her post by the decision of the Board on the basis of either one or more requirements stipulated in Article 11.

3. Functions of the Auditor Service shall be to:

- a) fulfil laws and other normative acts related to the activity of the NBG, carry out internal control over accurate fulfilment of the decisions of the Bank and regular audit of banking operations and the activity of the departments of the Bank;
- b) prepare reports on the work implemented to be submitted to the Board and work out recommendations on the methods of controlling reports, records and book-keeping, as well as the budget and accounting procedures at the Bank;
- c) carry out audit of the periodical financial statements of the NBG and the related documents, and confirm their compliance with the established norms.

Article 20. Staff of the NBG and cash of interests

1. An employee of the NBG shall be appointed and dismissed by the President of the Bank and the President shall enter into and break agreements with agents and correspondents in conformity with the conditions of work.

2. Regulations of structural units of the NBG shall be approved by the Board.

3. During tile period of their employment at the NBG, the employees of the NBG shall not have the right to receive loans at a bank, other than the NBG.

4. During the period of employment at the NBG, the employees of the NBG shall render professional services to the NBG only and must not hold more than one office, either paid or unpaid.

5. The Board members, tile administration staff and the Bank employees shall not have the right to receive any gifts or loans related to their work, either on their own behalf or on behalf of another person, linked to them by family, work or financial relations.

6. Employees of the NBG and their family members shall not have the right to be founders or shareholders of banks.

7. Amount of salaries, fees and other payments of the NBG shall not be linked with net income.

Article 21. Confidentiality

1. No employee, auditor, agent or correspondent of the Bank, as well as a former Board member, shall have the right to give anyone access to confidential information, or use it for personal interests.

2. The abovementioned persons may disclose confidential factual data to the Chamber of Control of the Republic of Georgia only. Such information, related to the issues of settlement with the budget, may be made known outside the Bank by the decision of the Board or the President only and only when the information represents on evidence for a person who has applied to the NBG in writing for such information.

3. Information on transactions and accounts of legal entities and physical persons may also be given to the court and investigation bodies by the permission of the public prosecutor or the decree of the court only, when criminal case proceedings have been Instituted against the legal entity or the physical person concerned.

Chapter 3. Financial Provisions

Article 22. Capital of the NBG

The Authorized Capital of the NBG shall total 1.300.000.000.000 (one trillion three hundred billion) coupons. Changes to the amount of the Authorized Capital may be introduced on the basis of recommendation of the Board of the NBG by the decision of the Parliament. The total sum of the Authorized Capital shall not be negotiable and shall not be used as a collateral. The Authorized Capital of the NBG shall be formed at the expense of 25 per cent deduction from the net income. At the same time deduction to the Authorized Capital shall be suspended, when it reaches the amount that has been determined.

Article 23. Covering the deficit of the NBG

If the value of assets on the balance-sheet of the NBG is less than the amount of the capital not related to its liabilities and the reserve fund, the Minister of Finance of

the Republic of Georgia shall give to the Bank bearer liabilities issued by the Cabinet of Ministers of the Republic of Georgia for the period and on conditions that are analogous to the issuance of other state securities and market interest rate in the amount sufficient to cover the existing deficit. Such securities shall be reflected in the state budget.

Article 24. Calculation of net income of the NBG

Net income of each fiscal year of the NBC shall be calculated after subtracting from the amount of income the amount of current expenditures allocated for carrying out basic activities of the accounting year and after transfer of reserves to the funds that are being used for the following purposes:

- a) covering repaid and doubtful loans, depreciation affixed assets, deductions to the Social Welfare and Security Fund;
- b) for any other purpose deemed necessary in accordance with the decision of fee Board, except while changing the value of assets and liabilities in gold, foreign currency and special rights, proceeding from the existence of profit and loss. Such profit and loss shall not be taken into consideration, while calculating regular profit and loss in accordance with Article 51.

Article 25. Distribution of net income of the NBG

1. After carrying out deduction to the Authorized Fund, the NBG shall form the Reserve Fund, where, at the end of every fiscal year of tile NBG, the amount equal to not more than 50 per cent of the rest of the net income of the year shall be transferred, until the amount of the Reserve Fund becomes equal to the amount of tile replaced capital. By the permission of the Board, the sum to be deducted to the Reserve Fund of the year may exceed 50 per cent. The total sum of the Reserve Fund may. exceed the amount of the replaced capital of the NBG.

The Reserve Fund shall be used to cover the loss of the NBG only. This Article shall consider as loss the excess of the current expenditures over the income, as well as any balance on the reserve revaluation account.

2. The NBG may form special reserves, where the funds shall be transferred, if such funds are left after accomplishment of the distribution provided for in paragraph 1 of this Article.

3. The amount of the net income left shall be used by the NBG in accordance with Article 23 to pay for the securities issued by the Cabinet of Ministers of the Republic of Georgia and kept at the Bank, until the sums have been transferred to the reserve fund or special reserves.

Article 26. Transfer of net profit

The net income of the fiscal year left after the sums have been transferred in accordance with Article 25, shall be transferred to the Cabinet of Ministers of the Republic of Georgia within 4 months from the end of the fiscal year of the NBG.

Article 27. Restrictions for distribution of net income

No transfer or payment, in accordance with Articles 25 and 26 shall be performed, if after it, according to the opinion of the NBG, the amount of assets of the NBG is less than the amount of its liabilities and paid-in capital.

Chapter 4. Monetary Functions and Transactions of the NBG

Article 28. Monetary policy

The NBG shall be totally responsible for working out and pursuing the monetary policy, except in the case provided for in the second part of this Article.

If after consultation with the NBG the Parliament of Georgia or the Head of State consider that the monetary policy carried out by the NBG does not comply with the most important task of facilitating stability of prices, provided for in Article 2 of this Law, or does not facilitate its implementation, the Parliament of Georgia or the Head of State may raise the issue of introducing changes into the monetary policy, after which by consultations with the NBG the necessity of introducing changes into the monetary policy to be carried out by the NBG shall be defined. If the Parliament takes a decision that in accordance with its interests of stability the NBG must change the monetary policy, the NBG shall immediately start pursuing the changed monetary policy and shall carry out the policy during the term of validity of the decision of the Parliament. The decision of the Parliament shall stipulate the nature of changes introduced into the monetary policy as well as basic reasons for the necessity of the change, with indication of the term of validity of the decision and with stating the condition that the Parliament shall not cancel or change the decision.

If the NBG does not agree with the decision of the Parliament, the issue of re-election of the Board of the NBG shall be raised automatically.

Article 29. Transactions in the open market

In pursuing the monetary policy, the NBG shall have the authority to carry out transactions in the open market by regularly purchasing or selling loan securities issued by the Cabinet of Ministers of the Republic of Georgia and securities issued

by the Bank, (by performing spot and forward transactions), or further by redemption agreements. It shall be prohibited to use diner securities for this purpose.

Article 30. Minimum reserve requirements

1. In the process of carrying out the monetary policy, the NBG shall establish minimum reserve requirements for all banks as well as for all legal entities that have the right to attract and operate time and demand deposits. The minimum reserve requirements shall be determined by the interest ratio of the attracted funds and shall be subject to mandatory depositing at the NBG.

2. The NBG shall define the rules and procedure of the amount of minimum reserve requirements and its calculation in accordance with the economic situation in the country.

3. The NBG may take decision on paying interest on the amount of minimum reserve requirements. The interest shall not be applied to free reserves at the NBG.

Article 31. Penalties for non-compliance with reserve requirements

The NBG has the right to penalize any legal entity specified in Article 30 of this law if the legal entity does not comply with the fixed standard of minimum reserve requirements until the deficit is filled up on the bank's reserve account. The bank may apply sanctions stipulated in Article 59 of the given law. The sum of the penalty is determined by the NBG.

Article 32. Discount transactions of NBG

1. The NBG may discount only the following instruments when they are submitted by the owner of the bank account. These instruments are:

a) Bills of exchange and promissory notes to be cashed in the territory of Georgia and reflected in legal tender of the country, which are undersigned by at least 3 solvent entities, one of them being a bank. The repayment period for these bills should not exceed 3 months from the date of their acquisition by the bank.

In special cases, the NBG may discount such above-mentioned instruments signed by 2 solvent entities, including one bank, and their repayment period shall occur after the expiry of 3 months, but no later than 6 months from the date of purchase by NBG;

b) Debt commitments issued and guaranteed by the Cabinet of Ministers of Georgia or the NBG, to be cashed in the territory of the Republic of Georgia and reflected in the legal tender, which represent a part of state-issued securities and are meant for

sale to natural and legal persons and are subject to repayment within not later than 3 months from the date of their purchase by the NBG.

2. The NBG discount transactions are subject to all rules, and conditions, including discount rate, that have been set by the NBG.

3. The NBG has the right to refuse to discount the aforementioned securities without stating the reason.

Article 33. Granting of credits to other banks

1. The NBG may in accordance with its own set rules and conditions extend credits to the banks which have their accounts with the NBG. Credits shall be granted not more than for 3 months' term under the security alone of the assets listed below:

- a) international reserve instruments mentioned in the first item of Article 50;
- b) other loan liabilities issued and guaranteed by the Republic of Georgia to be cashed in the territory of the Republic and reflected in the legal tender, and which are a part of issued securities and are intended to be sold to legal entities and individuals;
- c) commodity invoices and documents of ownership rights which have been issued in accordance with established procedure for insured raw materials and goods in case of their damage or loss;
- d) Deposits in the NBG or with another depositor acceptable to the NBG in any type of funds, including gold and other precious metals, that the NBG has the right to sell, buy and conduct other transactions associated with them according to this law.

2. The NBG shall extend credits only to leading banks.

Article 34. Rates of discount and loan operations

The NBG rates of discount and loan transaction are determined by NBG normative acts.

Article 35. Credit and interest rate control

1. In pursuing the monetary policy, the NBG is authorized by its resolution to set provisional conditions and restrictions within the limits stipulated by the law, that regulate principal amounts of credits and guarantees to be issued to banks and other credit institutions, interest rates, guarantees and other payments on any credits and guarantees to be issued, or on any deposits received by banks and other institutions. Introduction of the aforementioned conditions and restrictions is admissible only inasmuch and when the objectives set by main directions of the monetary policy cannot be attained by other means.

2. The NBG decisions, taken in accordance with item 1 of the present Article, must contain the statement that these conditions and restrictions are applicable only after the decision on conducting transactions is published.

Chapter 5. Monetary Unit, Banknotes, Coins

Article 36. Monetary unit

1. Coupon Is the monetary unit of the Republic of Georgia.
2. Coupon Is the only legal tender In the territory of the Republic of Georgia.
3. The NBG sets and regulates the coupon exchange rate In relation to foreign currency. If the NBG does not announce the coupon exchange rate with respect to foreign currency, then the rate shall be determined on the basis of free demand and supply.

Article 37. The Right of issuing banknotes and coins

1. The NBG has the exclusive right to issue banknotes and coins as the only legal tender on the. territory of the Republic of Georgia.
- 2.Using of banknote and coin emission directly for covering the budget deficit of the republic is prohibited

Article 38. Legal means of payment

Banknotes and coins, issued by the NBG as the legal tender that are not withdrawn from circulation should be taken by their nominal value to cover any state or private debt on the territory of the Republic of Georgia.

Article 39. Currency characteristics

Face value, dimensions, weight, design and other characteristic features of banknotes and coins accepted as legal tender in the territory of the Republic of Georgia are determined by the NBG normative documents.

Article 40. Issuance and keeping of money

The NBG shall provide: printing of banknotes and minting of coins, safe preservation of banknotes put into circulation, as well as storage of printed forms, stamps, banknotes and coins withdrawn from circulation and their destruction, if necessary.

Article 41. Replacement of banknotes

The NBG shall carry out the replacement of banknotes and coins, announced as the legal tender, at request without commission.

Article 42. Money unfit for circulation

1. The NBG shall withdraw from circulation and destroy money unfit for further usage and replace it with new banknotes.
2. The NBG shall refuse to replace banknotes and coins only when it is impossible to determine their reality or identity of banknote parts.
3. The NBG shall not be liable to pay a compensation for lost, stolen or destroyed banknotes or coins. The bank may confiscate any banknote which has a changed shape, especially the banknotes with inscriptions, drawings, imprints or perforations as well as glued up banknotes.

Article 43. Monetary stock and emission plan

The NBG shall institute direct control over stock of cash, draw up its emission plan, provide the economy of the Republic of Georgia with banknotes and coins.

Article 44. Accounting of money brought into circulation

The total amount of coins and banknotes brought-into circulation shall be on the NBG account in the form of NBG liabilities. These liabilities shall not include banknotes and coins constituting the reserve stock of financial resources.

Article 45. Withdrawal of money from circulation

1. The NBG has the right to recall and withdraw banknotes and coins being in circulation on the territory of the Republic of Georgia and replace them with other banknotes and coins of the same amount. The decision on withdrawal shall be published in the form of the NBG resolution which should contain the indication of the deadline for submission of banknotes and coins for replacement as well as the NBG branches where money must be submitted.
2. Upon the expiry of the period, stated in item] of this Article, the banknotes and coins to be changed terminate their validity as legal tender notwithstanding provisions of Article 38.

Article 46. Printing of counterfeit money

1. Any person who:

- a) shall counterfeit or illegally print any kind of banknote or coin used as legal tender, regardless of whether it takes place in Georgia or abroad, or shall apply the same action towards cheques, securities or payable documents denominated in any currency;
- b) owns, carries or prints such banknotes, coins, cheques, securities or credit cards, while knowing of their falsification, illegal printing or rubbing out;
- c) prepares, possesses or carries any type of printing forms, matrices, paper, paint and other articles and substances, while knowing that they are intended for counterfeiting, illegal printing, falsification or rubbing out of banknotes, coins, cheques, securities. and other means of payment shall bear responsibility in accordance with the Criminal Code.

2. Preliminary written permission of the NBG is required for printing of any type of banknotes, coins, legal means of payment of the Republic of Georgia, or other currency - denominated cheques, securities or credit cards.

Chapter 6. Monetary Policy, International Reserves; Reserves Revaluation Account and Currency Control

Article 47. Monetary policy

1. The NBG shall develop, approve and pursue the monetary policy of the Republic of Georgia.

2. The NBG shall be responsible for fulfilment of legislation in the sphere of monetary regulation.

According to the law, all reporting, abstracts and all other information must be submitted to the NBG.

Article 48. NBG responsibility

The NBG shall be entrusted with the following responsibility:

- a) to work out rules and regulations for conducting transactions on the (foreign) exchange market;
- b) to draw up the rules, provisions, instructions and forms of reporting for conducting (foreign) currency transactions in the territory of the Republic of Georgia;
- c) to issue and withdraw licences for individuals and legal entities for conducting transactions in foreign currency as well as to regulate and control their activities;

- d) to determine (foreign) currency position limits to individuals and legal entities conducting transactions in foreign currency;
- e) to possess, preserve and manage official international reserves.

Article 49. Clearing and payment agreements

The NBG shall be authorized to conclude clearing and payment agreements or any other contracts with the same purpose with foreign state and private clearing establishments both on its own behalf and on behalf and by order of the Republic of Georgia.

Article 50. Official international reserves

1. The NBG shall possess, preserve and manage official international reserves which consist at all or one of the assets listed below less non-liquid assets or the assets representing means of security of debt liabilities or any other assets, the realization of which by the NBG is impossible within the shortest period. These are:

- a) gold;
- b) foreign currency in the form of banknotes and coins, the balance of foreign currency on foreign bank accounts;
- c) any other worldwide recognized means of international reserves, including the right of acquisition of funds from the IMP within the reserve tranche limits and the IMP special drawing rights' due stock of the Cabinet of Ministers of Georgia;
- d) reimbursable bills of exchange and promissory notes in terms of foreign currency;
- e) debt liabilities in terms of foreign currency issued or guaranteed by foreign states, central banks or international financial organizations and reimbursable forward contracts and agreements on purchasing of securities with their further redemption.

2. The NBG does its best to maintain the level of international reserves it considers sufficient for carrying out the monetary policy and for timely settlement of international transactions.

3. In case of fall in the level of international reserves or, if in the opinion of the NBG the danger of such decline arises, which shall jeopardize carrying out of the monetary policy and the possibility of timely settlement according to international transactions, the NBG shall submit the report to the Parliament of the Republic concerning the state of international reserves stating the reasons that have caused or may cause their reduction and shall offer the measures for improving the created situation.

4. The NBG systematically provides information to the Parliament and shall submit appropriate proposals until the situation, according to the bank's estimate, becomes stable.

Article 51. NBG profit and loss in foreign currency

The NBG's profit and loss produced during the fiscal year as a result of the revaluation of assets and liabilities of the bank, or denominated in gold, special borrowing rights or hard currency and formed in the value of gold or in relation to hard currency as a consequence of changes in the national currency rate, are drawn up as follows:

- a) the total of such profit or loss in foreign currency shall be balanced by an appropriate sum on the NBG's balance account - " Reserve revaluation account";
- b) until the amount registered on the reserves revaluation account corresponds to dead losses in foreign currency, the former shall be covered by interest-bearing debt securities issued by the Cabinet of Ministers and passed to the banks. These shall be preserved by the NBG on the non-balance account - "reserves in securities".

Within 4 months, upon the expiry of the fiscal year, the final amount on NBG securities' account shall increase or decrease by an amount that is necessary for restoring the correlation between it and the amount registered by the end of the year on the reserves revaluation account as a loss;

- c) During the calculation of NBG's annual net profit neither net profit nor dead loss stipulated in this article is taken into account.

Chapter 7. Relationship Between the NBG and the State

Article 52. Banker, adviser and financial agent

1. The NBG assumes the role of a, banker, adviser and financial agent to the Cabinet of Ministers of the Republic of Georgia. But none of the NBG's transactions, except the one stipulated in article 56, could pursue the objective of rendering financial assistance to the Cabinet of Ministers or any state institution, or could be conducted in terms of their interests.

2. The Cabinet of Ministers of Georgia receives consultations from the NBG. The latter is liable to provide consultative assistance to the Head of State or the Minister of Finance in all issues related to the activity of the NBG or to those that come under its competence.

3. The Minister of Finance annually consults the NBG on the issues of making the state budget. The NBG shall submit a written report to the Minister of Finance on economic and financial issues related to this process.

Articles 53. Consultations and reporting on the issues of credits to be extended to the state sector

The Minister of Finance of the Republic of Georgia holds consultations with the NBG related to the plan for receiving internal and external loans for the state sector for the forthcoming year, including the issues of agreement on the volume of credits,

funds, their receipt, distribution and anticipated drawing conditions. The NBG must be informed about all loan transactions of the Cabinet of Ministers and state institutions in agreement with Minister of Finance and in compliance with the instruction approved by the NBG.

Article 54. Deposit functions

1. The NBG accepts deposits from state institutions identified by the Cabinet of Ministers and the Ministry of Finance. As a depository, the NBG receives and provides financial resources, carries out accounting and undertakes other related financial services. The NBG allocates the sums within the limits of deposited amounts on the mentioned NBG accounts on the basis of payment documents. The NBG may take a decision on interest payment with respect to such deposits.
2. The NBG may allow other financial institutions to receive such deposits in accordance with the rules set by the NBG.

Article 55. Functions of a financial agent

The NBG may assume the role of a financial agent for the Cabinet of Ministers and state institutions with respect to the following issues:

- a) realization of debt liabilities issued by them, including the performance of functions of a transfer agent as well as other necessary administrative functions;
- b) issuing of principal amounts and interests, carrying out other payments with securities;
- c) conducting of payable transactions from their accounts, d) other issues conforming with main goals and objecties of the NBG.

Article 56. Information provided to NBG

Ministries, departments, agencies, enterprises, establishments and organizations of the Republic of Georgia shall provide the NBG with all necessary statistical, accounting and other information for performing its binding functions.

Article 57. NBG Credits to be extended to the cabinet of ministers

1. The NBG shall not provide any financial assistance to the Cabinet of Ministers of the Republic of Georgia or state institutions, with the exception of the cases envisaged by the present law.
2. The NBG may give the loan to the Cabinet of Ministers at the expense of the total limit stipulated in this Article for the term of 6 months, which shall be registered at the Ministry of Finance.

3. The NBG may extend a long-term credit to the Cabinet of Ministers, if this credit is associated with contributions or similar payments, proceeding from participation of the Cabinet of Ministers of Georgia in international organizations.

4. The NBG loans shall be extended, denominated and be subject to repayment only in legal tender. All loans shall be given with the interest rates operating on the market and shall be secured against the same interest-bearing loan liabilities to bearer. The above-mentioned security in the form of loan liabilities has the repayment period equals to the repayment period of the, guaranteed loan. They shall be issued and banded over to the NBG by the Cabinet of Ministers of the Republic. Each loan shall be issued by the way of a written agreement between the Cabinet of Ministers (represented by the Minister of Finance) and the NBG. The agreement shall determine precisely the principal amount of the loan, repayment period, interest rates and other payments.

5. The total principal amount, extended by the NBG to the Cabinet of Ministers, which has not been disbursed yet, must never exceed 5% of the State average annual revenue amount over the last three fiscal years. The notion of revenue stated in this Article does not imply loans, interest-free credits and other means of financial assistance.

6. Notwithstanding the above-said, the NBG may, by its resolution, lift the limit stipulated in Article 5. But this can be done only when the lifting of the limit does not contradict with the goals of the bank's monetary policy and provided that (as a consequence of this act) the amount issued by the NBG, not being yet covered, does not exceed 8% of the amount of the state average annual revenue within the last three years.

7. If, in the opinion of the NBG, the danger of exceeding the limit, stipulated in item 5 of the present Article, exists, the NBG shall submit a report to the Parliament in which the credit amount given to the Cabinet of Ministers, not being-yet covered, is stated as well as the reasons, which may bring about the excess limit. The recommendations for improving the created situation are mentioned as well. If the limit, stipulated in item 5 of this Article, is exceeded in accordance with item 6 of this Article, the bank shall present additional reporting and recommendations that it considers compulsory for improvement of the situation and in order to avoid the similar situation in the forthcoming fiscal year.

Article 58. Acquisition of state securities by NBG

Acquisition of the Cabinet of Ministers' loan liabilities (securities) by the NBG shall be considered as the loan extended by the NBC to the Cabinet of Ministers that comes under the total limit, stipulated in Article 57, with the exclusion of exceptional cases when such acquisition complies with the Bank's objectives in the monetary policy sphere or is necessary for placement of the means of the NBG employees' pension fund. The acquisition of securities may take place only if the abovestated securities are purchased at the secondary market.

Chapter 8. Relationship of the NBG with Other Banks

Article 59. Issuance of bank licences and banking supervision

1. The NBG is entrusted with full responsibility' for issuance of bank licences and supervision of the activities of banks and other legal entities possessing the licence. For performing these objectives the NBG shall be authorized:

- a) to issue appropriate rules, manuals, instructions, to carry out other measures and sanctions that it considers necessary or desirable for strengthening credit and financial system by the way of introduction of norms and methods for issuance of licences and supervision in compliance with the legislation;
- b) to inspect any bank and to audit any book-keeping accounts, books, documents and other bank materials, to get relevant information from the banks;
- c) to enforce the banks pay penalties in cash amounting to additional revenue from incorrect transactions; to increase reserve requirement rates (norms), terminate their active transactions, suspend the right of signing to the responsible person of the bank and require his release from position, eliminate the licence for conducting banking transactions.

2. The NBG may demand reports, books, documents and other materials from any individual or legal entity. It may also audit those individuals and legal entities that, according to the NBG information, accept cash deposits or other returnable funds from the population and institutions without the NBG licence.

Article 60. Co-operation with the banking supervision bodies of the foreign states

1. The NBG closely co-operates with any banking' supervision body of the foreign states in the sphere of banking supervision of the institutions that operate within the limits of jurisdiction of both.

2. Such co-operation can involve information exchange between the NBC and bank supervision body of foreign countries toward any bank that can fall within both jurisdictions on a condition that the abovementioned body will keep the information in confidence.

Article 61. Bank accounts in NBG books

The NBG is authorized to put in its books the accounts of other banks and receive deposits from them according to its own prudential standards and conditions.

Article 62. Creditor of the Last resort

According to NBG rules, and conditions, the bank shall be authorized to act as the creditor of the last resort toward the bank account holders to whom or in whose favour it grants loans, except the loans allowed under Article 33 of this law, as well as contingent liabilities for a period not exceeding 3 months; any such credit or liability shall be secured by the assets indicated in Article 33 of this law, unless the NBG itself decides that the unsecured credit or liability is justified by the emergency situation. At the same time, the necessary provision for such action shall be the NBG's decision that such unsecured credit or contingent liability results from the account holders' liquidity claim and public interests. The NBG shall be authorized to prolong terms of the above-mentioned credits and liabilities under the programme acceptable to the NBG which shall provide for adoption of measures for meeting the NBG's claims in connection with liquidity of the appropriate bank.

Article 63. Clearing and settlement mechanism

The NBG can help other banks to work out a mechanism for clearing and interbank settlement activity as well as issue directions and instructions for such activity and determine the appropriate procedure.

Chapter 9. NBG Accounts, Financial Reporting, Audit and General Reporting

Article 64. Financial year of the NBG

Financial year of fee NBG commences on the first day of January and terminates on the last day of December.

Article 65. Book-keeping and accounting

The NBG continuously undertakes reporting as well as keeps other necessary documentation to reflect its operations and financial conditions in accordance with the generally accepted rules of accounting.

Article 66. Financial reporting of the NBG

The NBG compiles shall draw up financial reports for each financial year. The reports shall comprise: the balance sheet, the profit and loss statement and related statements. The reports shall also include the comparative data of the financial year.

Article 67. The NBG audit

The NBG audit is carried out by independent auditors appointed by the Parliament of the Republic.

Article 68. Submission and publishing of NBG balance sheet and documents

1. Within the 3 months after the end of each financial year, the NBG shall submit the following documents to the Parliament of Georgia:
 - a) a copy of the financial report certified by the auditors;
 - b) report on transactions and on general situation in the year under review;
 - c) report on the economic situation.
2. The NBG prepares and in the shortest term submits to the Parliament the preliminary financial report on the monthly state of balance. The reports are submitted to the parliament not later than within 10 working days from the end of the accounting month.
3. After submitting the abovementioned documents, the NBG shall publish the financial statements and documents, mentioned in Paragraphs 1 and 2 of this Article. It also may publish other reports, accounts and studies on financial and economic issues that it deems expedient.

Article 69. Accounting of the NBG on monetary policy issues

During 5 months after the effective date of this Law and further on an yearly basis, the NBG shall submit to the Georgian Parliament a report on the monetary policy of the NBG, including the information related to the exchange rates policy. The report shall include:

- a) analysis and assessment of the monetary policy pursued by the NBG during the last accounting period;
- b) proof of the necessity of and reasons for pursuing of the monetary policy defined by the NBG for the next 12 months.

The Georgian Parliament shall approve the submitted report by a resolution.

Chapter 10. Other Provisions

Article 70. Priority right of the NBG

1. The NBG shall have the priority right to meet any of its requirements on the due date at the expense of the cash balance or other assets either on its account or on creditor's account or by any other reason. Surrender requirement at the NBG shall be an exception to this rule.
2. The NBG may exercise the unconditional right to charge the amount due from the income after deduction of the sale related expenses, transferring the balance to the account of the NBG, and selling other assets at a remunerative price.

Article 71. Activities prohibited for the NBG

1. Apart from the special cases envisaged by this Law, prohibited the NBG shall not be entitled to:
 - a) render financial assistance by direct crediting, in the form of non-repayable subsidies or contingent liability, by way of buying credit, credit shares or by assuming other credit or contingent liability, or in any other form;
 - b) perform commercial activity, purchase shares of a corporation or a company, including shares of any kind of a monetary organization, or have a share in any kind of monetary, commercial, agricultural, industrial or other units;
 - c) acquire full power or partial right to real estate by way of purchasing or taking on lease, apart from the cases when the use of the building is necessary or expedient for the administration activity, performing operations, or for observing other conditions related to implementation of the tasks provided for by this Law.

Article 72. Special rights of the NBG

The NBG shall have the right to:

- a) grant loans, acquire the right to share or participate in the activity of any organization, whose work is linked with implementing the functions and tasks of the NBG, in any form;
- b) invest its financial resources in marketable securities issued by a solvent organization;
- c) purchase from the debts to be repaid to the NBG, during the period of their repayment, any right of a share on the property or the right to participation, on condition mentioned in Paragraph I of Article 71, that it will, at its earliest convenience, realize the property and right to all the abovementioned share;
- d) establish the Social Welfare and Security Funds or any other analogous means for the benefit and security of the employees.

Article 73. Regulation provisions of the NBG

The NBG shall enjoy the autonomous regulation right, while performing its duties. All the regulations, directives and instructions of the NBG concerning more than one enterprise shall be published in the official press and become effective on the day of publishing or on the date, mentioned in the documents. The NBG shall keep the public register of the regulations, directives and instructions.

Article 74. Norms of administration

1. The authority given to the NBG by this Law shall be exercised and performed on the basics of equality and impartiality and shall be in compliance with the adopted norms of administration. The NBG shall have to abstain from exercising the abovementioned authority to achieve the purpose that is not in line with the authority or exercise its rights to the extent that goes beyond the measures necessary to achieve a relevant legitimate purpose.

2. In order to fulfil the provisions of this Law, the decisions of the NBG shall be in compliance with the principle of impartiality, and their motivation must be unbiased and rational. All the decisions shall be fulfilled, by observing legal norms and shall serve the set purpose.

Article 75. Definition of terms

The terms given in the text of this Law shall be defined in the following way:

- a) "bank" - any legal entity, that accepts monetary deposits and other circulating assets from citizens and enterprises and grants loans;
- b) "holding bank" - any bank that has an account in the books of the NBG;
- c) "credit liability" - an available credit instrument or any other equivalent instrument, whether a documentary one or the one registered in the books;
- d) "reserve liability" - liabilities, defined as obligations according to which reserves shall be protect under the regulations of the NBG;
- e) "state agency" - any administrative or territorial division or agency of the Cabinet of Ministers of the Republic of Georgia;
- f) "deposit" - a deposit at a banking institution;
- g) "deposited sum" - any sum of money, securities or other kinds of values, deposited at a banking institution;
- h) "discount" - collection of a bill, interest charged on collection of a bill; i) "money issue, emission" - putting money or securities into circulation, j) "credit" - lending of money or goods;
- k) "clearing", "clearing agreement" - a system of settling accounts, that is based on mutual offset of debit and credit and is used both within the country and in international settlement of accounts;
- l) "spot transaction".- cash currency transactions or prompt payment on transactions of other types;

- m) "tranche" - a series or part of a series of international bond credit that is being issued in order to improve the economic situation on the market or in order to place a loan on the loan markets of different countries;
- n) "transfer agent /operation/" - money transfer (remittance) from one financial institution to another or from one country to another, or transfer of securities from one owner to another;
- o) "forward transaction" - future transactions in foreign currency, that are being performed by banks and production corporations by telephone or telex agreement;
- p) "fiscal agent" - fisk - the state treasury, "fiscal" - concerning the interests of the state treasury.

Eduard Shevardnadze - Chairman of the Parliament of the Republic of Georgia;

Head of State Vakhtang Gogvadze - Speaker of the Parliament of the Republic of Georgia

Tbilisi, June 23,1995

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